

OFFICIAL STATEMENT DATED MARCH 25, 2015

NEW ISSUE-BOOK-ENTRY-ONLY

Ratings: **BAM Insured S&P “AA” (stable outlook); Underlying Moody’s “A2”**
See “MUNICIPAL BOND RATINGS AND INSURANCE”

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

THE DISTRICT HAS DESIGNATED THE BONDS AS “QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS.” See “TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions” herein.

Ratings: **BAM Insured S&P “AA” (stable outlook); Underlying Moody’s “A2”**

\$2,980,000

Harris County Municipal Utility District No. 374

(A Political Subdivision of the State of Texas Located in Harris County, Texas)

UNLIMITED TAX REFUNDING BONDS, SERIES 2015

Dated: April 1, 2015

Due: September 1, as shown on the inside cover page

The \$2,980,000 Harris County Municipal Utility District No. 374 Unlimited Tax Refunding Bonds, Series 2015 (the “Bonds”), constitute obligations solely of Harris County Municipal Utility District No. 374 (the “District”) and are not obligations of the State of Texas (the “State”), Harris County, Texas, the City of Houston, Texas, or any entity other than the District. The Bonds will be issued in fully registered form only, in denominations of \$5,000 or any integral multiple of \$5,000. Interest on the Bonds accrues from April 1, 2015, and is payable September 1, 2015, and each March 1 and September 1 thereafter until the earlier of maturity or redemption. The Bonds will be initially registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Bonds. Beneficial owners of the Bonds will not receive physical certificates representing the Bonds, but will receive a credit balance on the books of the nominees of such beneficial owners. So long as Cede & Co. is the registered owner of the Bonds, the principal of and interest on the Bonds will be paid by the Paying Agent/Registrar directly to DTC, which will, in turn, remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds. See “BOOK-ENTRY-ONLY-SYSTEM.” The initial Paying Agent/Registrar is BOKF, N.A., dba Bank of Texas, Austin, Texas. The Bonds are being issued to advance refund a portion of the District’s outstanding Unlimited Tax Bonds, Series 2009, to achieve a debt service savings, and to pay the costs of issuing the Bonds. See “PLAN OF FINANCING.”

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



MATURITY SCHEDULE
(See inside cover page)

THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS DESCRIBED HEREIN. See “INVESTMENT CONSIDERATIONS” herein.

The Bonds are offered when, as and if issued by the District and accepted by the initial purchaser thereof named below (the “Underwriter”) 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 Allen Boone Humphries Robinson LLP, Houston, Texas, Bond Counsel. Certain other matters will be passed upon, on behalf of the Underwriter, by McCall, Parkhurst & Horton LLP., Austin, Texas, Underwriter’s Counsel. The Bonds in definitive form are expected to be available for delivery through DTC on April 23, 2015.

SAMCO Capital Markets, Inc.

MATURITY SCHEDULE
(Due September 1)

Due	Principal Amount ^(a)	Interest Rate	Initial Reoffering Yield ^(b)	CUSIP Number ^(c)	Due	Principal Amount ^(a)	Interest Rate	Initial Reoffering Yield ^(b)	CUSIP Number ^(c)
2015	\$ 35,000	2.000%	0.700%	413897LJ6	2029 ^(a)	\$ 215,000	3.000%	3.200%	413897LY3
2016	20,000	2.000%	1.000%	413897LK3	2030 ^(a)	215,000	3.125%	3.250%	413897LZ0
2017	115,000	2.000%	1.000%	413897LL1	2031 ^(a)	220,000	3.125%	3.300%	413897MA4
2018	20,000	2.000%	1.600%	413897LM9	2032 ^(a)	230,000	3.250%	3.350%	413897MB2
2019	20,000	3.000%	1.850%	413897LN7	2033 ^(a)	255,000	3.250%	3.400%	413897MC0
2020	20,000	3.000%	2.200%	413897LP2	2034 ^(a)	250,000	3.250%	3.450%	413897MD8
2021	20,000	3.000%	2.250%	413897LQ0	2035 ^(a)	270,000	3.375%	3.500%	413897ME6
2022 ^(a)	25,000	3.000%	2.400%	413897LR8	2036 ^(a)	265,000	3.375%	3.550%	413897MF3
2023 ^(a)	25,000	3.000%	2.550%	413897LS6					
\$200,000 3.000% Term Bond due September 1, 2025 ^(a) Yield 2.750% ^(b) CUSIP Number 413897LU1 ^{(c)(d)}									
\$560,000 3.000% Term Bond due September 1, 2028 ^(a) Yield 3.100% ^(b) CUSIP Number 413897LX5 ^{(c)(d)}									

- (a) 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. See "THE BONDS - Redemption."
- (b) The initial reoffering yields indicated represent the lower of the yields resulting when priced to maturity or the first call date. The initial yields at which the Bonds will be priced will be established by and will be the sole responsibility of the Underwriter. The yields may be changed at any time at the discretion of the Underwriter. Accrued interest from April 1, 2015, to the date of delivery of the Bonds to the Underwriter will 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 Underwriter, the District, nor the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.
- (d) The Bonds maturing September 1, 2025 and September 1, 2028 (collectively, the "Term Bonds") are also subject to mandatory sinking fund redemption. See "THE BONDS - Redemption."

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

TABLE OF CONTENTS

USE OF INFORMATION IN OFFICIAL STATEMENT	4	Future Development	29
SALE AND DISTRIBUTION OF THE BONDS	4	Strategic Partnership Agreement	29
Underwriting	4	THE DEVELOPER	29
Prices and Marketability	4	General	29
Securities Laws	4	Description of Developer	29
MUNICIPAL BOND RATINGS AND INSURANCE	5	Mischer Development, L.P.	30
BOND INSURANCE	5	THE SYSTEM	30
Bond Insurance Policy	5	Regulation	30
Build America Mutual Assurance Company	5	Water Supply and Distribution	30
THE DISTRICT	7	Subsidence and Conversion to Surface Water Supply	30
THE BONDS	7	Wastewater Collection and Treatment	31
INVESTMENT CONSIDERATIONS	9	100-Year Flood Plain	31
SELECTED FINANCIAL INFORMATION	10	Water and Wastewater Operations	31
INTRODUCTION	11	Rate and Fee Schedule – Table 1	31
PLAN OF FINANCING	11	Operating Revenues and Expenses Statement - Table 2	33
Purpose	11	DEBT SERVICE REQUIREMENTS SCHEDULE – TABLE 3	34
The Refunded Bonds	12	FINANCIAL STATEMENT	35
The Remaining Outstanding Bonds	13	Assessed Value - Table 4	35
Escrow Agreement	13	Unlimited Tax Bonds Authorized but Unissued - Table 5	35
Sources and Uses of Funds	14	Outstanding Bonds - Table 6	36
THE BONDS	14	Cash and Investment Balances - Table 7	36
General Description	14	Investment Authority and Investment Practices of the District	36
Redemption	14	Current Investments - Table 8	38
DTC Redemption Provision	15	Estimated Overlapping Debt Statement	38
Termination of Book-Entry-Only System	15	Overlapping Taxes for 2014	39
Replacement Bonds	15	TAX DATA	39
Authority for Issuance	16	Classification of Assessed Valuation - Table 9	39
Source of and Security for Payment	16	Tax Collections - Table 10	40
Payment Record	16	District Tax Rates - Table 11	40
Flow of Funds	16	Tax Rate Limitation	40
Defeasance of Outstanding Bonds	16	Maintenance Tax	40
Paying Agent/Registrar	17	Additional Penalties	40
Record Date	17	Principal Taxpayers - Table 12	41
Issuance of Additional Debt	17	Tax Adequacy for Debt Service	41
Lost, Stolen, Mutilated or Destroyed Bonds	18	Debt Service Fund Management Index	42
Legal Investment and Eligibility to Secure Public Funds in		TAXING PROCEDURES	42
Texas	18	Authority to Levy Taxes	42
Remedies in Event of Default	18	Property Tax Code and County Wide Appraisal District	42
Annexation by the City of Houston	18	Property Subject to Taxation by the District	42
Consolidation	19	Tax Abatement	43
Alteration of Boundaries	19	Valuation of Property for Taxation	43
No Arbitrage	19	District and Taxpayer Remedies	43
Approval of the Bonds	19	Levy and Collection of Taxes	44
BOOK-ENTRY-ONLY SYSTEM	19	Rollback of Operation and Maintenance Tax Rate	44
INVESTMENT CONSIDERATIONS	21	District's Rights In The Event Of Tax Delinquencies	44
General	21	Effect of FIRREA on Tax Collections	44
Factors Affecting Taxable Values and Tax Payments	21	LEGAL MATTERS	44
Changes in Tax Legislation	21	No-Litigation Certificate	45
Tax Collections and Foreclosure Remedies	21	VERIFICATION OF ESCROW SUFFICIENCY AND YIELDS	45
Registered Owners' Remedies	22	TAX MATTERS	45
Bankruptcy Limitation to Registered Owners' Rights	22	Tax Accounting Treatment of Original Issue Discount	46
Marketability	22	Qualified Tax-Exempt Obligations for Financial Institutions	47
Continuing Compliance with Certain Covenants	22	CONTINUING DISCLOSURE OF INFORMATION	47
The Effect of the Financial Institutions Act of 1989 on Tax		Annual Reports	47
Collections of the District	23	Event Notices	47
Environmental Regulation	23	Availability of Information from MSRB	48
Bond Insurance Risks	24	Limitations and Amendments	48
Future Debt	25	Compliance with Prior Undertakings	48
Approval of the Bonds	25	FINANCIAL ADVISOR	48
Forward-Looking Statements	25	OFFICIAL STATEMENT	49
LOCATION MAP	26	Preparation	49
THE DISTRICT	27	Consultants	49
General	27	Annual Audits	49
Management of the District	27	PHOTOGRAPHS	
Location	28	APPENDIX A – Audited Financial Statements	
Status of Development	28	APPENDIX B – Specimen Municipal Bond Insurance Policy	
Multi-Family Development	29		
Retail Development	29		

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's General Counsel, for further information.

This Official Statement contains, in part, estimates, assumptions and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions, or matters of opinion, or as to the likelihood that they will be realized. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or the other matters described herein since the date hereof.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement pursuant to its responsibilities to investors under the federal securities laws, but the Underwriter does not guarantee the accuracy or completeness of such information.

NEITHER THE DISTRICT, THE FINANCIAL ADVISOR, NOR THE UNDERWRITER 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.

SALE AND DISTRIBUTION OF THE BONDS

Underwriting

The Underwriter listed on the cover page of this Official Statement has agreed, subject to certain conditions in the bond purchase agreement, to purchase the Bonds from the District for \$2,915,474.35 (an amount equal to the principal amount of the Bonds, less a net original issue discount of \$35,724.05, less an Underwriter's discount of \$28,801.60) and plus accrued interest.

Prices and Marketability

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

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

Securities Laws

No registration statement relating to the offer and sale of the Bonds has been filed with the United States 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 AND INSURANCE

Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") is expected to assign a rating of "AA" (stable outlook) to the Bonds, as a result of a municipal bond insurance policy issued by Build America Mutual Assurance Company ("BAM" or the "Insurer") at the time of delivery of the Bonds. Additionally, Moody's Investors Service, Inc. ("Moody's") has assigned an underlying rating of "A2" 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, circumstances 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, Build America Mutual Assurance Company ("BAM") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as 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.

Build America Mutual Assurance Company

BAM is a New York domiciled mutual insurance corporation. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

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

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

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

Capitalization of BAM

BAM's total admitted assets, total liabilities, and total capital and surplus, as of December 31, 2014 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$475.7 million, \$26.9 million and \$448.8 million, respectively.

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

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

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

Additional Information Available from BAM

Credit Insights Videos. For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM's analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM's website at buildamerica.com/creditinsights/.

Obligor Disclosure Briefs. Subsequent to closing, BAM posts an Obligor Disclosure Brief on every issue insured by BAM, including the Bonds. BAM Obligor Disclosure Briefs provide information about the gross par insured by CUSIP, maturity and coupon; sector designation (e.g. general obligation, sales tax); a summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. The Obligor Disclosure Briefs are also easily accessible on BAM's website at buildamerica.com/obligor/.

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

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

(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. 374 (the "District"), located in Harris County, Texas, a political subdivision of the State of Texas, was created by order of the Texas Natural Resource Conservation Commission, now known as the Texas Commission on Environmental Quality (the "TCEQ" or the "Commission"), effective September 19, 2001 and confirmed pursuant to an election held within the District on November 6, 2001. The District was created for the purpose of providing, operating, and maintaining 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. The District's northern boundary is the Union Pacific railroad track, western boundary is Fry Road and Harris County Municipal Utility District No. 371, eastern boundary is Harris County Municipal Utility District No. 500, and southern boundary is Harris County Municipal Utility District No. 433. Access to the District is provided by U.S. Hwy 290 to Fry Road.
The Developer	The District was developed by Mischer Development, LP ("Mischer"), a Texas limited partnership 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 interests of Investments are held by members of the Mischer family.
Status of Development.....	Of the approximately 732 acres within the District, approximately 683 acres are developable. All of the developable acreage within the District has been developed with utility facilities as the single-family residential subdivisions, multi-family residential housing and commercial development known as Cypress Creek Lakes. As of March 1, 2015, development within the District included 979 developed single-family lots and 979 completed homes. Additional development within the District includes an apartment complex containing 310 apartment units on approximately 13.6 acres and 21 acres of retail development, which currently include a McDonald's restaurant, gas station/convenience store, storage facility, and a Goddard School, as well as a 30,000 square foot shopping center that is currently 95% leased. Additionally, construction of a 300 townhome unit complex on 23.30 acres began in February 2015, which is expected to be completed by December 2015. It is also anticipated that the District will include an additional 230 apartment units on approximately 12 acres. In addition, there are eight lakes containing approximately 120 acres, 8.5 acres of recreation centers and parks, and 130 acres of Cypress-Fairbanks Independent School District ("Cypress-Fairbanks ISD") school facilities. See "THE DISTRICT – Status of Development."

THE BONDS

Description	The Bonds in the aggregate principal amount of \$2,980,000 mature serially in varying amounts on September 1 of each of the years 2015 through 2023 and 2029 through 2036, and as Term Bonds which mature September 1, 2025 and September 1, 2028, as set forth on the inside cover page hereof. Interest accrues from April 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 prior 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	Bonds maturing on and after September 1, 2022, are subject to redemption prior to maturity at the option of the District in whole or from time to time in part on September 1, 2021, or on any date thereafter, at par plus accrued interest from the most recent interest payment date to the date of redemption. The Bonds designated as Term Bonds maturing September 1, 2025 and September 1, 2028 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. See "TAXING PROCEDURES." 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 District has never defaulted in the timely payment of principal of or interest on its outstanding obligations. See "FINANCIAL STATEMENT - Outstanding Bonds."
Authority for Issuance	The Bonds are being issued pursuant to Article XVI, Section 59, of the Texas Constitution and the general laws of the State, Chapter 1207 of the Texas Government Code, as amended, Chapters 49 and 54, of the Texas Water Code, as amended, and pursuant to a resolution adopted by the Board of Directors of the District and a pricing certificate to be executed by the authorized representative designated in the resolution (the resolution and pricing certificate are collectively referred to herein as the "Bond Resolution"). See "THE BONDS – Authority for Issuance."
Use of Proceeds	Proceeds from the sale of the Bonds will be used to (i) establish an escrow fund to advance refund a portion of the District's Unlimited Tax Bonds, Series 2009, to achieve a debt service savings; and (ii) pay the costs of issuing the Bonds. See "PLAN OF FINANCING."
Bonds Authorized But Unissued	At an election held within the District on November 6, 2001, the voters within the District approved the issuance of \$37,200,000 in unlimited tax bonds for construction of water, sanitary sewer and drainage facilities, of which \$410,000 remains authorized but unissued. The voters of the District also authorized the issuance of refunding bonds in a total aggregate principal amount of \$24,200,000. The Bonds are the fourth series of refunding bonds issued by the District and will use \$350,000 of the District's voted authorization of refunding bonds. After the issuance of the Bonds, \$20,818,001.29 of voted authorization of refunding bonds will remain unissued. Additionally, at an election held in the District on May 15, 2004, the voters within the District approved the issuance of \$9,500,000 in bonds for the acquisition and construction of parks and recreational facilities, of which \$6,655,000 remains authorized but unissued. See "FINANCIAL STATEMENT - Outstanding Bonds – Table 6" and "THE BONDS - Issuance of Additional Debt."
Municipal Bond Ratings and Bond Insurance	Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") is expected to assign a rating of "AA" (stable outlook) to the Bonds, as a result of a municipal bond insurance policy issued by Build America Mutual Assurance Company ("BAM" or the "Insurer") at the time of delivery of the Bonds. Additionally, Moody's Investors Service, Inc. ("Moody's") has assigned an underlying rating of "A2" to the Bonds.
Tax Exemption	In the opinion of Bond Counsel, interest on the Bonds is excludable from gross income for federal income tax purposes under existing law, and interest on the Bonds is not subject to the alternative minimum tax on individuals and corporations except for certain alternative minimum tax consequences for corporations. See "TAX MATTERS" for a description of the opinion of Bond Counsel.
Qualified Tax-Exempt Obligations	The District has designated the Bonds as "qualified tax-exempt obligations" pursuant to section 265(b) of the Internal Revenue Code of 1986, as amended, and has represented that the total amount of tax-exempt obligations (including the Bonds) issued by it during calendar year 2015 is not reasonably expected to exceed \$10,000,000. See "TAX MATTERS - Qualified Tax-Exempt Obligations for Financial Institutions."
Bond Counsel	Allen Boone Humphries Robinson LLP, Houston, Texas.
Underwriter's Counsel.....	McCall, Parkhurst & Horton L.L.P., Austin, Texas
Financial Advisor	Public Finance Group LLC, Austin, Texas.
Verification Agent	Grant Thornton LLP, Minneapolis, Minnesota.
Escrow Agent	Wells Fargo Bank, N.A., Minneapolis, Minnesota.

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 the investment security of the Bonds.

(The remainder of this page intentionally left blank)

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

2014 Certified Assessed Valuation	\$ 382,482,163 ^(a)
Estimated Assessed Valuation as of January 1, 2015	\$ 387,259,566 ^(b)
Gross Debt Outstanding (after the issuance of the Bonds)	\$ 38,920,000 ^(c)
Ratio of Gross Debt to 2014 Certified Assessed Valuation	10.18%
Ratio of Gross Debt to Estimated Assessed Valuation as of January 1, 2015	10.05%
2014 Tax Rate	
Debt Service	\$ 0.6435
Maintenance	<u>0.2865</u>
Total 2014 Tax Rate	\$ 0.9300 ^(d)
Debt Service Fund Balance (as of March 12, 2015)	\$ 1,914,248 ^(e)
Percentage of current tax collections (Tax Years 2005-2014)	98.40% ^(f)
Percentage of total tax collections (Tax Years 2005-2014)	99.34% ^(f)
Average Annual Debt Service Requirement of the Bonds and Outstanding Bonds ("Average Requirement") (2015-2039, inclusive)	\$ 2,436,767
Tax Rate Required to pay Average Requirement based upon the 2014 Certified Assessed Valuation at 95% collections	\$0.68 /\$100 AV
Tax Rate Required to pay Average Requirement based upon the Estimated Assessed Valuation as of January 1, 2015 at 95% collections	\$0.67 /\$100 AV
Maximum Annual Debt Service Requirement of the Bonds and Outstanding Bonds ("Maximum Requirement") (2032)	\$ 2,653,383
Tax Rate Required to pay Maximum Requirement based upon the 2014 Certified Assessed Valuation at 95% collections	\$0.74 /\$100 AV
Tax Rate Required to pay Maximum Requirement based upon the Estimated Assessed Valuation as of January 1, 2015 at 95% collections	\$0.73 /\$100 AV
Number of Connections as of January 1, 2015	
Single Family Homes	979
Builder Connections - Townhomes Under Construction	2
Apartments (292 Units Occupied out of 310 Units)	18
Commercial	1
Other	<u>2</u>
Total Number of Active Connections	1,002
Estimated Population as of January 1, 2015	4,157 ^(g)

(a) Assessed valuation of the District as of January 1, 2014 as certified by the Harris County Appraisal District ("HCAD"). See "TAXING PROCEDURES."

(b) Estimated assessed valuation as of January 1, 2015, 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.

(c) Includes the Bonds, excludes the Refunded Bonds.

(d) The District levied a 2014 tax rate of \$0.93 per \$100 assessed valuation.

(e) Unaudited as of March 12, 2015. Neither Texas law nor the Bond Resolution requires the District to maintain any particular sum in the debt service fund.

(f) See "TAX DATA – Tax Collections."

(g) Based on 3.5 residents per active occupied single-family connection and 2.5 residents per occupied apartment unit. As of January 1, 2015 the apartments were 94% occupied (292 units).

OFFICIAL STATEMENT
relating to
\$2,980,000
Harris County Municipal Utility District No. 374
(A Political Subdivision of the State of Texas Located in Harris County, Texas)

UNLIMITED TAX REFUNDING BONDS, SERIES 2015

INTRODUCTION

This Official Statement provides certain information in connection with the issuance by Harris County Municipal Utility District No. 374 (the "District") of its \$2,980,000 Unlimited Tax Refunding Bonds, Series 2015 (the "Bonds").

The Bonds are issued pursuant to a resolution adopted by the Board of Directors of the District on March 12, 2015, and a pricing certificate to be executed by the authorized representative designated in the resolution (the resolution and pricing certificate are collectively referred to herein as the "Bond Resolution"), the Constitution and general laws of the State of Texas (the "State") including Chapters 49 and 54 of the Texas Water Code, as amended, and Chapter 1207, Texas Government Code, as amended, and the City of Houston Ordinance No. 97-416.

Unless otherwise indicated, capitalized terms used in this Official Statement have the same meaning assigned to such terms in the Bond Resolution.

Included in this Official Statement are descriptions of the Bonds and certain information about the District, and its finances. Copies of such documents may be obtained from the District c/o Allen Boone Humphries Robinson LLP, Attn: Jim Boone, 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027, or from the District's Financial Advisor, Public Finance Group LLC, 7004 Bee Cave Road, Building 3, Suite 315, Austin, Texas 78746, upon payment of reasonable copying, mailing and handling charges.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. A copy of the Official Statement will be submitted to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (EMMA) system. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the District's undertakings to provide certain information on a continuing basis.

PLAN OF FINANCING

Purpose

At elections held within the District on November 6, 2001 and May 15, 2004, the District's voters authorized the issuance of an aggregate principal amount of \$37,200,000 of unlimited tax bonds for the construction of the District's water, sanitary sewer and drainage system and \$9,500,000 of unlimited tax bonds to construct park and recreational facilities. To date, the District has issued eight installments of bonds to acquire utility facilities in the aggregate principal amount of \$36,790,000 and \$410,000 in bonds remain authorized but unissued. The District has issued one installment of bonds to acquire park and recreational facilities in the principal amount of \$2,845,000 and \$6,655,000 in bonds remain authorized but unissued for such purposes. On November 6, 2001, voters of the District authorized the issuance of a total of \$24,200,000 of bonds payable from taxes to be issued only for the purpose of refunding the District's outstanding debt, of which \$20,818,001.29 will remain authorized but unissued after the issuance of the Bonds.

The Bonds are being issued to achieve a debt service savings in the years 2015 through 2036, inclusive, by refunding \$2,630,000 of the District's outstanding Unlimited Tax Bonds, Series 2009 (the "Refunded Bonds"). See "DEBT SERVICE REQUIREMENTS."

(The remainder of this page intentionally left blank)

The Refunded Bonds

The principal amounts and maturity dates of the Refunded Bonds are set forth below.

Year	Series 2009	Total
2017	\$ 95,000	\$ 95,000
2018	-	-
2019	-	-
2020	-	-
2021	-	-
2022	-	-
2023	-	-
2024	-	-
2025	150,000	150,000
2026	150,000	150,000
2027	175,000	175,000
2028	175,000	175,000
2029	200,000	200,000
2030	200,000 (a)	200,000
2031	210,000 (a)	210,000
2032	225,000 (a)	225,000
2033	250,000 (b)	250,000
2034	250,000 (b)	250,000
2035	275,000 (b)	275,000
2036	275,000 (b)	275,000
	<u>\$ 2,630,000</u>	<u>\$ 2,630,000</u>
Redemption Date: 9/1/2016		

- (a) Term Bond in total par amount of \$635,000, to mature on September 1, 2032.
(b) Term Bond in total par amount of \$1,050,000, to mature on September 1, 2036.

(The remainder of this page intentionally left blank)

The Remaining Outstanding Bonds

The following bonds will remain outstanding after issuance of the Bonds (collectively, the “Remaining Outstanding Bonds”):

Year	Series 2008	Series 2009	Series 2010	Series 2012	Series 2012A	Series 2012B	Series 2013	Series 2014	The Bonds	Total
2015	\$ 100,000	\$ 85,000	\$ 75,000	\$ 265,000	\$ 5,000	\$ -	\$ 45,000	\$ 325,000	\$ 35,000	\$ 935,000
2016	-	90,000	100,000	275,000	5,000	-	330,000	145,000	20,000	965,000
2017	-	-	100,000	280,000	5,000	-	335,000	145,000	115,000	980,000
2018	-	-	100,000	295,000	5,000	-	330,000	235,000	20,000	985,000
2019	-	-	100,000	300,000	5,000	-	360,000	280,000	20,000	1,065,000
2020	-	-	100,000	315,000	5,000	-	360,000	285,000	20,000	1,085,000
2021	-	-	125,000	325,000	5,000	-	360,000	335,000	20,000	1,170,000
2022	-	-	125,000	335,000	5,000	-	390,000	325,000	25,000	1,205,000
2023	-	-	125,000	340,000	5,000	-	395,000	370,000	25,000	1,260,000
2024	-	-	150,000	580,000	5,000	-	205,000	385,000	25,000	1,350,000
2025	-	-	150,000	890,000	5,000	-	210,000	-	175,000	1,430,000
2026	-	-	150,000	915,000	5,000	-	215,000	-	170,000	1,455,000
2027	-	-	150,000	960,000	5,000	-	230,000	-	195,000	1,540,000
2028	-	-	150,000	990,000	5,000	-	245,000	-	195,000	1,585,000
2029	-	-	175,000	1,045,000	5,000	-	255,000	-	215,000	1,695,000
2030	-	-	175,000	825,000	5,000	-	555,000	-	215,000	1,775,000
2031	-	-	200,000	875,000	5,000	-	585,000	-	220,000	1,885,000
2032	-	-	200,000	975,000	5,000	-	590,000	-	230,000	2,000,000
2033	-	-	200,000	860,000	5,000	-	595,000	-	255,000	1,915,000
2034	-	-	225,000	960,000	5,000	-	300,000	-	250,000	1,740,000
2035	-	-	250,000	980,000	100,000	525,000	-	-	270,000	2,125,000
2036	-	-	250,000	160,000	1,000,000	550,000	-	-	265,000	2,225,000
2037	-	-	280,000	165,000	1,060,000	575,000	-	-	-	2,080,000
2038	-	-	-	175,000	1,500,000	595,000	-	-	-	2,270,000
2039	-	-	-	-	1,600,000	600,000	-	-	-	2,200,000
	<u>\$ 100,000</u>	<u>\$ 175,000</u>	<u>\$ 3,655,000</u>	<u>\$ 14,085,000</u>	<u>\$ 5,360,000</u>	<u>\$ 2,845,000</u>	<u>\$ 6,890,000</u>	<u>\$ 2,830,000</u>	<u>\$ 2,980,000</u>	<u>\$ 38,920,000</u>

Escrow Agreement

The principal of and interest due on a portion of the Refunded Bonds are to be paid on the scheduled interest payment dates, maturity dates and the respective redemption dates of such Refunded Bonds, as applicable, from funds and direct obligations of the United States of America and/or open market securities, to be deposited pursuant to a certain Escrow Agreement (the “Escrow Agreement”) between the District and Wells Fargo Bank, N.A., Minneapolis, Minnesota (the “Escrow Agent”). The Bond Resolution provides that from the proceeds of the sale of the Bonds received from the Underwriter the District will deposit with the Escrow Agent cash and direct obligations of the United States in amounts sufficient to accomplish the discharge and final payment of the Refunded Bonds on their respective maturity dates and redemption dates, as applicable.

The District will give irrevocable instructions to provide notice to the owners of the Refunded Bonds that the Refunded Bonds will be redeemed prior to their stated maturity on the redemption date, on which date money will be made available to redeem the Refunded Bonds from money held under the Escrow Agreement.

By the deposit of the federal securities and cash with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of the Refunded Bonds pursuant to the terms of the Bond Resolution authorizing the issuance of such Refunded Bonds and in accordance with State law, including Chapter 1207, Texas Government Code, as amended. It is the opinion of Bond Counsel that, as a result of such defeasance and in reliance upon the Verification Report of Grant Thornton LLP, the Refunded Bonds are deemed to have been fully paid and no longer outstanding, except for the purpose of being paid from funds provided therefore in the Escrow Agreement.

The District has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund from lawfully available funds, of any additional amounts required to pay the principal of and interest on the Refunded Bonds, if for any reason, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund are insufficient to make such payment.

Sources and Uses of Funds

The proceeds from the sale of the Bonds will be applied approximately as follows:

Sources of Funds:	
Par Amount of Bonds	\$2,980,000.00
Net Original Issue Discount	(35,724.05)
Accrued Interest on the Bonds	<u>5,615.35</u>
Total Sources of Funds	\$2,949,891.30
Uses of Funds:	
Escrow Deposit	\$2,808,447.13
Costs of Issuance ^(a)	105,941.14
Underwriter's Discount	28,801.60
Deposit to Debt Service Fund (Accrued Interest and Rounding Amount)	<u>6,701.43</u>
Total Uses of Funds	\$2,949,891.30

(a) Includes municipal bond insurance premium.

THE BONDS

General Description

The Bonds will bear interest from April 1, 2015, and 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 be paid on September 1, 2015 and each March 1 and September 1 thereafter until maturity or prior 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 utilizing DTC's book-entry-only system (the "Book-Entry-Only System"). 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 for the Bonds is BOKF, N.A., dba Bank of Texas, Austin, Texas (the "Paying Agent").

Redemption

Optional Redemption... The Bonds maturing on and after September 1, 2022, are subject to redemption prior to maturity at the option of the District, in whole or from time to time in part, on September 1, 2021, or on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption.

Mandatory Sinking Fund Redemption . . . In addition to being subject to optional redemption, as provided above, the Bonds maturing on September 1, 2025 and September 1, 2028 may also be subject to mandatory sinking fund redemption prior to maturity by lot or other customary method 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 Debt Service Fund:

\$200,000 Term Bond Maturing September 1, 2025			\$560,000 Term Bond Maturing September 1, 2028		
Mandatory			Mandatory		
Redemption	Principal		Redemption	Principal	
<u>Date</u>	<u>Amount</u>		<u>Date</u>	<u>Amount</u>	
2024	\$ 25,000		2026	\$ 170,000	
2025*	175,000		2027	195,000	
			2028*	195,000	

*Stated Maturity.

The District, at its option, may credit against any mandatory sinking fund redemption requirement Bonds of the maturity then subject to redemption which have been purchased and canceled by the District.

Notice of Redemption . . . Not fewer than 30 nor more than 60 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 in the name and at the expense of the District, to the registered owner of each Bond to be redeemed. Notice of redemption having been given, Bonds to be redeemed will become due and payable on the redemption date and on and after such date (unless the District defaults in payment of redemption price), such Bonds shall cease to pay interest.

The Bonds of a denomination larger than \$5,000 may be redeemed in part (\$5,000 or any integral multiple thereof). Any Bond to be partially redeemed must be surrendered in exchange for one or more new Bonds of the same maturity in authorized denominations for the unredeemed portion of the principal of the Bonds so surrendered. In the event of redemption of fewer than all of the Bonds, the particular Bonds to be redeemed shall be selected by the District. If fewer 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 such random method as the Paying Agent deems fair and appropriate.

DTC Redemption Provision

The Paying Agent, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Bond Resolution or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC Participant, as herein defined, or of any Direct Participant or Indirect Participant, as herein defined, to notify the beneficial owner, shall not affect the validity of the redemption of Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the District will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its book-entry-only system, a redemption of such Bonds held for the account of DTC Participants in accordance with its rules or other agreements with DTC Participants and then Direct Participants and Indirect Participants may implement a redemption of such Bonds and such redemption will not be conducted by the District or the Paying Agent. Neither the District nor the Paying Agent will have any responsibility to the DTC Participants, Indirect Participants or the persons for whom DTC Participants act as nominees with respect to the payments on the Bonds or the providing of notice to Direct Participants, Indirect Participants, or beneficial owners of the selection of portions of the Bonds for redemption.

Termination of Book-Entry-Only System

The District is initially utilizing the Book-Entry-Only System of DTC. See "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.

Payment . . . Principal of the Bonds will be payable at maturity to the registered owners as shown by the registration books maintained by the Paying Agent upon presentation and surrender of the Bonds to the Paying Agent at the designated office for payment of the Paying Agent in Austin, Texas (the "Designated Payment/Transfer Office"). Interest on the Bonds will be payable by check or draft, dated as of the applicable interest payment date, sent by the Paying Agent by United States mail, first-class, postage prepaid, to the registered owners at their respective addresses shown on such records, or by such other method acceptable to the Paying Agent requested by registered owner at the risk and expense of the registered owner. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, legal holiday, or day on which banking institutions in the city where the Designated Payment/Transfer Office of the Paying Agent is located are required or authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not a Saturday, Sunday, legal holiday, or day on which banking institutions are required or authorized to close, and payment on such date shall for all purposes be deemed to have been made on the original date payment was due.

Registration. . . If the Book-Entry-Only System is discontinued, the Bonds may be transferred and re-registered on the registration books of the Paying Agent only upon presentation and surrender thereof to the Paying Agent at the Designated Payment/Transfer Office. A Bond also may be exchanged for a Bond or Bonds of like maturity and interest and having a like aggregate principal amount or maturity amount, as the case may, upon presentation and surrender at the Designated Payment/Transfer Office. All Bonds surrendered for transfer or exchange must be endorsed for assignment by the execution by the registered owner or his duly authorized agent of an assignment form on the Bonds or other instruction of transfer acceptable to the Paying Agent. Transfer and exchange of Bonds will be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such transfer or exchange. A new Bond or Bonds, in lieu of the Bond being transferred or exchanged, will be delivered by the Paying Agent to the registered owner, at the Designated Payment/Transfer Office of the Paying Agent or by United States mail, first-class, postage prepaid. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner not more than three (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer in denominations of \$5,000 or any integral multiple thereof.

Limitation on Transfer of Bonds . . . Neither the District nor the Paying Agent shall be required to make any transfer, conversion or exchange to an assignee of the registered owner of the Bonds (i) during the period commencing on the close of business on the fifteenth (15th) calendar day of the month (whether or not a business day) preceding each interest payment date (the "Record Date") and ending with the opening of business on the next following principal or interest payment date or (ii) with respect to any Bond called for redemption, in whole or in part, within forty-five (45) days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

Replacement Bonds

If a Bond is mutilated, the Paying Agent will provide a replacement Bond in exchange for the mutilated bond. If a Bond is destroyed, lost or stolen, the Paying Agent will provide a replacement Bond upon (i) the filing by the registered owner with the Paying Agent of evidence satisfactory to the Paying Agent of the destruction, loss or theft of the Bond and the authenticity of the registered owner's ownership and (ii) the furnishing to the

Paying Agent of indemnification in an amount satisfactory to hold the District and the Paying Agent harmless. All expenses and charges associated with such indemnity and with the preparation, execution and delivery of a replacement Bond must be borne by the registered owner. The provisions of the Bond Resolution relating to the replacement Bonds are exclusive and to the extent lawful, preclude all other rights and remedies with respect to the replacement and payment of mutilated, destroyed, lost or stolen Bonds.

Authority for Issuance

The Bonds are issued pursuant to the terms and provisions of the Bond Resolution; Chapter 1207, Texas Government Code, as amended; Chapters 49 and 54 of the Texas Water Code, as amended; City of Houston Ordinance No. 97-416, and Article XVI, Section 59 of the Texas Constitution.

Source of and Security for Payment

The Bonds will be payable from and secured by a pledge of the proceeds of a continuing, direct, annual ad valorem tax without legal limitation as to rate or amount levied against all taxable property located within the District. The Board covenants in the Bond Resolution that, while any of the Bonds are outstanding and the District is in existence, it will levy an annual ad valorem tax and will undertake to collect such a tax against 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, to pay interest on the Bonds as it becomes due, to provide a sinking fund for the payment of principal of the Bonds when due or the redemption price at any earlier required redemption date, to pay when due any other contractual obligations of the District payable in whole or in part from taxes, and to pay the expenses of assessing and collecting such tax. The net proceeds from taxes levied to pay debt service on the Bonds are required to be placed in a special account of the District designated its "Debt Service Fund" for the Bonds. The Bond Resolution provides for the termination of the pledge of taxes when and if the City of Houston (the "City") dissolves the District and assumes all debts and liabilities of the District.

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

Payment Record

The District has previously issued eleven series of bonds consisting of the \$2,980,000 Unlimited Tax Bonds, Series 2005; \$4,730,000 Unlimited Tax Bonds, Series 2007; \$5,250,000 Unlimited Tax Bonds, Series 2007A; \$7,500,000 Unlimited Tax Bonds, Series 2008; \$4,010,000 Unlimited Tax Bonds, Series 2009; \$3,930,000 Unlimited Tax Bonds, Series 2010; \$14,885,000 Unlimited Tax and Refunding Bonds, Series 2012; \$5,370,000 Unlimited Tax Bonds, Series 2012A; \$2,845,000 Unlimited Tax Park Bonds, Series 2012B; \$6,945,000 Unlimited Tax Refunding Bonds, Series 2013; and \$2,905,000 Unlimited Tax Refunding Bonds, Series 2014 (collectively, the "Previously Issued Bonds"). The District has not defaulted in the payment of the principal of or interest on the Outstanding Bonds. See "FINANCIAL STATEMENT – Outstanding Bonds – Table 6."

Flow of Funds

The Bond Resolution creates, or affirms creation, establishment and maintenance by the District of a Debt Service Fund and Escrow Fund for the Bonds.

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 will maintain a Debt Service Fund on its books of account. The District will credit to the Debt Service Fund: (i) on the issue date from the proceeds from the sale of the Bonds, an amount equal to the interest accruing on the Bonds from the Dated Date to the issue date, (ii) all receipts of taxes (and penalty and interest thereon) 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, (iii) all earnings from the investment of amounts credited to the Debt Service Fund, and (iv) any other funds of the District deposited to the Debt Service Fund to pay principal (or redemption price) of or interest on the Bonds.

The Refunded Bonds and the interest due thereon will be paid on the redemption date from funds on deposit with the Escrow Agent and held in a separate Escrow Fund. See "PLAN OF FINANCING – Escrow Agreement."

Defeasance of Outstanding Bonds

The Bond Resolution provides that any bond shall be deemed to be paid and shall no longer be considered to be a bond within the meaning of the Bond Resolution when payment of the principal of and interest on such bond to its stated maturity or (if notice of redemption shall have been duly given, irrevocably provided for or duly waived) to the redemption date shall have been made or shall have been provided for under the provisions of the Bond Resolution. Such payment may be provided for by deposit with the Paying Agent (or with any other bank or trust company which has agreed to hold the same for such purpose) of (i) money sufficient to make such payment, (ii) Defeasance Obligations (as defined below) certified by an independent public accounting firm of national reputation to be of such maturities and interest payment dates and to bear such interest as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, be sufficient to make such payment, or (iii) a combination of money and Defeasance Obligations together so certified sufficient to make such payment, provided that all the expenses pertaining to the Bonds with respect to which such deposit is made shall have been paid or the payment thereof provided for to the satisfaction of the Paying Agent (and to such other bank or trust company).

For purposes of these provisions, "Defeasance Obligations" means (i) 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, (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, or (iii) noncallable obligations of a state or agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, but in the case of each of (i), (ii), and (iii), only if such obligations may not be called for redemption prior to maturity.

There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made without amounts deposited to defease the Bonds. Because the Bond Resolution does not contractually limit such investments, registered owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used as Defeasance Obligations or those for any other Defeasance Obligation will be maintained at any particular rating category.

Paying Agent/Registrar

Principal of and semiannual interest on the Bonds will be paid by BOKF, N.A., dba Bank of Texas, Austin, Texas, having its office for payment in Austin, Texas, the initial Paying Agent/Registrar (the "Paying Agent"). The Paying Agent must be either a bank, trust company, financial institution or other entity duly qualified and equally authorized to serve and perform the duties as paying agent and registrar for the Bonds.

Provision is made in the Bond Resolution for the District to replace the Paying Agent by a resolution of the District giving notice to the Paying Agent of the termination of the appointment, stating the effective date of the termination and appointing a successor Paying Agent. If the Paying Agent is replaced by the District, the new Paying Agent shall be required to accept the previous Paying Agent's records and act in the same capacity as the previous Paying Agent. Any successor paying agent/registrar selected by the District shall be subject to the same qualification requirements as the Paying Agent. The successor paying agent/registrar, if any, shall be determined by the Board of Directors and written notice thereof, specifying the name and address of such successor paying agent/registrar, will be sent by the District or the successor paying agent/registrar to each Registered Owner by first-class mail, postage prepaid.

Record Date

The record date for payment of the interest on Bonds on any regularly scheduled interest payment date is defined as the close of business on the fifteenth (15th) calendar 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 Texas Commission on Environmental Quality (the "Commission" or the "TCEQ"), 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 \$37,200,000 in bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities, of which \$410,000 remains authorized but unissued. The District's voters also have authorized a total of \$24,200,000 in bonds for refunding purposes, of which \$20,818,001.29 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. The Board has approved a park plan and at an election held on May 15, 2004, voters in the District authorized the issuance of \$9,500,000 in bonds for park and recreational purposes, of which \$6,655,000 remains authorized but unissued. If the District does issue additional park bonds, the outstanding principal amount of such bonds may not exceed an amount equal to one percent of the value of the taxable property in the District, and the issuance of such bonds must be approved by the TCEQ and the Attorney General of Texas.

The District is also authorized by statute to engage in fire-fighting activities, including the issuing of bonds payable from taxes for such purposes. Before the District could issue such bonds, the following actions would be required: (a) approval of a detailed fire plan by the TCEQ; (b) authorization of the detailed fire plan and bonds for such purposes by the qualified voters in the District; (c) approval of the bonds by the TCEQ; and (d) approval of bonds by the Attorney General of Texas. The Board has not considered a fire plan or calling an election at this time for such purposes. Fire protection is currently provided to property in the District by Harris County ESD No. 9.

The District has the right to issue the authorized but unissued bonds without the necessity of further voter authorization. Before issuing any additional bonds for waterworks, sanitary sewer, and drainage facilities or park and recreational facilities, the District would have to obtain approval of the TCEQ for the issuance of such bonds and the projects to be financed thereby. In addition to the above mentioned bonds, the District has the right to issue such additional tax bonds or combination tax and revenue bonds as may be hereafter approved by the voters of the District. The District also has the right to issue revenue notes, bond anticipation notes, and tax anticipation notes without the necessity of voter approval. In addition, the District has the right to enter into contracts and to pledge its taxing power to secure any payments the District is required to make under such contract, provided the provisions of the contract are approved by the voters of the District.

Lost, Stolen, Mutilated or Destroyed Bonds

If (i) any mutilated Bond is surrendered to the Paying Agent, or the District and the Paying Agent receive evidence to their satisfaction of the destruction, loss, or theft of any Bond, and (ii) there is delivered to the District and the Paying Agent 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 that such Bond has been acquired by a bona fide purchaser, the District will execute and upon its request the Paying Agent will authenticate and deliver, in exchange for or in lieu of any such mutilated, destroyed, lost, or stolen Bond, a new Bond of the same maturity and of like tenor and principal amount.

Legal Investment and Eligibility to Secure Public Funds in Texas

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

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

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

Remedies in Event of Default

If the District defaults in the payment of the principal of or interest on the Bonds when due or in the observance or performance of any of the covenants, conditions, or obligations set forth in the Bond Resolution, any bondholder shall, in addition to all other rights and remedies of such bondholder provided by the laws of the State, be entitled to a writ of mandamus issued by a court of proper jurisdiction compelling and requiring the governing body and other officers of the District to make such payment or to observe and perform such covenant, obligation, or condition. No delay or omission by any bondholder to exercise any right or power accruing to such bondholder upon default will impair any such right and power, or be construed to be a waiver of any such default or acquiescence therein, and every such right or power may be exercised from time to time and as often as may be deemed expedient. Except for mandamus, the Bond Resolution does not specifically provide for remedies to protect and enforce the interests of the bondholders. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the bondholders. Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government’s sovereign immunity from suits for money damages, and a suit for money damages may not be brought without legislative authorization. Even if a judgment against the District for money damages could be obtained, it could not be enforced by direct levy and execution against the District’s property. Further, the bondholders cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the bondholders may further be limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the District.

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. In 2012, the District entered into a strategic partnership agreement with the City of Houston pursuant to Section 43.0751, Texas Local Government Code, whereby the commercial portion of the District was annexed into the City for limited purposes, while the balance of the District remains in the City’s extraterritorial jurisdiction. As a result of the agreement, the City imposes a one percent sales and use tax (but not its property taxes) within the area of limited purpose annexation, and remits one-half of the City’s sales and use tax receipts from within the District to the District to be used for any lawful District purpose. In addition, for the 30-year term of the agreement, the City agrees not to annex the District for general purposes, thus delaying for at least 30 years from the date of the agreement any dissolution of the District and assumption of its assets and liabilities by the City. The City and the District may amend the strategic partnership agreement at any time. Funds to be received by the City under the agreement are not pledged to the payment of the Bonds. After the 30-year term, if the District is annexed, the City will assume the District’s assets and obligations 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. Although no 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 pass upon the adequacy or accuracy of the information contained in this Official Statement.

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.

DTC 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)

INVESTMENT CONSIDERATIONS

General

The Bonds, which are obligations of the District and are not obligations of the State; Harris County, Texas; the City; 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 cannot and does not make any representations that continued development of property within the District will occur or that the development in the District will maintain taxable values sufficient to justify continued payment by property owners or that there will be a market for the property. 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.

Landowners' Obligation to the District: All of the developable acreage within the District has been developed with water, sanitary sewer, and drainage facilities. There does not exist at this time any commitment or obligation from the landowners to the District to proceed at any particular rate or according to any specified plan with development within the District, and there is no restriction on the landowners' right to sell their land. Failure of a landowner to implement the development of its land within the District and/or failure by the landowner or others to construct taxable improvements on vacant property could restrict the growth of assessed valuation in the District.

Impact on District Tax Rates: Assuming no further development, the value of the land and improvements currently existing within the District will be the major determinant of the ability or willingness of owners of property within the District to pay their taxes. The 2014 Certified Assessed Valuation of the District is \$382,482,163. After issuance of the Bonds, the Maximum Requirement will be \$2,653,383 (2032) and the Average Requirement will be \$2,436,767 (2015 through 2039, inclusive). Assuming (1) no increase or decrease from the 2014 Certified Assessed Valuation; (2) the issuance of no additional debt; and (3) no other funds available for the payment of debt service, tax rates of \$0.74 and \$0.68 per \$100 assessed valuation at a ninety-five percent (95%) collection rate would be necessary to pay the Maximum Requirement and the Average Requirement, respectively. The District's Estimated Assessed Valuation as of January 1, 2015 is \$387,259,566. Based upon the assumptions above, tax rates of \$0.73 and \$0.67 per \$100 assessed valuation at a ninety-five percent (95%) collection rate would be necessary to pay the Maximum Requirement and the Average Requirement, respectively. See "DEBT SERVICE SCHEDULE – TABLE 3" and "TAX DATA - Tax Adequacy for Debt Service."

Changes in Tax Legislation

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

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.

Registered Owners' Remedies

In the event of default in the payment of principal of or interest on the Bonds, the registered owners have the right to seek a writ of mandamus, requiring the District to levy adequate taxes each year to make such payments. Except for mandamus, the Bond Resolution does not specifically provide for remedies to protect and enforce the interest of the registered owners. There is no acceleration of maturity of the Bonds in the event of default, and consequently, the remedy of mandamus may have to be relied upon from year to year. Although the registered owners could obtain a judgment against the District, such a judgment could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District in order to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the registered owners may further be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District.

Bankruptcy Limitation to Registered Owners' Rights

The enforceability of the rights and remedies of registered owners may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. Subject to the requirements of Texas law discussed below, a political subdivision such as the District may voluntarily file a petition for relief from creditors under Chapter 9 of the Federal Bankruptcy Code, 11 USC sections 901-946. The filing of such petition would automatically stay the enforcement of registered owners' remedies, including mandamus and the foreclosure of tax liens upon property within the District discussed above. The automatic stay would remain in effect until the federal bankruptcy judge hearing the case dismisses the petition, enters an order granting relief from the stay or otherwise allows creditors to proceed against the petitioning political subdivision. A political subdivision, such as the District, may qualify as a debtor eligible to proceed in a Chapter 9 case only if it (i) is specifically authorized to file for federal bankruptcy protection by applicable state law, (ii) is insolvent or unable to meet its debts as they mature, (iii) desires to effect a plan to adjust such debts, and (iv) has either obtained the agreement of or negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiations are impracticable. Under State law a municipal utility district, such as the District, must obtain the approval of the Commission as a condition to seeking relief under the Federal Bankruptcy Code. The Commission is required to investigate the financial condition of a financially troubled district and authorize such district to proceed under federal bankruptcy law only if such district has fully exercised its rights and powers under State law and remains unable to meet its debts and other obligations as they mature.

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

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 a registered owner by reducing or eliminating the amount of indebtedness, deferring or rearranging the debt service schedule, reducing or eliminating the interest rate, modifying or abrogating collateral or security arrangements, substituting (in whole or in part) other securities, and otherwise compromising and modifying the rights and remedies of the registered owners' claims against a district.

Marketability

The District has no understanding with the Underwriter regarding the reoffering yields or prices of the Bonds and has no control over trading of the Bonds in the secondary market. Moreover, there is no assurance that a secondary market will be made in the Bonds. If there is a secondary market, the difference between the bid and asked price 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

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

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.

Environmental Regulation

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

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

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

Air Quality/Greenhouse Gas 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 the Houston area. 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. The EPA granted the governor's request to voluntarily reclassify the HGB ozone nonattainment area from a moderate to a severe nonattainment area for the 1997 eight-hour ozone standard, effective October 31, 2008. The HGB area's new attainment deadline for the 1997 eight-hour ozone standard must be attained as expeditiously as practicable, but no later than June 15, 2019. If the HGB area fails to demonstrate progress in reducing ozone concentration 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.

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 ("SDWA"), potable (drinking) water provided by a 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. 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.

Texas Pollutant Discharge Elimination System ("TPDES") permits set limits on the type and quantity of discharge, in accordance with state and federal laws and regulations. Moreover, the Clean Water Act ("CWA") and Texas Water Code require municipal wastewater treatment plants to meet secondary treatment effluent limitations and must establish the total maximum allowable daily load ("TMDL") of certain pollutants into

the water bodies. The TMDLs that utility districts may discharge may have an impact on the utility district's ability to obtain and maintain TPDES permits.

Operations of utility districts are also potentially subject to numerous stormwater discharge permitting requirements under the CWA, EPA and TCEQ regulations. The TCEQ reissued the Texas Pollutant Discharge Elimination System Construction General Permit (TXR150000) on February 19, 2013. The permit became effective on March 5, 2013, and is a general permit authorizing the discharge of stormwater runoff associated with small and large construction sites and certain non-stormwater discharges into surface water in the state.

The District's stormwater discharges currently maintain permit coverage through the Municipal Separate Storm Sewer System Permit (the "Current Permit") issued to the Storm Water Management Joint Task Force consisting of Harris County, Harris County Flood Control District, the City of Houston, and the Texas Department of Transportation. In the event that at any time in the future the District is not included in the Current Permit, it would be required to seek independent coverage under the General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the "MS4 Permit"). The TCEQ renewed the MS4 Permit on December 13, 2013. The MS4 Permit authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems ("MS4s"). The renewed MS4 Permit impacts a much greater number of MS4s that were not previously subject to the MS4 Permit and contains more stringent requirements than the standards contained in the previous MS4 Permit. MS4s who are subject to the renewed MS4 Permit must have applied for authorization under the renewed MS4 Permit by June 11, 2014. However, at that time, the District was not required to apply to the TCEQ for authorization. If at any time in the future the District were required to maintain its own coverage under the MS4 Permit, it is anticipated that the District could incur substantial costs to develop and implement the required plans as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff in order to comply with the renewed MS4 Permit.

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

Bond Insurance Risks

The District has qualified for a bond insurance policy to guarantee the scheduled payment of principal and interest on the Bonds, and intends to use a portion of the proceeds of the Bonds to purchase the bond insurance. The risk factors relating to the purchase of bond insurance are listed below.

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 acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, 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 acceleration. The Policy does not insure against redemption premium, if any. The payment of principal and interest in connection with mandatory or optional prepayment of the Bonds by the issuer which is recovered by the issuer from the bond owner as a voidable preference under applicable bankruptcy law is covered by the insurance policy, however, such payments will be made by the Insurer at such time and in such amounts as would have been due absence such prepayment by the Issuer 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 and the Bond Insurer's consent may be required in connection with amendments to any applicable bond documents.

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

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

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

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

Future Debt

The District has the right to issue the remaining \$410,000 unissued unlimited tax bonds authorized to acquire additional utility facilities, the remaining \$6,655,000 unissued unlimited tax bonds authorized to acquire and construct park and recreational facilities, the remaining \$20,818,001.29 unissued unlimited tax refunding bonds authorized for refunding the District's debt, and such additional bonds as may hereafter be approved by both the Board and voters of the District. All of the remaining bonds described above which have heretofore been authorized by the voters of the District may be issued by the District from time to time as needed and would be on parity with the Bonds. If additional tax-supported bonds are issued in the future and property values have not increased proportionately, such issuance might increase gross debt/property valuation ratios and thereby adversely affect the investment quality or security of the Bonds and the Outstanding Bonds. See "THE BONDS - Issuance of Additional Debt."

The District does not employ any formula with respect to appraised valuations and tax collections nor does it otherwise 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."

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 he pass upon the adequacy or accuracy of the information contained in this Official Statement.

Forward-Looking Statements

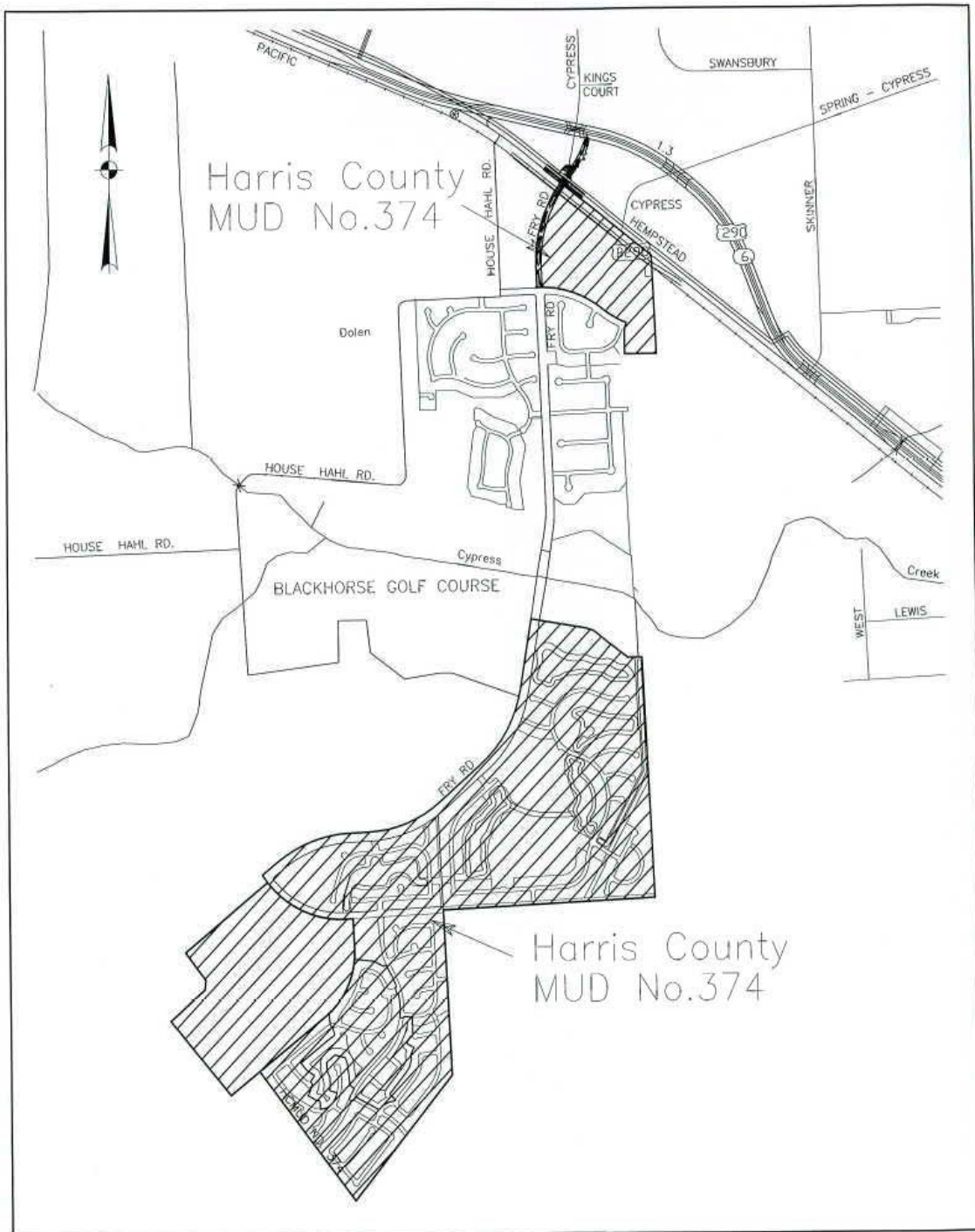
The statements contained in this Official Statement and in any other information provided by the District that are not purely historical are forward-looking statements, including statements regarding the District's expectations, hopes, intentions, or strategies regarding the future.

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.

(The remainder of this page intentionally left blank)

LOCATION MAP



THE DISTRICT

General

The District was created by order of the Texas Natural Resource Conservation Commission, now known as the Texas Commission on Environmental Quality ("TCEQ"), adopted on September 19, 2001, and by a confirmation election held within the District on November 6, 2001, and 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 343 acres. On November 11, 2004, approximately 180 acres were annexed, on May 11, 2006 an additional 130 acres were annexed, and on March 8, 2007 an additional 78.5 acres were annexed, bringing the total acreage of the District to approximately 732.4 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

A board governs the District, 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 in May in each even numbered year. Four of the five directors reside in the District.

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>	<u>Length of Service</u>
Merry Leonard	President	2018	13 Years
Joe Sykes	Vice President	2016	7 Years
Brian Canepa	Secretary	2016	7 Years
Mike Owens	Assistant Secretary	2018	4 ½ Years
Thomas Mohr	Assistant Vice President	2016	3 Years

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, Inc. currently serves the District in this capacity under contract. Tax Tech, Inc. serves approximately 80 other special districts as Tax Assessor/Collector.

Operator

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

Bookkeeper

McLennan & Associates, L.P. (the "Bookkeeper"), acts as bookkeeper for the District. The Bookkeeper performs similar services for approximately 118 other special districts.

Engineer

The District's consulting engineer is Brown & Gay Engineers, Inc. (the "Engineer"). The Engineer serves approximately 70 other special districts in the Houston area as consulting engineer.

Financial Advisor

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

Bond Counsel

The District has engaged Allen Boone Humphries Robinson LLP ("ABHR"), Houston, Texas, as Bond Counsel ("Bond Counsel") in connection with the issuance of the District's Bonds. The fees of Bond Counsel are contingent upon the sale of and delivery of the Bonds. ABHR also acts as General Counsel to the District on matters not related to the issuance of the Bonds and is compensated based on time charges actually incurred.

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 northern boundary is the Union Pacific railroad track, western boundary is Fry Road and Harris County Municipal Utility District No. 371, and eastern boundary is Harris County Municipal Utility District No. 500, and southern boundary is Harris County Municipal Utility District No. 433. Access to the District is provided by U.S. Hwy 290 to Fry Road.

Status of Development

As of March 1, 2015, existing residential development within the District consisted of approximately 979 developed single-family lots in the residential subdivisions of Cypress Creek Lakes, of which there are 979 single-family homes completed. In addition, there are eight lakes containing approximately 120 acres, 8.5 acres of recreation centers and parks and 130 acres of Cypress-Fairbanks ISD school facilities.

The chart below reflects the status of development within the District as of March 1, 2015:

	Acreage	Platted Lots	Single Family		
			Completed Homes	Homes Under Construction	Vacant Lots
A. Single Family Developed with Utility Facilities					
Cypress Creek Lakes, Section 1	37.30	116	116	0	0
Cypress Creek Lakes, Section 2	69.40	126	126	0	0
Cypress Creek Lakes, Section 3 North	35.70	69	69	0	0
Cypress Creek Lakes, Section 3 South	25.80	79	79	0	0
Cypress Creek Lakes, Section 4	68.10	107	107	0	0
Cypress Creek Lakes, Section 5	41.50	104	104	0	0
Cypress Creek Lakes, Section 6	55.50	84	84	0	0
Cypress Creek Lakes, Section 7	24.90	96	96	0	0
Cypress Creek Lakes, Section 8	27.60	102	102	0	0
Cypress Creek Lakes, Section 9	<u>30.60</u>	<u>96</u>	<u>96</u>	<u>0</u>	<u>0</u>
Total Single Family Developed with Utilities	416.40	979	979	0	0
B. Other Improvements Developed with Utility Facilities					
Multi-Family (Townhomes)	23.30				
Multi-Family (Apartments)	25.60				
Recreation Center	29.10				
Cypress-Fairbanks ISD	130.00				
Retail	46.50				
Commercial	7.70				
District Facility Sites	<u>4.50</u>				
Total Other Improvements	266.70				
C. Remaining Developable Acreage	<u>0.00</u>				
D. Total Developed Acres	683.10				
E. Undevelopable Acreage	<u>49.30</u>				
Total	732.40				

Multi-Family Development

As of March 1, 2015, existing multi-family development within the District consisted of 310 apartment units encompassing approximately 13.6 acres, which are currently 94% occupied. Additionally, construction of a 300 townhome unit complex on 23.30 acres began in February 2015, which is expected to be completed by December 2015. It is also anticipated that the District will include an additional 230 apartment units on approximately 12 acres.

Retail Development

Approximately 21 acres within the District have been developed for retail use, which, as of March 1, 2015, include a McDonald's restaurant, gas station/convenience store, storage facility and a Goddard School, as well as a 30,000 square foot shopping center that is currently 95% leased.

Future Development

The District as created contained approximately 343 acres. On November 11, 2004, approximately 180 acres were annexed, on May 11, 2006 an additional 130 acres were annexed, and on March 8, 2007, an additional 78.5 acres were annexed, bringing the total acreage of the District to approximately 732.4 acres. The District contains approximately 683.1 developable acres, all of which have been developed with utility facilities. The Developer has been fully reimbursed for the construction of water, sanitary sewer and drainage facilities to serve the District. The District continues to owe the Developer approximately \$1,100,000 plus interest for parks and recreational facilities. The District has the right to issue the remaining \$410,000 unissued unlimited tax bonds authorized to acquire additional utility facilities and the remaining \$6,655,000 in authorized but unissued unlimited tax bonds authorized to acquire and construct additional park and recreational facilities. See "THE BONDS - Issuance of Additional Debt." However, the District makes no representation that any future development will occur.

Strategic Partnership Agreement

In 2012, the District entered into a strategic partnership agreement with the City of Houston pursuant to Section 43.0751, Texas Local Government Code, whereby the commercial portion of the District was annexed into the City for limited purposes, while the balance of the District remains in the City's extraterritorial jurisdiction. As a result of the agreement, the City imposes a one percent sales and use tax (but not its property taxes) within the area of limited purpose annexation, and remits one-half of the City's sales and use tax receipts from within the District to the District to be used for any lawful District purpose. In addition, for the 30-year term of the agreement, the City agrees not to annex the District for general purposes, thus delaying for at least 30 years from the date of the agreement any dissolution of the District and assumption of its assets and liabilities by the City. The City and the District may amend the strategic partnership agreement at any time. Funds to be received by the City under the agreement are not pledged to the payment of the Bonds.

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 District was developed by 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 within the District. Mischer has been fully reimbursed for the construction of water, sanitary sewer and drainage facilities to serve the District. The District continues to owe Mischer approximately \$1,100,000 plus interest for parks and recreational facilities, which the District may pay out of future bond issues. See "INVESTMENT CONSIDERATIONS – Future Debt."

Mischer Development, L.P.

All of the developable acreage in the District was developed by Mischer Development, L.P. ("Mischer"), or its subsidiaries or affiliates. 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.

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 permanently financed by the District with the proceeds of the Bonds and future bond issuances, 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 currently obtains its water supply through a contractual agreement between Harris County Municipal Utility District No. 371 ("HCMUD 371"), the District and Mischer Investments, LP, formerly known as Wheatstone Investments LP (the "371 Agreement") and a contractual agreement between the District and Harris County Municipal Utility District No. 433 ("HCMUD 433") (the "433 Agreement"). Under the 371 Agreement HCMUD 371 currently supplies groundwater to the District from two wells, Well No. 1, capacity 1,000 gallons per minute ("gpm"), and Well No. 2, capacity 600 gpm. HCMUD 371 currently owns and operates these existing water supply facilities for the District. According to the Engineer, the existing HCMUD 371 water supply facilities meet or exceed the minimum design criteria set by the TCEQ, and will provide capacity for 662 equivalent single-family connections ("ESFC") within the District. Under the 433 Agreement, the District is financing a portion of a water plant and 1,000 gpm well located in HCMUD 433 and will have ownership rights to 1,363 equivalent single-family connections from the water plant at full build-out. The capacity provided by the 433 Agreement and the 371 Agreement provide a total of 2,025 ESFCs. The District has acquired capacity in the HCMUD 433 plant to provide sufficient water supply to serve the District at full build-out.

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 charged by the Authority will increase substantially over such period.

Under the Subsidence District regulations and the GRP, the Authority is required: (i) through the year 2024, to limit groundwater withdrawals to no more than 70% of the total annual water demand of the water users within the Authority's GRP; (ii) beginning in the year 2025, to limit groundwater withdrawals to no more than 40% of the total annual water demand of the water users within the Authority's GRP; and (iii)

beginning in the year 2035, and continuing thereafter, to limit groundwater withdrawals to no more than 20% of the total annual water demand of the water users within the Authority’s GRP. If the Authority fails to comply with the above Subsidence District regulations or its GRP, the Authority is subject to a disincentive fee penalty of \$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 first phase of the Harris County MUD No. 374 Wastewater Treatment Facility was a 250,000 gpd capacity treatment plant that serves 794 ESFCs. The second and final phase of construction brought the wastewater treatment plant to an ultimate capacity of 650,000 gpd that serves 2,063 ESFCs. According to the Engineer, the wastewater treatment plant, based on current build-out projections, meets the ultimate service demand.

100-Year Flood Plain

Approximately 38 acres of the District are located within the boundary of the 100-year Flood Plain for Cypress Creek as defined by FEMA Map Number 48201C0405L and 48201C0415L, Harris County Unincorporated Data, dated June 18, 2007. The 38 acres located in the 100-year Flood Plain include a mitigation lake area and an outfall channel. No lots are developed nor are any expected to be developed on the 38 acres of the District that are located within the boundary of the 100-year Flood Plain. An additional 40 acres of land containing 36 lots has been incorrectly depicted in the 100-year Flood Plain in the current FEMA maps. The local flood plain administration for FEMA, Harris County, has acknowledged the error and has agreed to submit documentation to FEMA to correct the problem. The District Engineer has verified that the elevation of these lots is above the base flood elevation and that this is a mapping error.

Water and Wastewater Operations

The Bonds are payable from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District described under "THE BONDS - Source of and Security for Payment." Although the Bonds are secured solely by the levy of ad valorem taxes, the District may use net revenues from the operation of its System to pay the Bonds. No representation is made regarding whether the District would ever use net revenues from its System to make payment on the Bonds.

Rate and Fee Schedule – Table 1

The Board of Directors of the District establishes rates and fees for water and sewer service, subject to change from time to time. The following schedule sets forth the rates and fees for the District’s water and sewer service which were effective as of November 13, 2014.

Water (monthly billings)

Residential (Single-Family):

First 5,000 gallons of water used	\$10.00 (minimum)
5,000 – 10,000 gallons of water used	\$1.50 per 1,000 gallons
10,000 – 20,000 gallons of water used	\$1.75 per 1,000 gallons
20,000 – 50,000 gallons of water used	\$2.25 per 1,000 gallons
50,000 – 75,000 gallons of water used	\$3.00 per 1,000 gallons
In excess of 75,000 gallons of water used	\$3.60 per 1,000 gallons

Non-Single Family User:

First 1,000 gallons of water used	\$20.00 (minimum)
1,000 – 30,000 gallons of water used	\$1.00 per 1,000 gallons
In excess of 30,000 gallons of water used	\$1.75 per 1,000 gallons

Single Meter: Minimum rate \$20.00 times the number of apartment units, with excess usage charged.

Irrigation Systems:

First 1,000 gallons of water used	\$15.00 (minimum)
In excess of 1,000 gallons of water used	\$1.75 per 1,000 gallons
West Harris County Regional Water Authority pumpage fee	110% of pumpage fee charged

Sewer (monthly billings)

Residential:

First 5,000 gallons per unit \$10.00 (minimum)
In excess of 5,000 gallons per unit \$2.00 per 1,000 gallons

Non-Single Family User:

Rate per 1,000 gallons per unit \$1.75 per 1,000 gallons

Tap Fees:

Water & Wastewater System:

Single-Family:

$\frac{3}{4}$ " or $\frac{5}{8}$ " \$575
1" \$900
Larger than 1" Two (2) times the actual cost

Multi-Family & Commercial: Three (3) times the actual cost

Inspection Fees:

Single-family \$50
Non-Single-family \$100

(The remainder of this page intentionally left blank)

Operating Revenues and Expenses Statement - Table 2

The following statement sets forth in condensed form the historical operations of the District. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. 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. Also see "Appendix A – Audited Financial Statements."

	Fiscal Year Ended					
	2/28/15 ^(a)	8/31/14 ^(b)	8/31/13 ^(b)	8/31/12 ^(b)	8/31/11 ^(b)	8/31/10 ^(b)
REVENUES						
Water Service	\$ 232,610	\$ 425,105	\$ 466,682	\$ 397,972	\$ 449,017	\$ 331,789
Sewer Service	206,477	388,780	415,238	366,901	398,140	289,641
Property Taxes	907,993	722,263	732,029	790,416	625,659	811,357
Penalties and Interest	12,807	25,017	23,339	19,329	18,451	11,554
City of Houston Sales Tax Rebates	12,207	27,364	-	-	-	-
Tap Connection and Inspection	20,801	5,210	80,038	124,882	84,988	96,584
Surface Water Fees	285,054	457,139	405,325	-	-	-
Regional Water Authority Fees	-	56,341	56,341	306,756	305,872	168,942
Miscellaneous	4,125	11,980	13,104	29,757	125	832
Interest	1,256	2,066	3,231	3,629	4,501	2,647
	\$ 1,683,331	\$ 2,121,265	\$ 2,195,327	\$ 2,039,642	\$ 1,886,753	\$ 1,713,346
EXPENDITURES						
Bulk Water & Wastewater Purchases	\$ 280,935	\$ 581,293	\$ 624,394	\$ 593,224	\$ 475,412	\$ 326,512
Legal Fees	53,160	85,579	83,253	82,822	65,780	79,317
Financial Advisory Fees	1,500	1,500	1,560	1,500	1,500	-
Audit Fees	11,500	11,500	11,950	11,500	11,500	11,500
Engineering Fees	30,069	51,998	48,370	75,303	74,582	123,412
Bookkeeping Fees	11,025	22,843	21,038	20,663	19,706	19,275
Operator	31,292	59,567	63,800	54,171	49,574	43,109
Security Services	48,764	74,607	63,956	64,059	53,738	14,689
Contract Manager	15,000	22,500	-	-	-	-
Tap Connection and Inspection	6,295	14,671	63,392	74,288	44,606	52,386
Sludge Removal	19,065	65,977	54,177	36,245	33,914	42,186
Repairs and Maintenance	258,806	665,558	983,171	507,201	480,694	514,644
Landscaping	112,890	-	-	-	-	-
Utilities	78,736	136,363	151,812	149,793	143,906	141,328
Directors Fees & related Payroll Taxes	7,503	12,000	11,700	13,650	10,200	12,000
Printing & Office Supplies	3,164	5,308	10,872	9,447	7,718	7,114
Insurance	25,656	20,307	21,396	23,307	17,084	16,935
Other	49,875	49,025	46,078	39,315	93,946	112,032
Capital Outlay	-	2,120	65,539	-	247,317	-
TOTAL EXPENDITURES	\$ 1,045,235	\$ 1,882,716	\$ 2,326,458	\$ 1,756,488	\$ 1,831,177	\$ 1,516,439
NET REVENUE / (DEFICIT)	\$ 638,096	\$ 238,549	\$ (131,131)	\$ 283,154	\$ 55,576	\$ 196,907
Beginning Fund Balance	\$ 1,503,638	\$ 1,241,989	\$ 1,373,120	\$ 1,089,966	\$ 1,034,390	\$ 837,483
Plus / (Less): Fund Transfers	-	23,100	-	-	-	-
Ending Fund Balance	\$ 2,141,734	\$ 1,503,638	\$ 1,241,989	\$ 1,373,120	\$ 1,089,966	\$ 1,034,390

(a) Unaudited. As of February 28, 2015. Represents 6 months of the District's current fiscal year.

(b) Audited.

DEBT SERVICE REQUIREMENTS SCHEDULE – TABLE 3
Harris County Municipal Utility District No. 374
\$2,980,000
Unlimited Tax Refunding Bonds, Series 2015
Dated Date: April 1, 2015
First Interest Payment Due: September 1, 2015

Year Ending 31-Dec	Current Debt Service Requirement	Less Refunded Debt Service	The Bonds				Principal and Interest	Total Debt Service Requirements
			Principal (Due 9/01)	Interest (Due 3/01)	Interest (Due 9/01)	Total		
2015	\$ 2,329,895	\$ 63,409	\$ 35,000	\$ -	\$ 38,286	\$ 38,286	\$ 73,286	\$ 2,339,772
2016	2,345,145	126,819	20,000	45,594	45,594	91,188	111,188	2,329,514
2017	2,334,170	221,819	115,000	45,394	45,394	90,788	205,788	2,318,139
2018	2,312,683	121,831	20,000	44,244	44,244	88,488	108,488	2,299,339
2019	2,365,895	121,831	20,000	44,044	44,044	88,088	108,088	2,352,151
2020	2,355,495	121,831	20,000	43,744	43,744	87,488	107,488	2,341,151
2021	2,408,083	121,831	20,000	43,444	43,444	86,888	106,888	2,393,139
2022	2,403,608	121,831	25,000	43,144	43,144	86,288	111,288	2,393,064
2023	2,422,058	121,831	25,000	42,769	42,769	85,538	110,538	2,410,764
2024	2,471,308	121,831	25,000	42,394	42,394	84,788	109,788	2,459,264
2025	2,508,333	271,831	175,000	42,019	42,019	84,038	259,038	2,495,539
2026	2,490,833	265,381	170,000	39,394	39,394	78,788	248,788	2,474,239
2027	2,524,970	283,781	195,000	36,844	36,844	73,688	268,688	2,509,876
2028	2,512,145	275,906	195,000	33,919	33,919	67,838	262,838	2,499,076
2029	2,566,895	292,856	215,000	30,994	30,994	61,988	276,988	2,551,026
2030	2,579,108	283,456	215,000	27,769	27,769	55,538	270,538	2,566,189
2031	2,622,220	283,706	220,000	24,409	24,409	48,819	268,819	2,607,333
2032	2,669,908	288,469	230,000	20,972	20,972	41,944	271,944	2,653,383
2033	2,507,951	302,500	255,000	17,234	17,234	34,469	289,469	2,494,920
2034	2,260,720	290,000	250,000	13,091	13,091	26,181	276,181	2,246,901
2035	2,577,820	302,500	270,000	9,028	9,028	18,056	288,056	2,563,376
2036	2,594,520	288,750	265,000	4,472	4,472	8,944	273,944	2,579,714
2037	2,329,130	-	-	-	-	-	-	2,329,130
2038	2,432,433	-	-	-	-	-	-	2,432,433
2039	2,279,750	-	-	-	-	-	-	2,279,750
	<u>\$ 61,205,071</u>	<u>\$4,694,003</u>	<u>\$2,980,000</u>	<u>\$ 694,913</u>	<u>\$ 733,199</u>	<u>\$1,428,112</u>	<u>\$4,408,112</u>	<u>\$ 60,919,179</u>

FINANCIAL STATEMENT
(Unaudited as of March 1, 2015)

Assessed Value - Table 4

2014 Certified Assessed Valuation	\$ 382,482,163 ^(a)
Estimated Assessed Valuation as of January 1, 2015	\$ 387,259,566 ^(b)
Gross Debt Outstanding (after the issuance of the Bonds)	\$ 38,920,000 ^(c)
Ratio of Gross Debt to 2014 Certified Assessed Valuation	10.18%
Ratio of Gross Debt to Estimated Assessed Valuation as of January 1, 2015	10.05%
2014 Tax Rate	
Debt Service	\$ 0.6435
Maintenance	<u>0.2865</u>
Total 2014 Tax Rate	\$ 0.9300 ^(d)
Debt Service Fund Balance (as of March 12, 2015)	\$ 1,914,248 ^(e)

Area of District: 732.4 acres
Estimated Population as of January 1, 2015 – 4,157^(f)

- (a) Assessed valuation of the District as January 1, 2014, as certified by the Harris County Appraisal District ("HCAD"). See "TAXING PROCEDURES."
- (b) Estimated assessed valuation as of January 1, 2015, 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.
- (c) Includes the Bonds, excludes the Refunded Bonds.
- (d) The District levied a 2014 tax rate of \$0.93 per \$100 assessed valuation.
- (e) Unaudited as of March 12, 2015. Neither Texas Law nor the Bond Resolution requires the District to maintain any particular sum in the debt service fund.
- (f) Based on 3.5 residents per active occupied single-family connection and 2.5 residents per occupied apartment unit. As of January 1, 2015, the apartments were 94% occupied (292 units).

Unlimited Tax Bonds Authorized but Unissued - Table 5

Date of Authorization	Purpose	Amount Authorized	Issued to Date	Unissued
11/6/2001	Water, Sewer and Drainage	\$ 37,200,000	\$ 36,790,000	\$ 410,000
11/6/2001	Refunding	24,200,000 ^(a)	3,381,999 ^(a)	20,818,001 ^(a)
5/15/2004	Parks and Recreational Facilities	9,500,000	2,845,000	6,655,000

- (a) The voters of the District authorized the issuance of refunding bonds in a total aggregate principal amount of \$24,200,000. To the extent the par amount of the refunding bonds exceeds the par amount of the refunded bonds, the difference is counted against the refunding authorization. Additionally, any net premium received by the District from the sale of refunding bonds after deducting Underwriter's discount is also counted against the District's refunding authorization. The issuance of the Bonds uses \$350,000 of the total amount of refunding bonds authorized. After the issuance of the Bonds, the District will have used a total of \$3,381,998.71 of the District's voted authorization of refunding bonds and, following the issuance of the Bonds, \$20,818,001.29 of voted authorization of refunding bonds remains unissued.

Outstanding Bonds - Table 6

Dated Date	Purpose	Original Series	Original Principal Amount	Principal Amount Outstanding after the Issuance of the Bonds ^(a)
A. New Money Bonds				
10/1/2005	Water, Sanitary Sewer & Drainage	2005	\$ 3,000,000	\$ -
3/1/2007	Water, Sanitary Sewer & Drainage	2007	4,730,000	-
12/1/2007	Water, Sanitary Sewer & Drainage	2007A	5,250,000	-
12/1/2008	Water, Sanitary Sewer & Drainage	2008	7,500,000	100,000
10/1/2009	Water, Sanitary Sewer & Drainage	2009	4,010,000	175,000
8/1/2010	Water, Sanitary Sewer & Drainage	2010	3,930,000	3,655,000
2/1/2012	Water, Sanitary Sewer & Drainage	2012	3,000,000	2,845,000
12/1/2012	Water, Sanitary Sewer & Drainage	2012A	5,370,000	5,360,000
12/1/2012	Park and Recreational Facilities	2012B	2,845,000	2,845,000
	Subtotal		\$ 39,635,000	\$ 14,980,000
B. Refunding Bonds				
2/1/2012	Refunding	2012	\$ 11,885,000	\$ 11,240,000
3/1/2013	Refunding	2013	6,945,000	6,890,000
6/1/2014	Refunding	2014	2,905,000	2,830,000
4/1/2015	Refunding	2015	2,980,000	2,980,000 ^(b)
	Subtotal		\$ 24,715,000	\$ 23,940,000
	Total		\$ 64,350,000	\$ 38,920,000

(a) Includes the Bonds and excludes the Refunded Bonds.

(b) The Bonds.

Cash and Investment Balances - Table 7 ^(a)

General Fund	\$ 2,271,228
Debt Service Fund	1,914,248 ^(b)
Capital Projects Fund	2,136,340

(a) Unaudited as of March 12, 2015.

(b) Neither Texas Law nor the Bond Resolution requires the District to maintain any particular sum in the debt service fund.

Investment Authority and Investment Practices of the District

Under Texas law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (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) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit and share certificates meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended) (the "PFIA") (i) that are issued by or through an institution that has its main office or a branch office 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 (6) or in any other manner and amount provided by law for District deposits; or (ii) that are invested by the District through a depository institution that has its main office or a branch office in the State of Texas and otherwise meets

the requirements of the PFIA; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), which are pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State primary government securities dealer or a financial institution doing business in the State; (9) 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; (10) 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; (11) 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 (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest 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. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

A political subdivision such as the District may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (10) through (12) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

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, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the PFIA. 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.

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 the ending market value and the fully accrued interest for the reporting period, (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 March 12, 2015, is invested in Money Markets and 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 March 12, 2015	
Cash	\$ 106,170
Money Market	6,105,218
TexPool	110,428
Total Investment	\$ 6,321,816

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 information as being accurate or complete. Furthermore, certain of the entities listed below may have issued additional bonds since the dates stated in this table, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined. Political subdivisions overlapping the District are authorized by 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	2/1/2015	0.109%	\$ 2,436,057
Harris County Department of Education	7,605,000	2/1/2015	0.109%	8,272
Harris County Flood Control District	83,017,090	2/1/2015	0.113%	93,622
Harris County Toll Road ^(a)	-	2/1/2015	0.000%	-
Harris County ESD No. 9 ^(b)	-	2/1/2015	0.000%	-
Port of Houston Authority	673,026,397	2/1/2015	0.113%	759,133
Lone Star College System	449,577,583	2/1/2015	0.261%	1,174,837
Cypress Fairbanks Independent School District	2,064,859,779	2/1/2015	0.950%	19,622,076
TOTAL ESTIMATED OVERLAPPING DEBT				\$ 24,093,996
The District ^(c)	\$ 38,920,000	4/1/2015	100.000%	\$ 38,920,000
TOTAL ESTIMATED DIRECT AND OVERLAPPING DEBT				\$ 63,013,996
Ratio of Estimated and Overlapping Debt to 2014 Certified Assessed Valuation				16.48%
Ratio of Estimated and Overlapping Debt to Estimated Assessed Valuation as of January 1, 2015				16.27%

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

(b) Taxing jurisdiction with no outstanding debt.

(c) Includes the Bonds and excludes the Refunded Bonds.

Overlapping Taxes for 2014

Overlapping Entity	2014 Tax Rate Per	
	\$100 Assessed Valuation	Average Tax Bill ^(a)
	Harris County	Harris County
Harris County	\$0.417310	\$ 1,403
Harris County Department of Education	0.005999	20
Harris County Flood Control District	0.027360	92
Harris County Toll Road ^(b)	-	-
Harris County ESD No. 9	0.060000	202
Port of Houston Authority	0.015310	51
Lone Star College System	0.108100	363
Cypress Fairbanks Independent School District	1.440000	4,841
The District	<u>0.930000</u>	<u>3,127</u>
Total	\$3.004079	\$ 10,100

(a) Based upon the 2014 average single family home value of \$336,205 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	\$ 79,440,573	21.38%	\$ 67,178,876	20.27%	\$ 57,234,195	20.26%
Improvements	386,969,148	104.16%	353,111,544	106.54%	310,052,020	109.77%
Personal Property	3,434,358	0.92%	3,475,007	1.05%	3,246,334	1.15%
Less: Exemptions	<u>(98,334,118)</u>	<u>-26.47%</u>	<u>(92,321,408)</u>	<u>-27.85%</u>	<u>(88,084,983)</u>	<u>-31.19%</u>
Total	<u>\$ 371,509,961</u>	<u>100.00%</u>	<u>\$ 331,444,019</u>	<u>100.00%</u>	<u>\$ 282,447,566</u>	<u>100.00%</u>

(The remainder of this page intentionally left blank)

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. See "Classification of Assessed Valuation" above.

Tax Year	Assessed Valuation ^(a)	Tax Rate	Tax Levy	Current Collections		Total Collections		Year Ending
				Amount	%	Amount	%	
2003	186,280	1.3000	2,422	2,422	100.00%	2,422	100.00%	8/31/2004 ^(b)
2004	7,123,830	1.3000	92,610	72,298	78.07%	72,298	78.07%	8/31/2005 ^(b)
2005	32,584,163	1.1000	358,426	337,492	94.16%	337,492	94.16%	8/31/2006 ^(b)
2006	69,492,286	1.1000	764,415	737,085	96.42%	776,035	101.52%	8/31/2007 ^(b)
2007	121,376,786	1.0500	1,274,766	1,257,273	98.63%	1,282,901	100.64%	8/31/2008 ^(b)
2008	180,394,449	1.0000	1,803,944	1,795,233	99.52%	1,808,628	100.26%	8/31/2009 ^(b)
2009	225,690,829	0.9500	2,144,063	2,134,152	99.54%	2,150,476	100.30%	8/31/2010 ^(b)
2010	242,962,687	0.9500	2,308,146	2,303,827	99.81%	2,308,316	100.01%	8/31/2011 ^(b)
2011	262,584,695	0.9500	2,494,555	2,494,223	99.99%	2,504,233	100.39%	8/31/2012 ^(b)
2012	284,536,190	0.9500	2,703,094	2,702,904	99.99%	2,705,534	100.09%	8/31/2013 ^(b)
2013	328,502,852	0.9500	3,120,777	3,117,641	99.90%	3,118,719	99.93%	8/31/2014 ^(b)
2014	382,482,163	0.9300	3,495,193	3,357,801	96.07%	3,357,801	96.07%	8/31/2015 ^(c)

(a) Assessed Valuation reflects the adjusted value at August 31st of each respective year as included in the audited financial statement.

(b) Audited.

(c) Unaudited. Reflects collections through February 28, 2015. 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	2010	2009	2008
Debt Service	\$ 0.6435	\$ 0.7283	\$ 0.6929	\$ 0.6501	\$ 0.6927	\$ 0.5920	\$ 0.6500
Maintenance and Operations	0.2865	0.2217	0.2571	0.2999	0.2573	0.3580	0.3500
Total	\$ 0.9300	\$ 0.9500	\$ 0.9500	\$ 0.9500	\$ 0.9500	\$ 0.9500	\$ 1.0000

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 the statutory authority to levy and collect an annual ad valorem tax for maintaining, repairing and operating the District's facilities and for paying administrative expenses of the District, if such maintenance tax is authorized by the District's voters. An election for such a tax was held on November 6, 2001, 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 \$0.2865 at its October 2014 Board of Directors meeting.

Additional Penalties

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

Principal Taxpayers - 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 the appraised value of taxable property owed as of January 1, of each year shown.

Name	Type of Property	2014	2013	2012
Fund Cypress I LLC	Land and Improvements	\$ 32,000,000	\$ 26,200,000	\$ 23,000,000
Community Self Storage VI LP	Commercial	3,307,202	(a)	(a)
Texas Petroleum Group LLC	Personal Property	2,263,235	2,065,212	(a)
Sherman Trust	Land and Improvements	1,748,300	1,659,924	(a)
Mischer Investments LP	Land and Improvements	1,726,477	1,354,758	423,296
Green Stone Capital LLC	Retail	1,636,212	1,399,903	(a)
Fund Cypress II LLC	Land and Improvements	1,382,759	1,382,759	937,635
Centerpoint Energy	Personal Property	832,770	988,630	726,410
Individual Homeowner	Land and Improvements	728,200	662,000	728,590
Individual Homeowner	Land and Improvements	725,661	659,692	632,195
Individual Homeowner	Land and Improvements	712,000	652,731	593,392
Individual Homeowner	Land and Improvements	696,923	633,567	605,885
Individual Homeowner	Land and Improvements	622,967	566,334	541,851
Individual Homeowner	Land and Improvements	613,188	559,473	508,612
Individual Homeowner	Land and Improvements	601,750	(a)	(a)
Mischer Development LP	Land and Improvements	(a)	2,774,709	4,004,032
Shop at Cypress Creek Lakes LLC	Retail	(a)	1,133,910	(a)
Total		<u>\$ 49,597,644</u>	<u>\$ 42,693,602</u>	<u>\$ 32,701,898</u>
Percent of Assessed Valuation		13.35%	13.00%	11.49%

(a) Not a principal taxpayer for respective year.

Tax Adequacy for Debt Service

The calculations shown below assume, solely for purposes of illustration, no increase or decrease in assessed valuations from the 2014 certified assessed valuation and Estimated Assessed Valuation as of January 1, 2015, and utilize tax rates adequate to service the District's total debt service requirements, including the Bonds. No available debt service funds are reflected in these computations. See "INVESTMENT CONSIDERATIONS – Factors Affecting Taxable Values and Tax Payments - *Impact on District Tax Rates.*"

Average Requirement on the Bonds and the Outstanding Bonds (2015 through 2039).....	\$2,436,767
\$0.68 Tax Rate on 2014 Certified Assessed Valuation of \$382,482,163 @ 95% collections produces.....	\$2,470,835
\$0.67 Tax Rate on Estimated Assessed Valuation as of January 1, 2015 of \$387,259,566 @ 95% collections produces.....	\$2,464,907
Maximum Requirement on the Bonds and the Outstanding Bonds (2032).....	\$2,653,383
\$0.74 Tax Rate on 2014 Certified Assessed Valuation of \$382,482,163 @ 95% collections produces.....	\$2,688,850
\$0.73 Tax Rate on Estimated Assessed Valuation as of January 1, 2015 of \$387,259,566 @ 95% collections produces.....	\$2,685,645

Debt Service Fund Management Index

Debt Service Requirements for year ending 12/31/15	\$2,339,772 ^(a)
Audited Debt Service Fund Balance as of 8/31/14	\$669,247 ^(b)
2014 Tax Levy @ 95% collections produces	<u>2,338,209</u> ^(c)
Total Available for Debt Service.....	<u>\$3,007,456</u>

- (a) Interest payments on the Bonds commences September 1, 2015.
(b) Audited. Represents fund balance after all 2014 debt service requirements have been paid.
(c) The District levied a 2014 debt service tax rate of \$0.6435.

TAXING PROCEDURES

Authority to Levy Taxes

The Board is authorized to levy an annual ad valorem tax on all taxable property within the District in an amount sufficient to pay the principal of and interest on the Bonds, its other remaining 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 Resolution 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 is also authorized to levy and collect an ad valorem tax for the operation and maintenance of the District and its water and wastewater system and for the payment of certain contractual obligations, if authorized by its voters. See "TAX DATA - Tax Rate Limitation."

Property Tax Code and County Wide Appraisal District

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

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

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes, and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; income producing tangible personal property or mineral interest with a taxable value of less than \$500; certain property used for the control of air, water or land pollution; solar and wind powered energy devices; certain household goods, wares and merchandise in transit; certain farm products owned by the producer; certain property of charitable organizations, youth development organizations, religious organizations, and qualified schools; designated historical sites; travel trailers; and most individually owned automobiles. Partially exempt to between \$5,000 and \$12,000 of assessed value depending upon the disability rating of the veteran is 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. Additionally, a disabled veteran who receives 100% disability compensation due to a service-connected disability and a rating of 100% disabled or of individual employability is entitled to an exemption from taxation of the total appraised value of their residence homestead, effective for the tax years beginning on or after January 1, 2009. Also partially exempt are residence homesteads of certain persons who are disabled or at least 65 years old of \$25,000 of appraised value. The District's tax assessor is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District's obligation to pay tax-supported debt incurred prior to adoption of the exemption by the District.

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

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

"Goods-in-Transit" Exemption is applicable to the same categories of tangible personal property which are covered by the Freeport Exemption, if, for tax year 2011 and prior applicable years, such property is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation, and the location where said property is detained during that period is not directly or indirectly owned or under the control of the property owner. For tax year 2012 and subsequent years, such Goods-in-Transit Exemption includes tangible personal property acquired in or imported into Texas for storage purposes only if such property is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit personal property. A taxing unit must exercise its option to tax goods-in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law. The District has taken official action to allow taxation of all such goods-in-transit personal property for all prior and subsequent years.

Tax Abatement

Harris County 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) 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, property in the District must be appraised by the HCAD at market value as of January 1 of each year. Once an appraisal roll is prepared and formally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Property Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Property Tax Code.

The Property Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its fair market value. The Property Tax Code permits under certain circumstances that residential real property inventory held by a person in the trade or business be valued at the price that such property would bring if sold as a unit to a purchaser who would continue the business. Landowners wishing to avail themselves of the agricultural use, open space or timberland designation or residential real property inventory designation must apply for the designation and the appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions while claiming it as to another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous three years for agricultural use and taxes for the previous five years for open space land and timberland.

The Property Tax Code requires the HCAD to implement a plan for periodic reappraisal of property. The plan must provide for appraisal of all real property in the HCAD at least once every three (3) years. It is not known what frequency of reappraisal will be utilized by the HCAD or whether reappraisals will be conducted on a zone or county-wide basis. The District, however, at its expense has the right to obtain from the Appraisal District a current estimate of appraised values within the District or an estimate of any new property or improvements within the District. While such current estimate of appraised values may serve to indicate the rate and extent of growth of taxable values within the District, it cannot be used for establishing a tax rate within the District until such time as the HCAD chooses formally to include such values on its appraisal roll.

District and Taxpayer Remedies

Under certain circumstances taxpayers and taxing units (such as the District), may appeal the orders of the Appraisal Review Board by filing a timely petition for review in State district court. In such event, the value of the property in question will be determined by the court or by a jury, if requested by any party. Additionally, taxing units may bring suit against the HCAD to compel compliance with the Property Tax Code.

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

Levy and Collection of Taxes

The District is responsible for the levy and collection of its taxes unless it elects to transfer the collection functions to another governmental entity. By September 1 of each year, or as soon thereafter as practicable, the rate of taxation is set by the Board based upon the valuation of property within the District as of the preceding January 1. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. 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 of up to fifteen percent (15%) if imposed by the District. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances.

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 and contract tax rates plus 1.08 times the previous year's operation and maintenance tax rate. Thus, debt service and contract tax rates cannot be changed by a rollback election.

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 "FINANCIAL 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 (a taxpayer may redeem property within two years after the purchaser's deed issued at the foreclosure sale is filed in the county records) or by bankruptcy proceedings which restrict the collection of taxpayer debts. See "INVESTMENT CONSIDERATIONS - General - Tax Collections and Foreclosure Remedies."

Effect of FIRREA on Tax Collections

The "Financial Institutions Reform, Recovery and Enforcement Act of 1989" ("FIRREA") contains 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 lien 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 property taxes when due and (iii) notwithstanding the failure of a person to challenge an appraisal in accordance with state law, such value shall be determined as of the period for which such tax is imposed.

To the extent that the 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 owned by the FDIC in the District, and may prevent the collection of penalties and interest on such taxes.

LEGAL MATTERS

Delivery of the Bonds will be accompanied by the unqualified approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the District under the Constitution and laws of the State of Texas payable from the proceeds of an annual ad valorem tax levied by the District, without limit as to rate or amount, upon all taxable property within the District, and, based upon their examination of a transcript of certified proceedings relating to the issuance and sale of the Bonds, the approving legal opinion of Bond Counsel, to a like effect, and to the effect that interest on the Bonds is excludable from gross income for federal tax purposes

under existing law, and interest on the Bonds will not be subject to the alternative minimum tax on individuals and corporations, except for certain alternative minimum tax consequences for corporations.

Bond Counsel has reviewed the information appearing in this OFFICIAL STATEMENT under "PLAN OF FINANCING" (except for the information contained under the subheading "Estimated Sources and Uses of Funds"), "THE BONDS" (except for information under the subheadings "Payment Record" and "DTC Redemption Provisions"), "THE DISTRICT - General," "TAXING PROCEDURES," "LEGAL MATTERS," "TAX MATTERS," and "CONTINUING DISCLOSURE OF INFORMATION" (except for information under the subheading "Compliance with Prior Undertakings") solely to determine whether such information fairly summarizes matters of law and the provisions of the documents referred to therein. Bond Counsel has not independently verified any of the factual information contained in this OFFICIAL STATEMENT nor has conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this OFFICIAL STATEMENT. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of any information contained herein.

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

No-Litigation Certificate

The District will furnish to the Underwriter a certificate, dated as of the date of delivery of the Bonds, executed by both the President and Secretary of the Board, to the effect that no litigation of any nature 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.

VERIFICATION OF ESCROW SUFFICIENCY AND YIELDS

Grant Thornton LLP, a firm of independent certified public accountants, upon delivery of the Bonds, will deliver to the District its verification report indicating that it has performed certain procedures to verify, in accordance with standards established by the American Institute of Certified Public Accountants, the arithmetical accuracy of the information provided by the Financial Advisor relating to (a) the sufficiency of the anticipated receipts from the Escrowed Securities, together with the initial cash deposit, if any, to pay, when due, the principal and interest on the Refunded Bonds; (b) the "Yield" on the Escrowed Securities and on the Bonds; and (c) the mathematical computations related to certain requirements of the City of Houston Ordinance No. 97-416. Such computations will be completed using certain assumptions and information provided by the Financial Advisor on behalf of the District. Grant Thornton LLP has restricted its procedures to recalculating the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information on which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

The report will be relied upon by Bond Counsel in rendering its opinion with respect to the excludability from federal income taxation of interest on the Bonds and with respect to the defeasance of the Refunded Bonds.

TAX MATTERS

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

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

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

The Code also imposes a 20% alternative minimum tax on the "alternative minimum taxable income" of a corporation if the amount of such alternative minimum tax is greater than the amount of the corporation's regular income tax. Generally, the alternative minimum taxable income of a corporation (other than any S corporation, regulated investment company, REIT, REMIC or FASIT), includes 75% of the

amount by which its "adjusted current earnings" exceeds its other "alternative minimum taxable income." Because interest on tax exempt obligations, such as the Bonds, is included in a corporation's "adjusted current earnings," ownership of the Bonds could subject a corporation to alternative minimum tax consequences.

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

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

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

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

Tax Accounting Treatment of Original Issue Discount

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

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

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

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

multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Bond.

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

Qualified Tax-Exempt Obligations for Financial Institutions

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

The District has designated the Bonds as "qualified tax-exempt obligations" and has represented that the aggregate amount of tax-exempt bonds (including the Bonds) issued by the District and entities aggregated with the District under the Code during calendar year 2015 is not expected to exceed \$10,000,000 and that the District and entities aggregated with the District under the Code have not designated more than \$10,000,000 in "qualified tax-exempt obligations" (including the Bonds) during calendar year 2015.

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

CONTINUING DISCLOSURE OF INFORMATION

In the Bond Resolution, the District has the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material 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 via EMMA annually.

The information to be updated with respect to the District includes all quantitative financial information and operating data of the general type included in this Official Statement included under the headings "SELECTED FINANCIAL INFORMATION," "DEBT SERVICE SCHEDULE-TABLE 3," "FINANCIAL STATEMENT-Outstanding Bonds - Table 6," "TAX DATA-Classification Of Assessed Valuation-Table 9," "Tax Collections-Table 10," "District Tax Rates-Table 11," and "APPENDIX A" (the Audit). The District will update and provide this information within six months after the end of each of its fiscal years ending in or after 2015. The District will provide the updated information to the MSRB via EMMA.

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 ("Rule"). The updated information will include audited financial statements if it commissions an audit and the audit is completed by the required time. If the audit of such financial statements is not complete within such period, then the District shall provide unaudited financial statements for the applicable fiscal year to the MSRB via EMMA within such six month period, and audited financial statements when the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in the Bond Resolution, or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

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

Event Notices

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other material events affecting the tax-exempt status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of

property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of CPR § 240.15c2-12 (the "Rule"); (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of an definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material. The term "material" when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Resolution makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information from 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 "Event Notices" will be in an electronic format and accompanied by identifying information as prescribed by the MSRB and will be available to the public free of charge at www.emma.msrb.org.

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 Resolution 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 the Bonds in the offering described herein. If the District so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reason for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance with Prior Undertakings

During the past five years, the District has complied in all material respects with its continuing disclosure undertakings made 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 District has no employees but engages various professionals and consultants to assist the District in the day-to-day activities of the District. See "THE DISTRICT." The Board of Directors in its official capacity has relied upon the below mentioned experts and sources in the preparation of this Official Statement. The information in this Official Statement was compiled and edited by the 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:

"DEVELOPER" – Mischer Investments LP ("Developer"); "THE DISTRICT" – Brown & Gay Engineers, Inc. ("Engineer"), Cypress Fairbanks Independent School District, the Developer, various area commercial and retail establishments and residential developers; "BOOK-ENTRY-ONLY-SYSTEM" – Depository Trust Company; "THE SYSTEM" - Engineer; "FINANCIAL STATEMENT- Unlimited Tax Bonds Authorized but Unissued" - Records of the District ("Records"); "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" - Audits, Harris County Appraisal District, Records and Tax Assessor/Collector; "DEBT SERVICE SCHEDULE – TABLE 3" - Financial Advisor; "THE BONDS," "TAXING PROCEDURES," "LEGAL MATTERS," and "CONTINUING DISCLOSURE OF INFORMATION" - Allen Boone Humphries Robinson LLP

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 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 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 Tax Tech, Inc., in reliance upon the authority of said firm 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.

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 so long as the District has bonds outstanding. 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 prescribed charges.

This Official Statement was approved by the Board of Directors of Harris County Municipal Utility District No. 374, as of the date shown on the first page hereof.

/s/ Merry Leonard
President, Board of Directors
Harris County Municipal Utility District No. 374

/s/ Brian Canepa
Secretary, Board of Directors
Harris County Municipal Utility District No. 374

PHOTOGRAPHS

The following photographs were taken in the District. The homes and commercial establishments 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
AUDITED FINANCIAL STATEMENTS

The information contained in this appendix has been excerpted from the final audited financial statement of Harris County Municipal Utility District No 374 for the fiscal year ended August 31, 2014. Certain information not considered to be relevant to this financing has been omitted; however, complete audit reports are available upon request.

**HARRIS COUNTY MUNICIPAL
UTILITY DISTRICT NO. 374**

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		15
Notes to Basic Financial Statements		17
REQUIRED SUPPLEMENTARY INFORMATION		
Budgetary Comparison Schedule – General Fund		34
Notes to Required Supplementary Information		35
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	52
Comparative Schedule of Revenues and Expenditures – General Fund	TSI-7a	54
Comparative Schedule of Revenues and Expenditures – Debt Service Fund	TSI-7b	56
Board Members, Key Personnel and Consultants	TSI-8	58

--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. 374
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. 374, 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. 374
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. 374, 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.

McGuire & Co, P.C.

Houston, Texas
December 11, 2014

Management's Discussion and Analysis

(This page intentionally left blank)

***Harris County Municipal Utility District No. 374
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. 374 (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. 374
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 \$10,976,165. This amount is negative primarily because the District incurs debt to construct storm drainage facilities along public streets, which are conveyed to Harris County for operation and maintenance. A comparative summary of the District's overall financial position, as of August 31, 2014 and 2013, is as follows:

	2014	2013
Current and other assets	\$ 5,958,440	\$ 6,254,953
Capital assets	22,074,128	21,792,738
Total assets	<u>28,032,568</u>	<u>28,047,691</u>
 Total deferred outflows of resources	 <u>1,965,493</u>	 <u>1,702,356</u>
 Current liabilities	 1,492,445	 1,116,194
Long-term liabilities	39,481,781	40,078,566
Total liabilities	<u>40,974,226</u>	<u>41,194,760</u>
 Net position		
Net investment in capital assets	(8,638,156)	(8,745,496)
Restricted	675,975	681,190
Unrestricted	(3,013,984)	(3,380,407)
Total net position	<u>\$ (10,976,165)</u>	<u>\$ (11,444,713)</u>

Harris County Municipal Utility District No. 374
Management's Discussion and Analysis
August 31, 2014

The total net position of the District increased by \$468,548. 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	\$ 3,138,000	\$ 2,738,271
Water and sewer	813,885	881,920
Other	569,527	567,049
Total revenues	<u>4,521,412</u>	<u>4,187,240</u>
Expenses		
Current service operations	1,973,837	2,721,375
Interest and fees	1,507,635	2,204,063
Debt issuance costs	108,574	627,064
Depreciation and amortization	435,390	436,094
Total expenses	<u>4,025,436</u>	<u>5,988,596</u>
Change in net position before other item	495,976	(1,801,356)
Other item		
Loss on sale of capital asset	<u>(27,428)</u>	<u></u>
Change in net position	468,548	(1,801,356)
Net position, beginning of year	(11,444,713)	(9,643,357)
Net position, end of year	<u>\$ (10,976,165)</u>	<u>\$ (11,444,713)</u>

Financial Analysis of the District's Funds

The District's combined fund balances, as of August 31, 2014, were \$5,149,660, which consists of \$1,503,638 in the General Fund, \$669,247 in the Debt Service Fund and \$2,976,775 in the Capital Projects Fund.

***Harris County Municipal Utility District No. 374
Management's Discussion and Analysis
August 31, 2014***

General Fund

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

	2014	2013
Total assets	<u>\$ 1,974,846</u>	<u>\$ 1,556,167</u>
Total liabilities	\$ 469,510	\$ 313,726
Total deferred inflows	1,698	452
Total fund balance	<u>1,503,638</u>	<u>1,241,989</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 1,974,846</u>	<u>\$ 1,556,167</u>
Total revenues	\$ 2,121,265	\$ 2,195,327
Total expenditures	<u>(1,882,716)</u>	<u>(2,326,458)</u>
Revenues over/(under) expenditures	238,549	(131,131)
Total other financing source	23,100	
Net change in fund balance	<u>\$ 261,649</u>	<u>\$ (131,131)</u>

The District manages its activities with the objective of ensuring that expenditures will be adequately covered by revenues, which normally results in an increase in fund balance; however, during the prior year, the District budgeted a deficit, which was covered by fund balance.

Debt Service Fund

Comparative summaries of the financial position and activities of the Debt Service Fund for the current and prior fiscal year are as follows:

	2014	2013
Total assets	<u>\$ 675,975</u>	<u>\$ 681,786</u>
Total liabilities	\$ -	\$ 596
Total deferred inflows	6,728	1,010
Total fund balance	<u>669,247</u>	<u>680,180</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 675,975</u>	<u>\$ 681,786</u>
Total revenues	\$ 2,390,282	\$ 2,005,895
Total expenditures	<u>(2,500,089)</u>	<u>(2,465,250)</u>
Revenues under expenditures	(109,807)	(459,355)
Net other financing sources and uses	98,874	522,044
Net change in fund balance	<u>\$ (10,933)</u>	<u>\$ 62,689</u>

The District's financial resources in the Debt Service fund in both the current year and prior year are from property tax revenues. In the prior year, the District also had capitalized interest from the sale of bonds. The difference between these financial resources and debt service requirements will result in changes in fund balance each year. It is important to note that the

Harris County Municipal Utility District No. 374
Management's Discussion and Analysis
August 31, 2014

District sets its annual debt service tax rate as recommended by its financial advisor, who monitors projected cash flows in the Debt Service Fund to ensure that the District will be able to meet its future debt service requirements.

During the current year, the District issued \$2,905,000 in refunding bonds to refund \$2,615,000 of outstanding Series 2007, Series 2007A, Series 2008 and Series 2009 bonds in order to save \$207,263 in future debt service payments. In the prior year, the District issued refunding bonds in the amount of \$6,945,000 to refund \$6,660,000 of outstanding Series 2007 and Series 2007A bonds and save \$714,980 in future debt service payments

Capital Projects Fund

A comparative summary of the Capital Projects Fund's financial position and activities for the current and prior fiscal year are as follows:

	2014	2013
Total assets	<u>\$ 3,099,710</u>	<u>\$ 3,800,428</u>
Total liabilities	\$ 122,935	\$ 11,872
Total fund balance	<u>2,976,775</u>	<u>3,788,556</u>
Total liabilities and fund balance	<u>\$ 3,099,710</u>	<u>\$ 3,800,428</u>
Total revenues	\$ 7,397	\$ 5,940
Total expenditures	<u>(819,178)</u>	<u>(4,433,506)</u>
Revenues under expenditures	(811,781)	(4,427,566)
Net other financing sources and uses		7,792,844
Net change in fund balance	<u>\$ (811,781)</u>	<u>\$ 3,365,278</u>

The District has had considerable capital asset activity in the last two years, which includes the sale of bonds in the prior year and improvements to existing facilities in the current year.

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 amended the budget during the year to reflect changes in anticipated revenues and expenditures.

Since the District's budget is primarily a planning tool, actual results varied from the budgeted amounts. Actual net change in fund balance was \$172,382 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. 374
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	\$ 6,141,152	\$ 6,052,435
Construction in progress	642,941	
	<u>6,784,093</u>	<u>6,052,435</u>
Capital assets being depreciated/amortized		
Infrastructure	10,829,282	10,770,440
Other facilities	974,376	974,376
Interest in joint facilities	6,468,285	6,558,848
	<u>18,271,943</u>	<u>18,303,664</u>
Less accumulated depreciation/amortization		
Infrastructure	(1,866,606)	(1,624,829)
Other facilities	(190,688)	(140,815)
Interest in joint facilities	(924,614)	(797,717)
	<u>(2,981,908)</u>	<u>(2,563,361)</u>
Depreciable capital assets, net	<u>15,290,035</u>	<u>15,740,303</u>
Capital assets, net	<u>\$ 22,074,128</u>	<u>\$ 21,792,738</u>

The District completed construction of the detention pond expansion and drainage improvements during the current year. Construction in progress is for the installation of a generator and construction of a water re-use system and upgrades at the wastewater treatment plant.

As discussed in Note 5, the District has remaining contractual commitments in the amount of \$206,823 for construction of water, sewer and drainage facilities.

Harris County Municipal Utility District No. 374
Management's Discussion and Analysis
August 31, 2014

Long-Term Debt

At August 31, 2014 and 2013, the District had total bonded debt outstanding as shown below:

Series	2014	2013
2007	\$ -	\$ 245,000
2007A		275,000
2008	100,000	1,675,000
2009	2,805,000	3,730,000
2010	3,655,000	3,730,000
2012 WSD & Refunding	14,085,000	14,345,000
2012A	5,360,000	5,365,000
2012B Park	2,845,000	2,845,000
2013 Refunding	6,890,000	6,935,000
2014 Refunding	2,830,000	
	<u>\$ 38,570,000</u>	<u>\$ 39,145,000</u>

During the year, the District issued \$2,905,000 in unlimited tax refunding bonds. At August 31, 2014, the District had \$410,000 unlimited tax bonds authorized, but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District; \$6,655,000 for parks and recreational facilities and \$21,168,001 for refunding purposes.

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 amended budget to current year actual amounts for the General Fund is as follows:

	2014 Actual	2015 Budget
Total revenues	\$ 2,121,265	\$ 2,197,740
Total expenditures	(1,882,716)	(2,152,896)
Revenues over expenditures	238,549	44,844
Total other financing source	23,100	
Net change in fund balance	261,649	44,844
Beginning fund balance	1,241,989	1,503,638
Ending fund balance	<u>\$ 1,503,638</u>	<u>\$ 1,548,482</u>

Property Taxes

The District's property tax base increased approximately \$14,520,000 for the 2014 tax year from \$328,502,852 to \$343,023,059. 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 \$0.2865 per \$100 of assessed value and a debt service tax rate of \$0.6435 per \$100 of assessed value, for a total combined tax rate of \$0.93 per \$100. Tax rates for the 2013 tax year were \$0.2217 per \$100 for maintenance and operations and \$0.7283 per \$100 for debt service.

(This page intentionally left blank)

Basic Financial Statements

Harris County Municipal Utility District No. 374
Statement of Net Position and Governmental Funds Balance Sheet
August 31, 2014

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
Assets						
Cash	\$ 1,179,214	\$ 655,020	\$ 1,947,064	\$ 3,781,298	\$ -	\$ 3,781,298
Investments	16,867	4,495		21,362		21,362
Taxes receivable	1,698	6,728		8,426		8,426
Customer service receivables	217,591			217,591		217,591
Due from other governments	6,208		352,671	358,879		358,879
Internal balances	497,174	8,466	(505,640)			
Accrued interest receivable			524	524		524
Other receivables		1,266		1,266		1,266
Restricted cash			1,305,091	1,305,091		1,305,091
Prepaid items	16,094			16,094		16,094
Operating reserve	40,000			40,000		40,000
Prepaid bond insurance, net					207,909	207,909
Capital assets not being depreciated					6,784,093	6,784,093
Capital assets, net					15,290,035	15,290,035
Total Assets	\$ 1,974,846	\$ 675,975	\$ 3,099,710	\$ 5,750,531	22,282,037	28,032,568
Deferred Outflows of Resources						
Deferred difference on refunding					1,965,493	1,965,493
Liabilities						
Accounts payable	\$ 113,257	\$ -	\$ -	\$ 113,257		113,257
Construction payable	168,639		37,066	205,705		205,705
Retainage payable			85,869	85,869		85,869
Customer deposits	111,663			111,663		111,663
Due to other governments	75,951			75,951		75,951
Due to developer					2,043,654	2,043,654
Long-term debt						
Due within one year					900,000	900,000
Due after one year					37,438,127	37,438,127
Total Liabilities	469,510		122,935	592,445	40,381,781	40,974,226
Deferred Inflows of Resources						
Deferred property taxes	1,698	6,728		8,426	(8,426)	
Fund Balances/Net Position						
Fund Balances						
Nonspendable	56,094			56,094	(56,094)	
Restricted		669,247	2,976,775	3,646,022	(3,646,022)	
Unassigned	1,447,544			1,447,544	(1,447,544)	
Total Fund Balances	1,503,638	669,247	2,976,775	5,149,660	(5,149,660)	
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 1,974,846	\$ 675,975	\$ 3,099,710	\$ 5,750,531		
Net Position						
Net investment in capital assets					(8,638,156)	(8,638,156)
Restricted for debt service					675,975	675,975
Unrestricted					(3,013,984)	(3,013,984)
Total Net Position					\$ (10,976,165)	\$ (10,976,165)

See notes to basic financial statements.

Harris County Municipal Utility District No. 374**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	Total	Adjustments	Statement of Activities
Revenues						
Water service	\$ 425,105	\$ -	\$ -	\$ 425,105	\$ -	\$ 425,105
Sewer service	388,780			388,780		388,780
Property taxes	722,263	2,375,623		3,097,886	5,223	3,103,109
Penalties and interest	25,017	8,133		33,150	1,741	34,891
City of Houston sales tax rebates	27,364			27,364		27,364
Tap connection and inspection	5,210			5,210		5,210
Surface water fees	457,139			457,139		457,139
Intergovernmental revenue	56,341			56,341		56,341
Accrued interest on bonds sold		4,496		4,496	(4,496)	
Miscellaneous	11,980			11,980		11,980
Investment earnings	2,066	2,030	7,397	11,493		11,493
Total Revenues	2,121,265	2,390,282	7,397	4,518,944	2,468	4,521,412
Expenditures/Expenses						
Current service operations						
Purchased services	581,293			581,293		581,293
Professional fees	150,577		53,390	203,967		203,967
Contracted services	260,165	37,599		297,764		297,764
Repairs and maintenance	665,558			665,558		665,558
Utilities	136,363			136,363		136,363
Regional water authority	1,311			1,311		1,311
Administrative	70,944	2,252		73,196		73,196
Other	14,385			14,385		14,385
Capital outlay	2,120		765,788	767,908	(767,908)	
Debt service						
Principal		865,000		865,000	(865,000)	
Interest and fees		1,486,664		1,486,664	20,971	1,507,635
Debt issuance costs		108,574		108,574		108,574
Depreciation and amortization					435,390	435,390
Total Expenditures/Expenses	1,882,716	2,500,089	819,178	5,201,983	(1,176,547)	4,025,436
Revenues Over (Under)						
Expenditures/Expenses	238,549	(109,807)	(811,781)	(683,039)	1,179,015	495,976
Other Financing Sources/(Uses)						
Proceeds from sale of refunding bonds		2,905,000		2,905,000	(2,905,000)	
Bond discount		(25,888)		(25,888)	25,888	
Payment to refunded bond escrow agent		(2,579,800)		(2,579,800)	2,579,800	
Debt service - principal		(275,000)		(275,000)	275,000	
Bond premium		74,562		74,562	(74,562)	
Proceeds from sale of capital asset	23,100			23,100	(23,100)	
Other Item						
Loss on sale of capital asset					(27,428)	(27,428)
Net Change in Fund Balances	261,649	(10,933)	(811,781)	(561,065)	561,065	
Change in Net Position					468,548	468,548
Fund Balance/Net Position						
Beginning of the year	1,241,989	680,180	3,788,556	5,710,725	(17,155,438)	(11,444,713)
End of the year	\$ 1,503,638	\$ 669,247	\$ 2,976,775	\$ 5,149,660	\$ (16,125,825)	\$ (10,976,165)

See notes to basic financial statements.

(This page intentionally left blank)

Note 1 – Summary of Significant Accounting Policies

The accounting policies of Harris County Municipal Utility District No. 374 (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 was organized, created and established pursuant to an order of The Texas Natural Conservation Commission, statutory predecessor to the Texas Commission on Environmental Quality, dated September 19, 2001, and operates in accordance with the Texas Water Code, Chapters 49 and 54. The Board of Directors held its first meeting on September 21, 2001, and the first bonds were sold on October 5, 2005.

The District’s primary activities include construction, maintenance and operation of water, sewer, drainage, park and recreational 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 three governmental funds, which are all considered major funds.

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, drainage, park and recreational facilities.

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, City of Houston sales tax rebates 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.

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.

Note 1 – Summary of Significant Accounting Policies (continued)

Prepaid Items

Certain payments made by the District reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Prepaid Bond Insurance

Prepaid bond insurance reduces the District's borrowing costs and is, therefore, recorded as asset in the government-wide *Statement of Net Position* and amortized to interest expense over the life of the bonds.

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.

Unbilled Service Revenues

Utility revenue is recorded when earned. Customers are billed monthly. The estimated value of services provided but unbilled at year-end has been included in the accompanying financial statements.

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 land and improvements and infrastructure, 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 or amortized using the straight-line method as follows:

Assets	Useful Life
Infrastructure	20-45 years
Interest in joint facilities	45 years
Other facilities	10-50 years

Note 1 – Summary of Significant Accounting Policies (continued)

Capital Assets (continued)

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

Deferred Inflows and Outflows of Financial Resources

A deferred inflow of financial resources is the acquisition of resources in one period that is applicable to a future period, while a deferred outflow of financial resources is the consumption of financial resources in one period that is applicable to a future period.

The District's deferred inflows of financial resources at the fund level are from the property tax levy. These amounts are receivable as of the end of the fiscal year, but do not meet the availability criteria required for revenue recognition at the fund level.

Deferred outflows of financial resources at the government wide level are from a refunding bond transactions and are being amortized to interest expense

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's nonspendable fund balance consists of prepaid items and operating reserves paid to Harris County Municipal Utility District No.'s 371 and 433 for the joint facilities.

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 property taxes levied for debt service 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 does not have any committed fund balances.

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

Note 1 – Summary of Significant Accounting Policies (continued)

Fund Balances – Governmental Funds (continued)

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 value of unbilled utility revenues and 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. 374
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		\$	5,149,660
--	--	----	-----------

Prepaid bond insurance is recorded as an expenditure in the funds, but is recorded as a prepaid asset and amortized in the government wide statements.

Historical cost	\$	233,899	
Less accumulated amortization		(25,990)	
Change due to bond issuance costs			207,909

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

Historical cost		25,056,036	
Less accumulated depreciation/amortization		(2,981,908)	
Change due to capital assets			22,074,128

The difference between the face amount of bonds refunded and the amount paid to the escrow agent is recorded as a deferred difference on refunding in the *Statement of Net Position* and amortized to interest expense. It is not recorded in the fund statements because it is not a financial resource.

1,965,493

Amounts due to the District's developer for prefunded construction are recorded as a liability in the *Statement of Net Position*.

(2,043,654)

Long-term 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.

(38,338,127)

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.

Property taxes receivable		6,685	
Penalty and interest receivable		1,741	
Change due to property taxes			8,426

Total net position - governmental activities

\$ (10,976,165)

Harris County Municipal Utility District No. 374
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	\$ (561,065)
--	--------------

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 and related penalty and interest.	6,964
--	-------

Governmental funds report capital outlays for developer reimbursements and construction costs as expenditures in the funds; however, in the *Statement of Activities*, the cost of capital assets is charged to expense over the estimated useful life of the asset.

Capital outlays	\$ 767,908	
Depreciation/amortization expense	<u>(435,390)</u>	
		332,518

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	(2,905,000)	
Payment to refunded bond escrow agent	2,579,800	
Principal payments	1,140,000	
Bond discount	25,888	
Bond premium	(74,562)	
Interest expense accrual	<u>(25,467)</u>	
		740,659

Proceeds from the sale of a capital asset provide financial resources in the funds; however, in the *Statement of Activities*, the difference between proceeds and the net book value of the asset is recorded as a gain or loss.

Proceeds from the sale of capital asset	(23,100)	
Loss on sale of capital asset	<u>(27,428)</u>	
		(50,528)

Change in net position of governmental activities	<u><u>\$ 468,548</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.

Restricted Cash

At August 31, 2014, the District held in escrow \$1,303,500 from the Series 2012A Bonds, as required by the Texas Commission on Environmental Quality, for use on certain capital projects in the District.

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.

Harris County Municipal Utility District No. 374
Notes to Basic Financial Statements
August 31, 2014

Note 3 – Deposits and Investments (continued)

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

Type	Fund	Carrying Value	Rating	Weighted Average Maturity
TexPool	General	\$ 16,867	AAAm	85 days
	Debt Service	4,495		
		<u>\$ 21,362</u>		

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 Risk

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	\$ 505,640	\$ 8,466
Debt Service Fund	8,466	
Capital Projects Fund		505,640
	<u>\$ 514,106</u>	<u>\$ 514,106</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. 374
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/ Retirements	Ending Balances
Capital assets not being depreciated				
Land and improvements	\$ 6,052,435	\$ 88,717	\$ -	\$ 6,141,152
Construction in progress		642,941		642,941
	<u>6,052,435</u>	<u>731,658</u>		<u>6,784,093</u>
Capital assets being depreciated/amortized				
Infrastructure	10,770,440	58,842		10,829,282
Other facilities	974,376			974,376
Interest in joint facilities	6,558,848		(90,563)	6,468,285
	<u>18,303,664</u>	<u>58,842</u>	<u>(90,563)</u>	<u>18,271,943</u>
Less accumulated depreciation/amortization				
Infrastructure	(1,624,829)	(241,777)		(1,866,606)
Other facilities	(140,815)	(49,873)		(190,688)
Interest in joint facilities	(797,717)	(143,740)	16,843	(924,614)
	<u>(2,563,361)</u>	<u>(435,390)</u>	<u>16,843</u>	<u>(2,981,908)</u>
Subtotal depreciable capital assets, net	<u>15,740,303</u>	<u>(376,548)</u>	<u>(73,720)</u>	<u>15,290,035</u>
Capital assets, net	<u>\$ 21,792,738</u>	<u>\$ 355,110</u>	<u>\$ (73,720)</u>	<u>\$ 22,074,128</u>

Depreciation/amortization expense for the current year was \$435,390.

As of August 31, 2014, the District had remaining contractual commitments in the amount of \$206,823 as follows:

	Contract Amount	Amounts Paid	Remaining Commitment
Generator at wastewater treatment plant	\$ 239,005	\$ 206,960	\$ 32,045
Water reuse system	633,157	547,650	85,507
Wastewater treatment plant upgrades	107,480	18,209	89,271
	<u>\$ 979,642</u>	<u>\$ 772,819</u>	<u>\$ 206,823</u>

Harris County Municipal Utility District No. 374
Notes to Basic Financial Statements
August 31, 2014

Note 6 – Due to Developer

The District has entered into financing agreements with its developer for the financing of the construction of water, sewer and drainage 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.

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

Due to developer, beginning of year	\$ 2,044,254
Developer reimbursements	(600)
Due to developer, end of year	<u>\$ 2,043,654</u>

Note 7 – Long-Term Debt

Long-term debt is comprised of the following:

Bonds payable	\$ 38,570,000
Unamortized discounts	(523,317)
Unamortized premium	291,444
	<u>\$ 38,338,127</u>
 Due within one year	 <u>\$ 900,000</u>

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. 374
Notes to Basic Financial Statements
August 31, 2014

Note 7 - Long-Term Debt (continued)

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
2008	\$ 100,000	\$ 7,500,000	5.3% to 7.25%	September 1, 2009 - 2035	March 1, September 1	September 1, 2015
2009	2,805,000	4,010,000	4.3% to 5.25%	September 1, 2010 - 2036	March 1, September 1	September 1, 2016
2010	3,655,000	3,930,000	3.25% to 5%	September 1, 2011 - 2037	March 1, September 1	September 1, 2017
2012 WSD & Refunding	14,085,000	14,885,000	2% to 4.15%	September 1, 2012 - 2038	March 1, September 1	September 1, 2018
2012A	5,360,000	5,370,000	3.5% to 5%	September 1, 2013 - 2039	March 1, September 1	September 1, 2019
2012B Park	2,845,000	2,845,000	3.4% to 5%	September 1, 2035 - 2039	March 1, September 1	September 1, 2019
2013 Refunding	6,890,000	6,945,000	2% to 4%	September 1, 2013 - 2034	March 1, September 1	September 1, 2019
2014 Refunding	2,830,000	2,905,000	2% to 3%	September 1, 2014 - 2024	March 1, September 1	September 1, 2020
	<u>\$ 38,570,000</u>					

At August 31, 2014, the District had authorized but unissued bonds in the amount of \$410,000 for water, sewer and drainage facilities; \$6,655,000 for park and recreational facilities and \$21,168,001 for refunding purposes.

On June 24, 2014, the District issued its \$2,905,000 Series 2014 Unlimited Tax Refunding Bonds at a net effective interest rate of 2.904596% to currently refund portions of the Series 2007 and 2007A Bonds and to advance refund portions of outstanding Series 2008 and 2009 Bonds. The District advance refunded the bonds to reduce total debt service payments over future years by approximately \$207,263 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$242,327. Proceeds of the advanced refunded bonds were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments. As a result, the refunded bonds are considered defeased and the liability has been removed from the government-wide financial statements.

Additionally, the Series 2012 and Series 2013 Refunding bonds were issued to advance refund portions of the District's Series 2005, Series 2007, Series 2007A, Series 2008 and Series 2009 bonds. Since the refunded bonds were not yet subject to redemption, the District defeased them by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the defeased bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. The outstanding principal of all defeased bonds is \$12,450,000 at August 31, 2014.

Harris County Municipal Utility District No. 374
Notes to Basic Financial Statements
August 31, 2014

Note 7 - Long-Term Debt (continued)

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

Bonds payable, beginning of year	\$	39,145,000
Bonds issued		2,905,000
Bonds retired		(865,000)
Bonds refunded		(2,615,000)
Bonds payable, end of year	\$	<u>38,570,000</u>

The debt service payment due September 1 was made during the current fiscal year. The following schedule of future debt service requirements was prepared presuming this practice will continue:

Year	Principal	Interest	Totals
2015	\$ 900,000	\$ 1,429,920	\$ 2,329,920
2016	945,000	1,400,171	2,345,171
2017	955,000	1,374,196	2,329,196
2018	965,000	1,347,808	2,312,808
2019	1,045,000	1,321,021	2,366,021
2020	1,065,000	1,290,621	2,355,621
2021	1,150,000	1,258,208	2,408,208
2022	1,185,000	1,223,733	2,408,733
2023	1,235,000	1,187,058	2,422,058
2024	1,325,000	1,146,308	2,471,308
2025	1,405,000	1,103,333	2,508,333
2026	1,435,000	1,055,833	2,490,833
2027	1,520,000	1,004,970	2,524,970
2028	1,565,000	947,145	2,512,145
2029	1,680,000	886,895	2,566,895
2030	1,760,000	819,107	2,579,107
2031	1,875,000	747,220	2,622,220
2032	1,995,000	674,907	2,669,907
2033	1,910,000	597,950	2,507,950
2034	1,740,000	520,720	2,260,720
2035	2,130,000	447,820	2,577,820
2036	2,235,000	359,520	2,594,520
2037	2,080,000	249,130	2,329,130
2038	2,270,000	162,433	2,432,433
2039	2,200,000	79,750	2,279,750
	<u>\$ 38,570,000</u>	<u>\$ 22,635,777</u>	<u>\$ 61,205,777</u>

Harris County Municipal Utility District No. 374
Notes to Basic Financial Statements
August 31, 2014

Note 8 – Property Taxes

On May 15, 2004, 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 \$0.95 per \$100 of assessed value, of which \$0.2217 was allocated to maintenance and operations and \$0.7283 was allocated to debt service. The resulting tax levy was \$3,120,777 on the adjusted taxable value of \$328,502,852.

Total property taxes receivable, at August 31, 2014, consisted of the following:

Current year taxes receivable	\$ 3,136
Prior years taxes receivable	<u>3,549</u>
	6,685
Penalty and interest receivable	<u>1,741</u>
Total property taxes receivable	<u><u>\$ 8,426</u></u>

Note 9 – 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 requirements mandated by the Harris Galveston Coastal Subsidence District, which regulates groundwater withdrawal.

Note 10 – Water Supply Agreements

On January 8, 2004, the District, Harris County Municipal Utility District No. 371 (“HC 371”), and the District’s developer executed a contractual agreement (the “371 Agreement”) for the construction and operation of joint water supply facilities. Pursuant to the 371 Agreement, the District owns 40% of capacity in the facilities, HC 371 owns 55% and the developer owns 5%. Each party is billed monthly for maintenance and operating costs based on the respective usage in accordance with budgeted unit cost. During the year ended August 31, 2014, the District paid \$40,393 to HC 371. The District has also paid \$5,000 to HC 371 for an operating reserve deposit.

On January 11, 2007, the District and Harris County Municipal Utility District No. 433 (“HC 433”) entered into a contractual agreement for the construction and operation of a water plant and well (the “433 Agreement”). The cost to design and construct these facilities was allocated between the participating districts based on each district’s pro rata share of equivalent single family connections. The District has agreed that HC 433 shall hold legal title to the water plant and water plant site, with the District having an undivided, equitable interest in the water plant and water plant site. HC 433 is responsible for the operation and maintenance of the water plant. Each party is billed monthly for maintenance and operating costs based on the respective usage in accordance with a budgeted unit cost. For the year ended August 31, 2014, the District paid \$540,900 to HC 433 for water plant operating costs. The District has also paid an operating reserve deposit to HC 433 in the amount of \$35,000.

Note 11 – Cost Sharing Agreement for Wastewater Effluent Treatment Facility

On August 14, 2014, the District and HC 433 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 the District’s wastewater treatment plant and an irrigation pump station to distribute the reclaimed water. The District will hold legal title to the system with each district having a 50% undivided, equitable interest.

The Water Re-Use Agreement acknowledges that the District 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, HC 433 owes the District \$352,671 for its share of construction costs. The District is responsible for the design and construction of the irrigation pump station and will invoice HC 433 for its share of costs when the amounts have been determined. All funds received from HC MUD 433 will be accounted for separately and will only be used for the construction of these facilities.

The District is responsible for the operation and maintenance of the reclaimed water facility and the pump station. HC 433 may take up to 250,000 gallons per day of reclaimed water, not to exceed 50% of the reclaimed water produced. The District will account for the operations of the system in a separate account and will invoice HC 433 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 – Strategic Partnership Agreement

On October 11, 2012, the District entered into a thirty-year Strategic Partnership Agreement with the City of Houston (the “City”). The City annexed a portion of the District for limited purposes. At the end of the thirty-year term of this agreement, the parties may renegotiate the agreement, agree to a full purpose annexation of the District, or allow the agreement to expire. During the period of limited purpose annexation, the City shall impose a sales and use tax on retail sales within the annexed area at a rate of one percent. The City will rebate to the District fifty percent of the sales and use tax that the City collects within the boundaries of the District. As consideration for receipt of the funds from the City, the District shall take one or a combination of the following actions: 1) accelerate the development of the water, wastewater and drainage facilities; 2) accelerate reimbursement to developers; 3) lower the overall property tax rate; or 4) perform other District functions that might otherwise be hindered by financial limitations, all of which would be done in order to encourage development of the District. During the current year, the District received \$27,364 in sales tax revenues from the City.

Note 13 – 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. 374
Required Supplementary Information - Budgetary Comparison Schedule - General Fund
For the Year Ended August 31, 2014

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues				
Water service	\$ 375,000	\$ 375,000	\$ 425,105	\$ 50,105
Sewer service	375,000	375,000	388,780	13,780
Property taxes	957,710	714,000	722,263	8,263
Penalties and interest	16,200	16,200	25,017	8,817
City of Houston sales tax rebates			27,364	27,364
Tap connection and inspection	16,140	15,020	5,210	(9,810)
Surface water fees	348,000	348,000	457,139	109,139
Intergovernmental revenue	112,000	112,000	56,341	(55,659)
Miscellaneous	10,200	10,200	11,980	1,780
Investment earnings	2,100	2,100	2,066	(34)
Total Revenues	2,212,350	1,967,520	2,121,265	153,745
Expenditures				
Current service operations				
Purchased services	706,130	706,130	581,293	124,837
Professional fees	177,150	177,150	150,577	26,573
Contracted services	204,480	203,815	260,165	(56,350)
Repairs and maintenance	553,990	549,708	665,558	(115,850)
Utilities	154,200	154,200	136,363	17,837
Regional water authority	6,000		1,311	(1,311)
Administrative	79,670	74,970	70,944	4,026
Other	12,280	12,280	14,385	(2,105)
Capital outlay			2,120	(2,120)
Total Expenditures	1,893,900	1,878,253	1,882,716	(4,463)
Revenues Over Expenditures	318,450	89,267	238,549	149,282
Other Financing Source				
Sale of capital asset			23,100	23,100
Net Change in Fund Balance	318,450	89,267	261,649	172,382
Fund Balance				
Beginning of the year	1,241,989	1,241,989	1,241,989	
End of the year	\$ 1,560,439	\$ 1,331,256	\$ 1,503,638	\$ 172,382

***Harris County Municipal Utility District No. 374
Notes to Required Supplementary Information
August 31, 2014***

Budgets and Budgetary Accounting

An annual unappropriated budget is adopted for the General Fund by the District's Board of Directors. The budget is prepared using the same method of accounting as for financial reporting. The budget was amended during the year to reflect changes in various anticipated revenue and expenditures.

(This page intentionally left blank)

Texas Supplementary Information

Harris County Municipal Utility District No. 374
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 checked="" type="checkbox"/> Drainage |
| <input checked="" type="checkbox"/> Retail Wastewater | <input type="checkbox"/> Wholesale Wastewater | <input type="checkbox"/> Flood Control | <input checked="" type="checkbox"/> Irrigation |
| <input checked="" 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):

	Minimum Charge	Minimum Usage	Flat Rate (Y / N)	Rate per 1,000 Gallons Over Minimum Usage	Usage Levels	
Water:	\$ 10.00	5,000	N	\$ 1.50	5,001	to 10,000
				\$ 1.75	10,001	to 20,000
				\$ 2.25	20,001	to 50,000
				\$ 3.00	50,001	75,000
				\$ 3.60	75,001	no limit
Wastewater:	\$ 10.00	5,000	N	\$ 2.00	5,001	to no limit

The residents are also billed 110% of the WHCRWA surface water rate billed to the District.

District employs winter averaging for wastewater usage? ☐ Yes ☒ No

Total charges per 10,000 gallons usage: Water \$ 17.50 Wastewater \$ 20.00

b. Water and Wastewater Retail Connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFC'S
Unmetered			x 1.0	
less than 3/4"	535	529	x 1.0	529
1"	451	448	x 2.5	1,120
1.5"	3	3	x 5.0	15
2"	12	12	x 8.0	96
3"	2	2	x 15.0	30
4"	1	1	x 25.0	25
6"	3	3	x 50.0	150
8"	5	5	x 80.0	400
10"			x 115.0	
Total Water	1,012	1,003		2,365
Total Wastewater	992	984	x 1.0	984

See accompanying auditor's report.

Harris County Municipal Utility District No. 374
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 purchased:	<u>176,335,000</u>	Water Accountability Ratio: (Gallons billed / Gallons pumped)
**Gallons purchased:	<u>12,073,000</u>	
Gallons billed to customers:	<u>188,408,000</u>	<u>100%</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? _____

*Purchased from Harris County Municipal Utility District No. 433

**Purchased from Harris County Municipal Utility District No. 371

See accompanying auditors' report.

Harris County Municipal Utility District No. 374
TSI-2 General Fund Expenditures
For the Year Ended August 31, 2014

Purchased services	\$ 581,293
Professional fees	
Legal	85,579
Financial advisor fees	1,500
Audit	11,500
Engineering	51,998
	<u>150,577</u>
Contracted services	
Bookkeeping	22,843
Operator	59,567
Security service	74,607
Contract manager	22,500
Tap connection and inspection	14,671
Sludge removal	65,977
	<u>260,165</u>
Repairs and maintenance	<u>665,558</u>
Utilities	<u>136,363</u>
Regional water authority	<u>1,311</u>
Administrative	
Directors fees	12,000
Printing and office supplies	5,308
Insurance	20,307
Other	33,329
	<u>70,944</u>
Other	<u>14,385</u>
Capital outlay	<u>2,120</u>
Total expenditures	<u><u>\$ 1,882,716</u></u>

Reporting of Utility Services in Accordance with HB 3693:

	Usage	Cost
Electrical	<u>1,503,221 kwh's</u>	<u>\$ 125,772</u>
Water	N/A	N/A
Natural Gas	N/A	N/A

See accompanying auditors' report.

Harris County Municipal Utility District No. 374
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	7889500001	Variable	N/A	\$ 16,867
Debt Service TexPool	7889500003	Variable	N/A	<u>4,495</u>
Total - All Funds				<u><u>\$ 21,362</u></u>

See accompanying auditors' report.

Harris County Municipal Utility District No. 374
TSI-4. Taxes Levied and Receivable
August 31, 2014

	Maintenance Taxes	Debt Service Taxes	Totals	
Taxes Receivable, Beginning of Year	\$ 452	\$ 1,010	\$ 1,462	
Adjustments	856	2,309	3,165	
Adjusted Receivable	1,308	3,319	4,627	
2013 Original Tax Levy	663,822	2,180,700	2,844,522	
Adjustments	64,469	211,786	276,255	
Adjusted Tax Levy	728,291	2,392,486	3,120,777	
Total to be accounted for	729,599	2,395,805	3,125,404	
Tax collections				
Current year	727,559	2,390,082	3,117,641	
Prior years	342	736	1,078	
Total Collections	727,901	2,390,818	3,118,719	
Taxes Receivable, End of Year	\$ 1,698	\$ 4,987	\$ 6,685	
Taxes Receivable, By Years				
2013	\$ 732	\$ 2,404	\$ 3,136	
2012	893	2,407	3,300	
2011	39	86	125	
2010	34	90	124	
Taxes Receivable, End of Year	\$ 1,698	\$ 4,987	\$ 6,685	
	2013	2012	2011	2010
Property Valuations:				
Land	\$ 67,178,876	\$ 57,290,839	\$ 56,295,030	\$ 56,329,496
Improvements	350,474,696	310,335,970	286,399,673	263,823,608
Personal Property	4,948,758	3,246,334	3,101,760	2,929,281
Exemptions	(94,099,478)	(88,196,852)	(82,993,266)	(80,099,471)
Total Property Valuations	\$ 328,502,852	\$ 282,676,291	\$ 262,803,197	\$ 242,982,914
Tax Rates per \$100 Valuation:				
Maintenance tax rates	\$ 0.2217	\$ 0.2571	\$ 0.2999	\$ 0.2573
Debt service tax rates	0.7283	0.6929	0.6501	0.6927
Total Tax Rates per \$100 Valuation	\$ 0.9500	\$ 0.9500	\$ 0.9500	\$ 0.9500
Adjusted Tax Levy:	\$ 3,120,777	\$ 2,685,425	\$ 2,496,630	\$ 2,308,338
Percentage of Taxes Collected to Taxes Levied **	99.90%	99.88%	99.99%	99.99%

* Maximum Maintenance Tax Rate Approved by Voters: \$1.50 on May 15, 2004

** 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. 374
TSI-5. Long-Term Debt Service Requirements
Series 2008--by Years
August 31, 2014

Due During Fiscal Years Ending	Principal Due September 1	Interest Due March 1, September 1	Total
<u>2015</u>	<u>\$ 100,000</u>	<u>\$ 7,250</u>	<u>\$ 107,250</u>

See accompanying auditors' report.

Harris County Municipal Utility District No. 374
TSI-5. Long-Term Debt Service Requirements
Series 2009--by Years
August 31, 2014

Due During Fiscal Years Ending	Principal Due September 1	Interest Due March 1, September 1	Total
2015	\$ 85,000	\$ 136,006	\$ 221,006
2016	90,000	131,544	221,544
2017	95,000	126,819	221,819
2018		121,831	121,831
2019		121,831	121,831
2020		121,831	121,831
2021		121,831	121,831
2022		121,831	121,831
2023		121,831	121,831
2024		121,831	121,831
2025	150,000	121,831	271,831
2026	150,000	115,381	265,381
2027	175,000	108,781	283,781
2028	175,000	100,906	275,906
2029	200,000	92,856	292,856
2030	200,000	83,456	283,456
2031	210,000	73,706	283,706
2032	225,000	63,469	288,469
2033	250,000	52,500	302,500
2034	250,000	40,000	290,000
2035	275,000	27,500	302,500
2036	275,000	13,750	288,750
	<u>\$ 2,805,000</u>	<u>\$ 2,141,322</u>	<u>\$ 4,946,322</u>

See accompanying auditors' report.

Harris County Municipal Utility District No. 374
TSI-5. Long-Term Debt Service Requirements
Series 2010--by Years
August 31, 2014

Due During Fiscal Years Ending	Principal Due September 1	Interest Due March 1, September 1	Total
2015	\$ 75,000	\$ 169,000	\$ 244,000
2016	100,000	166,563	266,563
2017	100,000	163,313	263,313
2018	100,000	160,063	260,063
2019	100,000	156,063	256,063
2020	100,000	152,063	252,063
2021	125,000	148,063	273,063
2022	125,000	142,938	267,938
2023	125,000	137,625	262,625
2024	150,000	132,250	282,250
2025	150,000	125,650	275,650
2026	150,000	118,900	268,900
2027	150,000	112,150	262,150
2028	150,000	105,250	255,250
2029	175,000	97,750	272,750
2030	175,000	89,000	264,000
2031	200,000	80,250	280,250
2032	200,000	70,250	270,250
2033	200,000	60,250	260,250
2034	225,000	50,250	275,250
2035	250,000	39,000	289,000
2036	250,000	26,500	276,500
2037	280,000	14,000	294,000
	<u>\$ 3,655,000</u>	<u>\$ 2,517,141</u>	<u>\$ 6,172,141</u>

See accompanying auditors' report.

Harris County Municipal Utility District No. 374
TSI-5. Long-Term Debt Service Requirements
Series 2012 Water, Sewer, Drainage, and Refunding--by Years
August 31, 2014

Due During Fiscal Years Ending	Principal Due September 1	Interest Due March 1, September 1	Total
2015	\$ 265,000	\$ 496,050	\$ 761,050
2016	275,000	488,100	763,100
2017	280,000	479,850	759,850
2018	295,000	471,450	766,450
2019	300,000	461,863	761,863
2020	315,000	452,113	767,113
2021	325,000	441,875	766,875
2022	335,000	433,750	768,750
2023	340,000	424,538	764,538
2024	580,000	414,338	994,338
2025	890,000	396,938	1,286,938
2026	915,000	370,238	1,285,238
2027	960,000	340,500	1,300,500
2028	990,000	306,900	1,296,900
2029	1,045,000	272,250	1,317,250
2030	825,000	233,063	1,058,063
2031	875,000	202,125	1,077,125
2032	975,000	169,313	1,144,313
2033	860,000	132,750	992,750
2034	960,000	98,350	1,058,350
2035	980,000	59,950	1,039,950
2036	160,000	20,750	180,750
2037	165,000	14,110	179,110
2038	175,000	7,263	182,263
	<u>\$ 14,085,000</u>	<u>\$ 7,188,427</u>	<u>\$ 21,273,427</u>

See accompanying auditors' report.

Harris County Municipal Utility District No. 374
TSI-5. Long-Term Debt Service Requirements
Series 2012A--by Years
August 31, 2014

Due During Fiscal Years Ending	Principal Due September 1	Interest Due March 1, September 1	Total
2015	\$ 5,000	\$ 209,100	\$ 214,100
2016	5,000	208,850	213,850
2017	5,000	208,600	213,600
2018	5,000	208,350	213,350
2019	5,000	208,100	213,100
2020	5,000	207,850	212,850
2021	5,000	207,600	212,600
2022	5,000	207,350	212,350
2023	5,000	207,100	212,100
2024	5,000	206,850	211,850
2025	5,000	206,600	211,600
2026	5,000	206,350	211,350
2027	5,000	206,100	211,100
2028	5,000	205,850	210,850
2029	5,000	205,600	210,600
2030	5,000	205,350	210,350
2031	5,000	205,100	210,100
2032	5,000	204,850	209,850
2033	5,000	204,600	209,600
2034	5,000	204,350	209,350
2035	100,000	204,100	304,100
2036	1,000,000	199,100	1,199,100
2037	1,060,000	149,100	1,209,100
2038	1,500,000	112,000	1,612,000
2039	1,600,000	58,000	1,658,000
	<u>\$ 5,360,000</u>	<u>\$ 4,856,800</u>	<u>\$ 10,216,800</u>

See accompanying auditors' report.

Harris County Municipal Utility District No. 374
TSI-5. Long-Term Debt Service Requirements
Series 2012B Park--by Years
August 31, 2014

Due During Fiscal Years Ending	Principal Due September 1	Interest Due March 1, September 1	Total
2015	\$ -	\$ 117,270	\$ 117,270
2016		117,270	117,270
2017		117,270	117,270
2018		117,270	117,270
2019		117,270	117,270
2020		117,270	117,270
2021		117,270	117,270
2022		117,270	117,270
2023		117,270	117,270
2024		117,270	117,270
2025		117,270	117,270
2026		117,270	117,270
2027		117,270	117,270
2028		117,270	117,270
2029		117,270	117,270
2030		117,270	117,270
2031		117,270	117,270
2032		117,270	117,270
2033		117,270	117,270
2034		117,270	117,270
2035	525,000	117,270	642,270
2036	550,000	99,420	649,420
2037	575,000	71,920	646,920
2038	595,000	43,170	638,170
2039	600,000	21,750	621,750
	<u>\$ 2,845,000</u>	<u>\$ 2,698,930</u>	<u>\$ 5,543,930</u>

See accompanying auditors' report.

Harris County Municipal Utility District No. 374
TSI-5. Long-Term Debt Service Requirements
Series 2013 Refunding--by Years
August 31, 2014

Due During Fiscal Years Ending	Principal Due September 1	Interest Due March 1, September 1	Total
2015	\$ 45,000	\$ 226,344	\$ 271,344
2016	330,000	225,444	555,444
2017	335,000	218,844	553,844
2018	330,000	212,144	542,144
2019	360,000	203,894	563,894
2020	360,000	193,094	553,094
2021	360,000	182,294	542,294
2022	390,000	169,694	559,694
2023	395,000	156,044	551,044
2024	205,000	142,219	347,219
2025	210,000	135,044	345,044
2026	215,000	127,694	342,694
2027	230,000	120,169	350,169
2028	245,000	110,969	355,969
2029	255,000	101,169	356,169
2030	555,000	90,968	645,968
2031	585,000	68,769	653,769
2032	590,000	49,755	639,755
2033	595,000	30,580	625,580
2034	300,000	10,500	310,500
	<u>\$ 6,890,000</u>	<u>\$ 2,775,632</u>	<u>\$ 9,665,632</u>

See accompanying auditors' report.

Harris County Municipal Utility District No. 374
TSI-5. Long-Term Debt Service Requirements
Series 2014 Refunding--by Years
August 31, 2014

Due During Fiscal Years Ending	Principal Due September 1	Interest Due March 1, September 1	Total
2015	\$ 325,000	\$ 68,900	\$ 393,900
2016	145,000	62,400	207,400
2017	140,000	59,500	199,500
2018	235,000	56,700	291,700
2019	280,000	52,000	332,000
2020	285,000	46,400	331,400
2021	335,000	39,275	374,275
2022	330,000	30,900	360,900
2023	370,000	22,650	392,650
2024	385,000	11,550	396,550
	<u>\$ 2,830,000</u>	<u>\$ 450,275</u>	<u>\$ 3,280,275</u>

See accompanying auditors' report.

Harris County Municipal Utility District No. 374
TSI-5. Long-Term Debt Service Requirements
All Bonded Debt Series--by Years
August 31, 2014

Due During Fiscal Years Ending	Principal Due September 1	Interest Due March 1, September 1	Total
2015	\$ 900,000	\$ 1,429,920	\$ 2,329,920
2016	945,000	1,400,171	2,345,171
2017	955,000	1,374,196	2,329,196
2018	965,000	1,347,808	2,312,808
2019	1,045,000	1,321,021	2,366,021
2020	1,065,000	1,290,621	2,355,621
2021	1,150,000	1,258,208	2,408,208
2022	1,185,000	1,223,733	2,408,733
2023	1,235,000	1,187,058	2,422,058
2024	1,325,000	1,146,308	2,471,308
2025	1,405,000	1,103,333	2,508,333
2026	1,435,000	1,055,833	2,490,833
2027	1,520,000	1,004,970	2,524,970
2028	1,565,000	947,145	2,512,145
2029	1,680,000	886,895	2,566,895
2030	1,760,000	819,107	2,579,107
2031	1,875,000	747,220	2,622,220
2032	1,995,000	674,907	2,669,907
2033	1,910,000	597,950	2,507,950
2034	1,740,000	520,720	2,260,720
2035	2,130,000	447,820	2,577,820
2036	2,235,000	359,520	2,594,520
2037	2,080,000	249,130	2,329,130
2038	2,270,000	162,433	2,432,433
2039	2,200,000	79,750	2,279,750
	<u>\$ 38,570,000</u>	<u>\$ 22,635,777</u>	<u>\$ 61,205,777</u>

See accompanying auditors' report.

Harris County Municipal Utility District No. 374
TSI-6. Change in Long-Term Bonded Debt
August 31, 2014

	Bond Issue				
	Series 2007	Series 2007A	Series 2008	Series 2009	Series 2010
Interest rate	4%	5.25%	5.3% to 7.25%	4.3% to 5.25%	3.25% to 5%
Dates interest payable	3/1; 9/1	3/1; 9/1	3/1; 9/1	3/1; 9/1	3/1; 9/1
Maturity dates	9/1/07-9/1/14	9/1/08-9/1/14	9/1/09-9/1/15	9/1/10-9/1/36	9/1/11-9/1/37
Beginning bonds outstanding	\$ 245,000	\$ 275,000	\$ 1,675,000	\$ 3,730,000	\$ 3,730,000
Bonds issued					
Bonds refunded	(125,000)	(150,000)	(1,500,000)	(840,000)	
Bonds retired	(120,000)	(125,000)	(75,000)	(85,000)	(75,000)
Ending bonds outstanding	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 100,000</u>	<u>\$ 2,805,000</u>	<u>\$ 3,655,000</u>
Interest paid during fiscal year	<u>\$ 7,300</u>	<u>\$ 10,500</u>	<u>\$ 57,350</u>	<u>\$ 162,518</u>	<u>\$ 171,438</u>

Paying agent's name and city

Series 2007, 2007A, 2008, 2009 & 2010

Wells Fargo Bank, N.A., Texas

Series 2012

Wells Fargo Bank, N.A., Dallas, Texas

Series 2012A, 2012B, 2013 & 2014

BOKF, N.A., dba Bank of Texas, Austin, Texas

	Water, Sewer and Drainage Bonds	Park Bonds	Refunding Bonds
Bond Authority:			
Amount Authorized by Voters	\$ 37,200,000	\$ 9,500,000	\$ 24,200,000
Amount Issued	(36,790,000)	(2,845,000)	(3,031,999)
Remaining To Be Issued	<u>\$ 410,000</u>	<u>\$ 6,655,000</u>	<u>\$ 21,168,001</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: \$ 659,515

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 2,448,231

See accompanying auditors' report.

Bond Issue					
Series 2012 WSD & Refunding	Series 2012A	Series 2012B Park	Series 2013 Refunding	Series 2014 Refunding	Totals
2% to 4.15% 3/1; 9/1 9/1/12-9/1/38	3.5% to 5% 3/1; 9/1 9/1/13-9/1/39	3.4% to 5% 3/1; 9/1 9/1/35-9/1/39	2% to 4% 3/1; 9/1 9/1/13-9/1/34	2% to 3% 3/1; 9/1 9/1/14-9/1/24	
\$ 14,345,000	\$ 5,365,000	\$ 2,845,000	\$ 6,935,000	\$ -	\$ 39,145,000
				2,905,000	2,905,000
					(2,615,000)
(260,000)	(5,000)		(45,000)	(75,000)	(865,000)
<u>\$ 14,085,000</u>	<u>\$ 5,360,000</u>	<u>\$ 2,845,000</u>	<u>\$ 6,890,000</u>	<u>\$ 2,830,000</u>	<u>\$ 38,570,000</u>
<u>\$ 501,250</u>	<u>\$ 209,350</u>	<u>\$ 117,270</u>	<u>\$ 227,244</u>	<u>\$ 17,600</u>	<u>\$ 1,481,820</u>

Harris County Municipal Utility District No. 374**TSI-7a. Comparative Schedule of Revenues and Expenditures - General Fund****For the Last Five Fiscal Years**

	Amounts				
	2014	2013	2012	2011	2010
Revenues					
Water service	\$ 425,105	\$ 466,682	\$ 397,972	\$ 449,017	\$ 331,789
Sewer service	388,780	415,238	366,901	398,140	289,641
Property taxes	722,263	732,029	790,416	625,659	811,357
Penalties and interest	25,017	23,339	19,329	18,451	11,554
City of Houston sales tax rebates	27,364				
Tap connection and inspection	5,210	80,038	124,882	84,988	96,584
Surface water fees	457,139	405,325	306,756	305,872	168,942
Intergovernmental revenue	56,341	56,341			
Miscellaneous	11,980	13,104	29,757	125	832
Investment earnings	2,066	3,231	3,629	4,501	2,647
Total Revenues	<u>2,121,265</u>	<u>2,195,327</u>	<u>2,039,642</u>	<u>1,886,753</u>	<u>1,713,346</u>
Expenditures					
Current service operations					
Purchased services	581,293	624,394	593,224	475,412	326,512
Professional fees	150,577	145,133	171,125	153,362	214,229
Contracted services	260,165	266,363	249,426	201,538	171,645
Repairs and maintenance	665,558	983,171	507,201	480,694	514,644
Utilities	136,363	151,812	149,793	143,906	141,328
Regional water authority	1,311		1,840	66,350	84,343
Administrative	70,944	79,693	75,588	57,440	57,649
Other	14,385	10,353	8,291	5,158	6,089
Capital outlay	2,120	65,539		247,317	
Total Expenditures	<u>1,882,716</u>	<u>2,326,458</u>	<u>1,756,488</u>	<u>1,831,177</u>	<u>1,516,439</u>
Revenues Over (Under) Expenditures	<u>\$ 238,549</u>	<u>\$ (131,131)</u>	<u>\$ 283,154</u>	<u>\$ 55,576</u>	<u>\$ 196,907</u>

*Percentage is negligible

See accompanying auditors' report.

Percent of Fund Total Revenues				
2014	2013	2012	2011	2010
20%	21%	20%	24%	19%
18%	19%	18%	21%	17%
34%	33%	39%	33%	47%
1%	1%	1%	1%	1%
1%				
*	4%	6%	5%	6%
22%	18%	15%	16%	10%
3%	3%			
1%	1%	1%	*	*
*	*	*	*	*
100%	100%	100%	100%	100%
27%	28%	29%	25%	19%
7%	7%	8%	8%	13%
12%	12%	12%	11%	10%
31%	45%	25%	25%	30%
6%	7%	7%	8%	8%
*		*	4%	5%
3%	4%	4%	3%	3%
1%	*	*	*	*
*	3%		13%	
87%	106%	85%	97%	88%
13%	(6%)	15%	3%	12%

Harris County Municipal Utility District No. 374
TSI-7b. Comparative Schedule of Revenues and Expenditures - Debt Service Fund
For the Last Five Fiscal Years

	Amounts				
	2014	2013	2012	2011	2010
Revenues					
Property taxes	\$ 2,375,623	\$ 1,972,838	\$ 1,713,067	\$ 1,682,511	\$ 1,336,386
Penalties and interest	8,133	9,853	16,741	12,240	18,479
Accrued interest on bonds sold	4,496	20,134	31,292		9,312
Investment earnings	2,030	3,070	3,928	4,082	3,265
Total Revenues	2,390,282	2,005,895	1,765,028	1,698,833	1,367,442
Expenditures					
Tax collection services	39,851	38,486	39,769	37,042	38,169
Debt service					
Principal	865,000	730,000	790,000	440,000	340,000
Interest and fees	1,486,664	1,528,754	1,400,073	1,398,227	1,204,778
Debt issuance costs	108,574	168,010	460,279		
Total Expenditures	2,500,089	2,465,250	2,690,121	1,875,269	1,582,947
Revenues Under Expenditures	\$ (109,807)	\$ (459,355)	\$ (925,093)	\$ (176,436)	\$ (215,505)
Total Active Retail Water Connections	1,003	1,003	966	883	824
Total Active Retail Wastewater Connections	984	983	950	867	810

*Percentage is negligible

See accompanying auditors' report.

Percent of Fund Total Revenues				
2014	2013	2012	2011	2010
100%	99%	97%	99%	98%
*	*	1%	1%	1%
*	1%	2%		1%
*	*	*	*	*
100%	100%	100%	100%	100%
2%	2%	2%	2%	3%
36%	36%	45%	26%	25%
62%	76%	79%	82%	88%
5%	8%	26%		
105%	122%	152%	110%	116%
(5%)	(22%)	(52%)	(10%)	(16%)

Harris County Municipal Utility District No. 374
TSI-8. Board Members, Key Personnel and Consultants
For the Year Ended August 31, 2014

Complete District Mailing Address: 3200 Southwest Freeway, Suite 2600, Houston, TX 77027
District Business Telephone Number: 713-860-6400
Submission Date of the most recent District Registration Form
(TWC Sections 36.054 and 49.054): June 23, 2014
Limit on Fees of Office that a Director may receive during a fiscal year: \$ 7,200
(Set by Board Resolution -- TWC Section 49.0600)

Names:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid *	Expense Reimburse- ments	Title at Year End
Board Members				
Merry Leonard	5/14 - 5/18	\$ 1,650	\$ 247	President
Joe Sykes	5/12 - 5/16	3,300	3,550	Vice President
Brian Canepa	5/12 - 5/16	3,000	2,038	Secretary
Michael Owens	5/14 - 5/18	2,850	2,253	Assistant Secretary
Thomas Mohr	5/12 - 5/16	1,200	252	Assistant Vice President
Consultants				
		Amounts Paid		
Allen Boone Humphries Robinson LLP	08/03	\$ 149,202		Attorney
Severn Trent Environmental Services	04/04	419,863		Operator
McLennan & Associates	04/04	26,315		Bookkeeper
Tax Tech, Inc.	08/03	14,278		Tax Collector
Harris County Appraisal District	Legislation	23,166		Property Valuation
Perdue, Brandon, Fielder, Collins & Mott, LLP	04/04	155		Delinquent Tax Attorney
Brown & Gay Engineers, Inc.	08/12	216,435		Engineer
McGrath & Co., PLLC	Annual	11,750		Auditor
Lone Star Municipal Consulting, LLP	11/13	22,500		Contract Manager
Public Finance Group, LLC	03/14	35,789		Financial Advisor
Southwest Securities, Inc.	04/05	1,500		Former 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
SPECIMEN MUNICIPAL BOND INSURANCE POLICY



MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

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

Effective Date: _____

Risk Premium: \$ _____

Member Surplus Contribution: \$ _____

Total Insurance Payment: \$ _____

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

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

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

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

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

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

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

1 World Financial Center, 27th floor
200 Liberty Street
New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN