

OFFICIAL STATEMENT DATED APRIL 9, 2014

NEW ISSUE-BOOK-ENTRY-ONLY

**Underlying Rating: Moody's "Baa3"
See "MUNICIPAL BOND RATING"**

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

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

\$8,600,000

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

UNLIMITED TAX BONDS, SERIES 2014

Dated: April 1, 2014

Due: September 1, as shown on inside cover page

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

Interest on the Bonds will accrue from April 1, 2014 and is payable September 1, 2014 and each March 1 and September 1 thereafter until the earlier of maturity or redemption, and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will be issued in fully registered form only, without coupons, in denominations of \$5,000 or any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York, acting as securities depository for the Bonds until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only. So long as Cede & Co., as the nominee of DTC, is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the paying agent to DTC, which will be solely responsible for making such payment to the beneficial owners of the Bonds. The initial paying agent/registrar for the Bonds shall be BOKF, N.A., dba Bank of Texas, Austin, Texas (the "Paying Agent").

<p>MATURITY SCHEDULE (see inside cover page)</p>

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

The Bonds are offered by the Initial Purchaser subject to prior sale, when, as and if issued by the District and accepted by the Initial Purchaser, subject, among other things to the approval of the Initial Bond by the Attorney General of Texas and the approval of certain legal matters by Fulbright & Jaworski LLP, a member of Norton Rose Fulbright, Houston Texas, Bond Counsel. Delivery of the Bonds is expected through the facilities of DTC on or about April 30, 2014 in Austin, Texas.

MATURITIES
(Due September 1)

Due	Principal Amount	Interest Rate^(a)	Initial Reoffering Yield^(b)	CUSIP Number^(c)	Due	Principal Amount	Interest Rate^(a)	Initial Reoffering Yield^(b)	CUSIP Number^(c)
2014	\$100,000	2.500%	0.450%	41422SAA0	2025 *	\$300,000	3.400%	3.500%	41422SAM4
2015	125,000	2.500%	0.550%	41422SAB8	2026 *	325,000	3.500%	3.600%	41422SAN2
2016	125,000	2.500%	1.000%	41422SAC6	2027 *	350,000	3.700%	3.700%	41422SAP7
2017	150,000	2.500%	1.400%	41422SAD4	2028 *	375,000	3.850%	3.850%	41422SAQ5
2018	150,000	2.500%	1.600%	41422SAE2	2029 *	400,000	4.000%	4.000%	41422SAR3
2019	175,000	2.500%	2.000%	41422SAF9	2030 *	425,000	4.100%	4.100%	41422SAS1
2020 *	175,000	2.500%	2.450%	41422SAG7	2031 *	450,000	4.125%	4.200%	41422SAT9
2021 *	200,000	2.750%	2.850%	41422SAH5	2032 *	475,000	4.250%	4.300%	41422SAU6
2022 *	225,000	3.000%	3.100%	41422SAJ1	2033 *	500,000	4.250%	4.350%	41422SAV4
2023 *	250,000	3.200%	3.300%	41422SAK8	2034 *	550,000	4.375%	4.400%	41422SAW2
2024 *	275,000	3.300%	3.400%	41422SAL6					
\$2,500,000 4.375% ^(a) Term Bond Due September 1, 2038* Yield ^(b) 4.500% CUSIP 41422SBA9 ^(c)									

* Redemption Provisions: The District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those Bonds maturing on and after September 1, 2020 in whole or from time to time in part, on September 1, 2019, or on any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date fixed for redemption. The Bonds maturing September 1, 2038 are also subject to mandatory sinking fund redemption. See "THE BONDS - Redemption."

- (a) After requesting competitive bids for purchase of the Bonds, the District has accepted the lowest bid to purchase the Bonds, bearing interest as shown, at a price of 97% of par plus accrued interest to the date of delivery, resulting in a net effective interest rate to the District of 4.277156%.
- (b) The initial reoffering yields indicated represent the lower of the yields resulting when priced to maturity or the first redemption date. The initial yields at which the Bonds will be priced will be established by and will be the sole responsibility of the Initial Purchaser. The yields may be changed at any time at the discretion of the Initial Purchaser. Accrued interest from April 1, 2014 to the date of delivery of the Bonds to the Initial Purchaser is to be added to the purchase price.
- (c) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Capital IQ on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services provided by CUSIP Global Services. None of the Initial Purchaser, the District, or the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

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USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

All of the summaries of the statutes, orders, contracts, records, and engineering and other related reports set forth in the Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from the District, c/o Fulbright & Jaworski, LLP, a member of Norton Rose Fulbright, 1301 McKinney, 47th Floor, Houston, Texas 77010.

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

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

SALE AND DISTRIBUTION PRICES AND MARKETABILITY OF THE BONDS

Initial Purchaser

After requesting competitive bids for the Bonds, the District accepted the bid resulting in the lowest net effective interest rate, which bid was tendered by Southwest Securities, Inc. (the "Initial Purchaser" or the "Underwriter") bearing the lowest interest rates shown on the inside cover page hereof, at a price of 97% of the par value thereof plus accrued interest to the date of delivery which resulted in a net effective interest rate of 4.277156%, as calculated pursuant to Texas Government Code Chapter 1204, as amended (the "IBA" method).

Issue Price Certificate

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

Prices and Marketability

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

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

Securities Laws

No registration statement relating to the offer and sale of the Bonds has been filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; 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 RATING

In connection with the sale of the Bonds, the District has made application to Moody's Investors Service, Inc. ("Moody's") for a municipal bond rating and has received a "Baa3" underlying rating.

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

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OFFICIAL STATEMENT SUMMARY

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

THE DISTRICT

The District.....	Harris County Municipal Utility District No. 433 (the "District"), located in Harris County, Texas, was created, along with the adjacent Harris County Municipal Utility District No. 435 ("HCMUD435"), by order of the Texas Commission on Environmental Quality (the "TCEQ" or the "Commission"), effective January 17, 2006. Both the District and HCMUD435 were confirmed pursuant to elections held within each district on May 13, 2006. On May 14, 2011, HCMUD435 and the District held elections consolidating the District with HCMUD435 by terms of a consolidation agreement dated February 1, 2011 (the "Consolidation Agreement"). The terms of the Consolidation Agreement included, among other matters, the assumption of voted but unissued bonds payable in whole or in part from taxes, the levy of taxes to pay for bonds, and the adoption of the District as the name of the consolidated district. The District, a political subdivision of the State of Texas, was created for the purpose of providing, operating, and maintain facilities to control storm water, distribute potable water, and to collect and treat wastewater, and operates pursuant to Chapters 49 and 54 of the Texas Water Code and Article XVI, Section 59 of the Texas Constitution, both as amended. See "THE DISTRICT – General."
Location	The District is located in Harris County within the extraterritorial jurisdiction of the City of Houston, approximately 25 miles northwest of downtown Houston and south of the intersection of U.S. Highway 290 and Fry Road. The District is located entirely within the jurisdiction of the Cypress-Fairbanks Independent School District. Access to the District is provided by U.S. Highway 290 to Fry Road. See "THE DISTRICT - Location."
The Developer	The developer currently active within the District is Mischer Development, LP ("Mischer"), a Texas Limited Partnership comprised of Mischer Investments, L.P., a Texas Limited Partnership ("Investments") (owning 99% limited partner interest) and Mischer Management, L.L.C., a Texas Limited Liability Company ("Management") (owning 1% general partner interest). Mary A. Mischer, Walter M. Mischer Jr., and Paula Mischer are the sole members of Management. The ownership of Investments is held by members of the Mischer family. See "THE DEVELOPER."
Status of Development within the District.....	Of the approximate 797 acres encompassed by the District, approximately 633 are developable. As of March 1, 2014, approximately 345 acres (or 54.5% of the approximately 633 developable acres within the District) have been developed with utility facilities as the single family residential subdivision know as Cypress Creek Lakes. As of March 1, 2014, development within the District included 761 developed single family lots, 350 completed homes, 56 homes under construction (of which 34 are under contract to a homebuyer), and 355 vacant developed single family lots. In addition, there are currently nine lakes totaling approximately 34.4 acres and a 3.6-acre recreation center. See "THE DISTRICT - Status of Development."
Builders.....	According to the Developer, there are seven homebuilders currently active within the District including: Ashton Woods Homes, Darling Homes, Lennar Homes, Newmark Homes, Perry Homes, Village Builders and Taylor Morrison Homes. The Developer has also represented that the homes within the District are being constructed on four lot sizes (50', 60', 70' and 80') and range in price from \$200,000 to \$650,000, with square footage starting at 1,800 square feet. See "THE DISTRICT – Status of Development – Home Builders."

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THE BONDS

Description	The Bonds in the aggregate principal amount of \$8,600,000 mature serially in varying amounts on September 1 of each year from 2014 through 2034, and as a Term Bond which matures September 1, 2038, as set forth on the inside cover page hereof. Interest accrues from April 1, 2014 at the rates per annum set forth on the inside cover page hereof and is payable September 1, 2014 and each March 1 and September 1 thereafter until maturity or earlier redemption. The Bonds are offered in fully registered form in integral multiples of \$5,000 for any one maturity. See "THE BONDS - General Description."
Redemption	The District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those Bonds maturing on and after September 1, 2020, in whole or from time to time in part, on September 1, 2019, or on any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date fixed for redemption. The Bonds maturing September 1, 2038 are also subject to mandatory sinking fund redemption. See "THE BONDS - Redemption."
Source of Payment	Principal of and interest on the Bonds are payable from the proceeds of a continuing direct annual ad valorem tax levied upon all taxable property within the District, which under Texas law is not legally limited as to rate or amount. The Bonds are obligations solely of the District and are not obligations of the City of Houston, Texas; Harris County, Texas; the State of Texas; or any entity other than the District. See "THE BONDS - Source of and Security for Payment."
Payment Record	The Bonds constitute the initial installment of bonds issued by the District. Therefore, the District has no payment history with respect to repayment of bonded indebtedness. See "FINANCIAL STATEMENT – Outstanding Bonds."
Authority for Issuance	The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution and the general laws of the State of Texas including Chapters 49 and 54 of the Texas Water Code, as amended; a bond election held within the District on November 8, 2011; the approving order of the TCEQ; and an order adopted by the Board of Directors of the District on the date of the sale of the Bonds. See "THE BONDS - Authority for Issuance."
Bonds Authorized But Unissued.....	At an election held within the District on November 8, 2011, the voters within the District approved the issuance of \$200,000,000 in bonds for water, wastewater and drainage facilities. After the sale of the Bonds, the District will have \$191,400,000 remaining in authorized but unissued bonds for water, wastewater and drainage facilities. Additionally, at the election held in the District on November 8, 2011, the voters within the District also approved the issuance of \$20,000,000 in bonds for the acquisition and construction of parks and recreational facilities and \$15,000,000 in bonds for the acquisition and construction of roads, all of which remain authorized by unissued. See "FINANCIAL STATEMENT - Outstanding Bonds and Unlimited Tax Bonds Authorized but Unissued" and "THE BONDS – Issuance of Additional Debt."
Use of Proceeds.....	Proceeds from the sale of the Bonds will be used to finance: (i) Water Plant No. 1 – construction, excavation and fill, and an additional pressure tank; (ii) Waterline Extension; (iii) West Harris County Regional Authority surface water delivery costs; (iv) Wastewater Treatment Plant – site work and equipment purchase and installation; (v) Drainage Channel – phase 1; (vi) Cypress Creek Lakes Drainage Study; (vii) Land Acquisition Costs – Water Plant No. 1 and Wastewater Treatment Plant; (viii) operating advances and expenses; and (ix) District creation engineering and legal costs. In addition, proceeds of the Bonds will be used to pay up to two years capitalized interest and certain costs associated with the issuance of the Bonds. See "USE AND DISTRIBUTION OF BOND PROCEEDS."
Tax Exemption.....	In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "TAX MATTERS – Tax Exemption" herein. See "TAX MATTERS" for a discussion of the opinion of Bond Counsel, including the alternative minimum tax consequences for corporations. The Bonds are NOT "qualified tax-exempt obligations" for financial institutions.
Municipal Bond Rating.....	In connection with the sale of the Bonds, the District has made application to Moody's Investors Service, Inc. (Moody's) for a municipal bond rating and has received a "Baa3" underlying rating.

Bond Counsel &
Disclosure Counsel..... Fulbright & Jaworski LLP, a member of Norton Rose Fulbright., Houston, Texas.

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

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

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

INVESTMENT CONSIDERATIONS

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

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SELECTED FINANCIAL INFORMATION
(Unaudited as of April 1, 2014)

2013 Certified Assessed Valuation	\$ 35,650,353 ^(a)
Estimated Assessed Valuation as of January 1, 2014	\$ 116,329,649 ^(b)
Gross Debt Outstanding (after the issuance of the Bonds)	\$ 8,600,000 ^(c)
Ratio of Gross Debt to 2013 Certified Assessed Valuation	24.12%
Ratio of Gross Debt to Estimated Assessed Valuation as of January 1, 2014	7.39%
2013 Tax Rate	
Debt Service	\$ -
Maintenance	1.2000
Total 2013 Tax Rate	\$ 1.2000 ^(d)
Bond Fund Balance (after the issuance of the Bonds)	\$ 735,671 ^(e)
Percentage of current tax collections (Tax Years 2011-2013)	99.20% ^(f)
Percentage of total tax collections (Tax Years 2011-2013)	99.20% ^(f)
Average Annual Debt Service Requirement of the Bonds ("Average Requirement") (2015-2038, inclusive)	\$ 583,547
Tax Rate Required to pay Average Requirement based upon the 2013 Certified Assessed Valuation at 95% collections	\$1.73 /\$100 AV
Tax Rate Required to pay Average Requirement based upon the Estimated Assessed Valuation as of January 1, 2014 at 95% collections	\$0.53 /\$100 AV
Maximum Annual Debt Service Requirement of the Bonds ("Maximum Requirement") (2035)	\$ 709,375
Tax Rate Required to pay Maximum Requirement based upon the 2013 Certified Assessed Valuation at 95% collections	\$2.10 /\$100 AV
Tax Rate Required to pay Maximum Requirement based upon the Estimated Assessed Valuation as of January 1, 2014 at 95% collections	\$0.65 /\$100 AV
Number of active connections as of March 1, 2014	
Single Family	350
Builder and Other	<u>53</u>
Total Number of Active Connections	403
Estimated Population as of March 1, 2014	1,225 ^(g)

(a) Certified assessed valuation of the District as of January 1, 2013, as provided by the Harris County Appraisal District ("HCAD"). See "TAXING PROCEDURES."

(b) Estimated assessed valuation as of January 1, 2014, as provided by HCAD, is included solely for purposes of illustration. No tax will be levied on such amount unless it is certified by HCAD. The taxable value as of January 1, 2014 received from HCAD was \$122,049,233 but included \$4,356,000 in assessed taxable value attributed to the Metropolitan Baptist Church, which value will become tax exempt beginning in calendar year 2014; an additional \$1,363,584 of taxable value was reduced on the Cypress Creek Lakes South Residential POA. See "TAXING PROCEDURES."

(c) The Bonds.

(d) The District levied a 2013 maintenance only tax rate of \$1.20. The District anticipates levying a debt service tax beginning in 2014.

(e) Represents approximately twenty-four months of capitalized interest to be deposited into the Bond Fund at closing from the proceeds of the Bonds. Neither Texas Law nor the Bond Order requires that the District maintain any particular sum in the District's Bond Fund.

(f) See "TAX DATA – Tax Collections."

(g) Based upon 3.5 residents per completed and occupied single family home.

OFFICIAL STATEMENT
relating to
\$8,600,000
Harris County Municipal Utility District No. 433
(A Political Subdivision of the State of Texas Located in Harris County, Texas)

UNLIMITED TAX BONDS, SERIES 2014

INTRODUCTION

This Official Statement provides certain information with respect to the issuance by Harris County Municipal Utility District No. 433 (the "District") of its Unlimited Tax Bonds, Series 2014 (the "Bonds"). The Bonds are issued pursuant to an order (the "Bond Order") adopted by the Board of Directors of the District, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, and an order by the Texas Commission on Environmental Quality (the "TCEQ" or the "Commission").

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

THE BONDS

General Description

The \$8,600,000 Harris County Municipal Utility District No. 433 Unlimited Tax Bonds, Series 2014 will mature on September 1 of the years and in the principal amounts, and will bear interest at the rates per annum, set forth on the inside cover page hereof.

Interest on the Bonds will accrue from April 1, 2014 and is payable September 1, 2014, and each March 1 and September 1 thereafter until the earlier of maturity or redemption, and will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds will be issued in fully registered form only, without coupons, in denominations of \$5,000 or any integral multiple thereof. The initial paying agent/registrar for the Bonds shall be BOKF, N.A., dba Bank of Texas, Austin, Texas ("Paying Agent/Registrar"). The principal of and interest on the Bonds shall be payable without exchange or collection charges, in any coin or currency of the United States of America which, on the date of payment, is legal tender for the payment of debt due the United States of America. Interest on the Bonds (except for interest paid as part of the Redemption Price) which is payable, and which is paid on duly provided for on or within 10 days after any interest payment date shall be paid to the person to whom the Bond is registered on the bond register (the "Register") kept by the Paying Agent/Registrar at the close of business on the 15th calendar day of the month immediately preceding each interest payment date (the "Record Date"). All payments of interest shall be by check mailed, first-class postage prepaid, to the person entitled hereto at such person's address as it appears on the Register, or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and such person at the risk and expense of such person.

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

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

Redemption

Optional Redemption . . . The District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those Bonds maturing on and after September 1, 2020, in whole or from time to time in part, on September 1, 2019, or on any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date fixed for redemption. Optional redemption of Bonds may be conditional of refunding bonds or other obligations to pay the Redemption Price.

Mandatory Sinking Fund Redemption . . . In addition to being subject to optional redemption, as provided above, the Bonds maturing on September 1, 2038 are subject to mandatory sinking fund redemption prior to maturity by lot in the following amounts, on the following dates and at a price of par plus accrued interest to the redemption date from amounts required to be deposited in the Bond Fund:

\$2,500,000 Term Bond Maturing September 1, 2038*	
Mandatory	
Redemption	Principal
<u>Date</u>	<u>Amount</u>
2035	\$ 600,000
2036	625,000
2037	625,000
2038*	650,000

* 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 or cancelled by the District or have been redeemed and theretofore applied as a credit against any mandatory sinking fund redemption requirement.

Notice of Redemption . . . At least 30 calendar days prior to the date fixed for any redemption of Bonds or portions thereof prior to maturity a written notice of such redemption shall be mailed by the Paying Agent by United States mail, first-class postage prepaid in the name and at the expense of the District to the persons in whose names such Bonds are registered on the security register of the Paying Agent.

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

Termination of Book-Entry-Only System

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

Payment . . . Principal of the Bonds will be payable at maturity to the registered owners as shown by the registration books maintained by the Paying Agent/Registrar upon presentation and surrender of the Bonds to the Paying Agent/Registrar at the designated office for payment of the Paying Agent/Registrar in Austin, Texas (the "Designated Payment/Transfer Office"). Interest on the Bonds will be payable by check or mailed, dated as of the applicable interest payment date, sent by the Paying Agent/Registrar 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/Registrar 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/Registrar 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 . . . The Bonds may be transferred and re-registered on the registration books of the Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar 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 be, upon presentation and surrender at the Designated Payment/Transfer Office. All Bonds surrendered for transfer or exchange must be endorsed for assignment by 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/Registrar. 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/Registrar to the registered owner, at the Designated Payment/Transfer Office or by United States mail, first-class, postage prepaid.

Limitation on Transfer of Bonds . . . Neither the District nor the Paying Agent/Registrar will be required to make any transfer or exchange to an assignee of the registered owner of the Bonds during the period beginning at the opening of business 15 days before the day of the first mailing of a notice of redemption of Bonds and ending at the close of business on the day of such mailing or thereafter to transfer or exchange in whole or in part any Bond so selected for redemption.

Authority for Issuance

At an election held within the District on November 8, 2011, the voters within the District approved the issuance of \$200,000,000 in bonds for water, wastewater and drainage facilities. After the sale of the Bonds, the District will have \$191,400,000 remaining in authorized but unissued bonds for water, wastewater and drainage facilities. Additionally, at the election held in the District on November 8, 2011, the voters within the District also approved the issuance of \$20,000,000 in bonds for the acquisition and construction of parks and recreational

facilities and \$15,000,000 in bonds for the acquisition and construction of roads, all of which remain authorized but unissued. In addition, the District may issue refunding bonds which increase the principle amount of its outstanding bonds.

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

Source of and Security for Payment

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

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 political subdivision or entity other than the District.

Payment Record

The Bonds constitute the initial installment of bonds issued by the District. Therefore, the District has no payment history. See "FINANCIAL STATEMENT – Outstanding Bonds."

Funds

The Bond Order creates or confirms the creation by the District of a Bond Fund and a Construction Fund.

Each fund shall be kept separate and apart from all other funds of the District. The Bond Fund shall constitute a trust fund which shall be held in trust for the benefit of the registered owner of the Bonds.

Any cash balance in any fund must be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of municipal utility districts having an aggregate market value, exclusive of accrued interest, at all times equal to the cash balance in the fund to which such securities are pledged.

Bond Fund... The Bond Order establishes the Bond Fund to be used to pay principal and interest on and Paying Agent fees in respect to the Bonds. The Bond Order requires that the District deposit to the credit of the Bond Fund (i) from the delivery of the Bonds to the Initial Purchaser, the amount received from proceeds of the Bonds representing accrued interest and capitalized interest on the Bonds, (ii) all receipts of taxes (and penalties and interest thereon) net of collection costs levied to pay debt service requirements on (or fees and expenses of the Paying Agent with respect of) the Bonds, (iii) all earnings from the investment of amounts credited to the Bond Fund, and (iv) any other funds of the Issuer deposited to the Bond Fund to pay principal (or the redemption price) of or interest on the Bonds. The Bond Order requires that the Bond Fund be applied solely to provide for the payment of the principal or redemption price of and interest on the Bonds when due, and to pay fees to Paying Agent when due.

Construction Fund... The Construction Fund is the capital improvements fund of the District. The Bond Order requires the District to deposit to the credit of the Construction Fund the balance of the proceeds of the Bonds remaining after the deposits to the Bond Fund provided in the Bond Order. The Construction Fund may be applied solely to (i) pay the costs necessary or appropriate to accomplish the purposes for which the Bonds are issued, (ii) pay the costs of issuing the Bonds and (iii) to the extent the proceeds of the Bonds and investment income attributable thereto are in excess of the amounts required to acquire and construct water, wastewater and drainage facilities as approved by TCEQ, then it is in the discretion of the Board of Directors of the District to transfer such unexpended proceeds or income to the Bond Fund or to utilize such funds as otherwise authorized by the TCEQ.

Investments/Earnings

Moneys deposited into the Bond Fund and any other fund or funds which the District may lawfully create may be invested or reinvested in investments authorized by the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended and the District's Investment Policy. All investments and any profits realized from or interest accruing on such investments shall belong to the fund from which the moneys from such investments were taken. If any moneys are so invested, the District shall have the right to have sold in the open market a sufficient amount of such investments to meet its obligations in the event any fund does not have sufficient uninvested funds on hand to meet obligations payable out of such fund. Under such circumstances, the District must give notice to the depository to sell such investments in the open market. After such sale the moneys resulting therefrom shall belong to the fund from which the moneys for such investments were initially taken. The District is not responsible to the Registered Owners for any loss arising out of the sale of any investments.

Defeasance of Outstanding Bonds

The Bond Order provides for the defeasance of the Bonds and the termination of the pledge of taxes, limited Net Revenues, if any, and all other covenants in the Bond Order under certain circumstances. Any Bond will be deemed to be paid and will no longer be considered to be a Bond within the meaning of the Bond Order when payment of the principal of and interest on such Bond to the Stated Maturity thereof or (if notice of redemption shall have been duly given, irrevocably provided for, or waived as provided herein) to the Redemption Date shall have been made or shall have been provided for by deposit with the Paying Agent/Registrar for such payment (or with any other bank or trust company which has

agreed to hold the same for such purpose) (1) money sufficient to make such payment, (2) Governmental Obligations 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 (3) a combination of money and Governmental 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 will have been paid or the payment thereof provided for to the satisfaction of the Paying Agent/Registrar (and to such other bank or trust company).

If such deposit is made for some but not all of the Bonds then Outstanding, the District will designate the stated maturities of Bonds for which such deposit is made. If such deposit will be sufficient to provide for the payment of the principal of and interest on some but not all Outstanding Bonds of a particular stated maturity so designated, the Paying Agent/Registrar will select the Outstanding Bonds of such stated maturity with respect to which such deposit is made by such random method as the Paying Agent/Registrar will deem fair and appropriate and which may provide for the selection of portions (equal to \$5,000 or any integral multiple thereof) of the principal amount of Bonds of a denomination larger than \$5,000.

Notwithstanding anything in the Bond Order to the contrary, no such deposit will have the effect described if made during the subsistence of a default in the payment of any Bond unless made with respect to all of the Bonds then Outstanding, when such deposit is made, it will be accompanied by an opinion of counsel of recognized standing in the field of federal income taxation to the effect that neither such deposit nor the investment thereof shall adversely affect the excludability of interest on any Bond from the gross income of any owner thereof for federal income tax purposes, though delivery of such opinion is not a condition precedent to the effectiveness of any deposit described above.

Any money and Governmental Obligations deposited for such purpose will be held by the Paying Agent/Registrar (or other bank or trust company) with which such deposit is made in a segregated account in trust or escrow for the Holders of the Bonds with respect to which such deposit is made and, together with any investment income therefrom, will be disbursed solely to pay the principal of and interest on such Bonds when due, except that cash receipts may be withdrawn and paid to the District provided the date and amount of such withdrawals are taken into account in the most recent verification of the accounting firm referred to above. No money or Governmental Obligations so deposited will be invested or reinvested unless in Governmental Obligations and unless such money and Governmental Obligations not invested and such new investments are together certified by an independent public accounting firm of national reputation to be of such amounts, 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.

At such times as a Bond will be deemed to be paid hereunder, as aforesaid, it will no longer be entitled to the benefits of the Bond Order, except for the purposes of any such payment from such money or Governmental Obligations, and for provisions relating to transfer, exchange, and replacement of Bonds and certain covenants of the District.

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

Paying Agent/Registrar

Principal of and semiannual interest on the Bonds will be paid by BOKF, N.A., dba Bank of Texas, having its office for payment in Austin, Texas, the initial Paying Agent/Registrar (the "Paying Agent/Registrar"). The Paying Agent/Registrar must be 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.

The Paying Agent/Registrar may be removed from its duties at any time with or without cause upon not less than 30 days' notice to each Bondholder specifying the substitution of another Paying Agent/Registrar, the effective date thereof, and the address of such successor Paying Agent/Registrar, but no such removal is effective until such successor has accepted the duties of the Paying Agent/Registrar hereunder by written instrument. Every Paying Agent/Registrar must at all times be a corporation organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least \$10,000,000, subject to supervision or examination by federal or state authority, and registered as a transfer agent with the Securities and Exchange Commission.

Record Date

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

Issuance of Additional Debt

The District may issue additional bonds, with the approval of the TCEQ, as necessary to provide and maintain improvements and facilities consistent with the purposes for which the District was created. See "THE DISTRICT – General." The District's voters have authorized the issuance of a total of \$200,000,000 in bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities of which \$191,400,000 will remain authorized but unissued after the issuance of the Bonds.

The District is authorized by statute to develop parks and recreational facilities, including the issuing of bonds payable from taxes for such purpose. At an election held on November 8, 2011, voters in the District authorized the issuance of \$20,000,000 in park and recreational facilities bonds and \$15,000,000 in road bonds, all of which remains authorized but unissued.

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

Lost, Stolen, Mutilated or Destroyed Bonds

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

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

Legal Investment and Eligibility to Secure Public Funds in Texas

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

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

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

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

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

Additional Covenants

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

1. to the extent prudent and ordinary for political subdivisions of types similar to the District, maintain its properties in good condition and repair, ordinary wear and tear and obsolescence excepted and operate such properties in an efficient manner and at a reasonable cost;
2. maintain insurance, or self-insure, on the waterworks and sanitary sewer system of a kind and in an amount which usually would be carried by private companies operating similar properties, and engaged in similar type of business, but considering any governmental immunities to which the District may be entitled;
3. keep accurate records and accounts and employ an independent certified public accountant to audit and report on its financial affairs at the close of each fiscal year, such audits to be in accordance with applicable law, rules and regulations in effect from time to time and open to inspection by any interested person in the office of the District.

Tax Covenants

The District has additionally covenanted in the Bond Order that it will not use, permit the use of, or omit to use proceeds of the Bonds or any other amounts (or any property acquired, constructed, or improved with proceeds of the Bonds) in a manner which, if made or omitted, respectively, would cause interest on any Bonds not to be excludable from the gross income, as defined in Section 61 of the Internal Revenue Code of 1986, as amended to date hereof (the "Code"), of the owners of the Bonds for federal income tax purposes.

Remedies in Event of Default

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

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

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

Annexation by the City of Houston

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston, the District must conform to a City of Houston ordinance consenting to the creation of the District. In addition, the District may be annexed by the City of Houston without the District's consent. If the District is annexed, the City will assume the District's assets and obligations (including the Bonds) and dissolve the District within ninety (90) days. Annexation of the territory by the City is a policy-making matter within the discretion of the Mayor and City Council of the City of Houston, and therefore, the District makes no representation that the City of Houston will ever annex and assume its debt, nor does the District make any representation concerning the ability of the City of Houston to pay debt service on the District's bonds if annexation were to occur.

Strategic Partnership Agreement

The District is authorized to enter into a strategic partnership agreement with the City of Houston to provide the terms and conditions under which the services would be provided and funded by the parties and under which the District would continue to exist for an extended period if the land within the District were to be annexed for full or limited purposes by the City. The terms of any such agreement would be determined by the City and the District, and could provide for the conversion of a limited purpose annexation to a general purpose annexation, or the payment of a fee in lieu of annexation to be derived from residential property within the District based on the costs of providing municipal services to the District. Although the City has negotiated and entered into such agreement with several districts in its extraterritorial jurisdiction, none is currently contemplated with respect to the District. However, no representation can be made regarding the future likelihood of an agreement or the terms thereof.

Consolidation

The District has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its assets, (such as cash and the utility system), and liabilities (such as the Bonds) with the assets and liabilities of districts with which it is consolidating.

The District was created, along with the adjacent Harris County Municipal Utility District No. 435 ("HCMUD435"), by order of the TCEQ effective January 17, 2006. Both the District and HCMUD435 were confirmed pursuant to elections held within each district on May 13, 2006. On May 14, 2011, the District held an election consolidating the District with HCMUD435 by terms of a consolidation agreement dated February 1, 2011 (the "Consolidation Agreement"). The terms of the Consolidation Agreement included, among other matters, the assumption of voted but unissued bonds payable in whole or in part from taxes, the levy of taxes to pay for bonds and maintenance taxes, and the adoption of the District as the name of the consolidated district.

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

Alteration of Boundaries

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

No Arbitrage

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

Approval of the Bonds

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

Amendments to Bond Order

The District may without the consent of or notice to any Bond owners, from time to time, and at any time amend the Bond Order in any manner not detrimental to the interest of the Bond owners, including the curing of an ambiguity, inconsistency, or formal defect or omission therein. In addition, the District may, with the written consent of the owners of a majority in aggregate principal amount of the Bonds then outstanding affected thereby, amend, add to, or rescind any of the provisions of the Bond Order, except that, without the consent of the owners of all of the Bonds affected, no such amendment, addition, or rescission may (1) extend the time or times of payment of the principal of and interest on the Bonds, reduce the principal amount thereof, the redemption price, or the rate of interest thereon, change the place or places at, or the coin or currency in which, any Bond or the interest thereon is payable, or in any other way modify the terms of payment of the principal of or interest on the Bonds; (2) give any preference to any Bond over any other Bond; (3) modify the provisions of Bond Order proviso to the definition of the term “Outstanding”; or (4) modify the section of the Bond Order related to the amendment thereto, except to increase the percentage provided thereby or to provide that certain other provisions of the Bond Order may not be modified or waived. In addition, a state, consistent with federal law, may in the exercise of its police powers make such modifications in the terms and conditions of contractual covenants relating to the payment of indebtedness of its political subdivisions as are reasonable and necessary for attainment of an important public purpose.

BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

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

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

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

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

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USE AND DISTRIBUTION OF BOND PROCEEDS

Proceeds from the sale of the Bonds will be used to finance: (i) Water Plant No. 1 – construction, excavation and fill, and an additional pressure tank; (ii) Waterline Extension; (iii) West Harris County Regional Authority surface water delivery costs; (iv) Wastewater Treatment Plant – site work and equipment purchase and installation; (v) Drainage Channel – phase 1; (vi) Cypress Creek Lakes Drainage Study; (vii) Land Acquisition Costs – Water Plant No. 1 and Wastewater Treatment Plant; (viii) operating advances and expenses; and; and (ix) District creation engineering and legal costs. In addition, proceeds of the Bonds will be used to pay up to two years capitalized interest and certain costs associated with the issuance of the Bonds.

The use and distribution of Bond proceeds are set forth below. Of the proceeds to be received from the sale of the Bonds, \$4,555,491 is required for construction costs, and \$4,044,509 is required for non-construction costs, including \$735,671 of capitalized interest (24 months of interest at 4.277156%).

Construction Costs

A. Developer Contribution Items

1. Waterline Extension	\$ 20,891
2. Drainage Channel Phase One	1,313,474
3. Drainage Channel Phase One Pipeline Adjustments	590,920
4. Storm Water Pollution Prevention	45,660
5. Cypress Creek Lakes Drainage Study	70,028
6. Drainage Channel Phase One Environmental Assessment	4,305
7. Engineering and Testing	313,628
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Total Developer Contribution Items

\$ 2,358,906

B. District Items

1. Water Plant No. 1 - Design & Construction	\$ 275,537
2. Water Plant No. 1 - Pressure Tank No. 2	13,503
3. Water Plant No. 1 - Excavation & Fill	53,584
4. Wastewater Treatment Plant - site work	783,284
5. Wastewater Treatment Plant - Equipment Purchase & Installation	509,949
6. Storm Water Pollution Prevention	3,600
7. West Harris County Regional Authority early surface water delivery	306,860
8. Engineering and Testing	222,006
9. Land Acquisition	
a. Water Plant No. 1	1,297
b. Wastewater Treatment Plant	26,965
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Total District Items

\$ 2,196,585

Total Construction Costs

\$ 4,555,491

Non-Construction Costs

A. Legal Fees (2%)	\$ 172,000
B. Fiscal Agent Fees (2.5%)	215,000
C. Interest Costs	
1. Capitalized Interest (2yrs @ 4.277156%)	735,671
2. Developer Interest ^(a)	1,456,739
D. Bond Discount (3%)	258,000
E. Bond Issuance Expenses	32,700
F. Operating Costs	661,939
G. Creation Engineering Costs	62,382
H. Creation Legal Costs	83,649
I. Bond Application Report Costs	40,000
J. Attorney General Fee (0.10%)	8,600
K. TCEQ Bond Issuance Fee (0.25%)	21,500
L. Contingency ^(b)	296,329
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Total Non-Construction Costs

\$ 4,044,509

TOTAL BOND ISSUE REQUIREMENT

\$ 8,600,000

(a) Preliminary, subject to change. The amount of Developer Interest will be finalized in connection with the reimbursement report approved by the Board of Directors prior to disbursement of funds.

(b) The TCEQ, in its approval of the Bonds, directed any surplus Bond proceeds to be shown as a contingency line item and be subject to the TCEQ rules of use of surplus Bond funds.

INVESTMENT CONSIDERATIONS

General

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

Factors Affecting Taxable Values and Tax Payments

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

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

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

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

The competitive position of the Developer in the sale of developed lots and of prospective builders in the construction of single-family residential houses within the District is affected by most of the factors discussed in this section. Such a competitive position is directly related to the growth and maintenance of taxable values in the District and tax revenues to be received by the District. The District can give no assurance that building and marketing programs in the District by the Developer will be implemented or, if implemented, will be successful.

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

Impact on District Tax Rates: Assuming no further development or construction of taxable improvements, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of the District property owners to pay their taxes. The 2013 certified assessed valuation of the District is \$35,650,353 (see "FINANCIAL STATEMENT"). After issuance of the Bonds, the Maximum Requirement will be \$709,375 (2035) and the Average Requirement will be \$583,547 (2015 through 2038, inclusive). Assuming (1) no increase or decrease from the 2013 certified assessed valuation, and (2) no use of funds on hand, a tax rate of \$2.10/\$100 assessed valuation,

at a 95% collection rate, would be necessary to pay the Maximum Requirement of \$709,375, and a tax rate of \$1.73/\$100 assessed valuation at a 95% collection rate would be necessary to pay the Average Requirement of \$583,547. The District's Estimated Assessed Valuation as of January 1, 2014 is \$116,329,649. Based on the assumptions above, a tax rate \$0.65/\$100 assessed valuation and a tax rate of \$0.53/\$100 assessed valuation, both at a 95% tax collection rate, would be necessary to pay the Maximum Requirement and the Average Requirement, respectively. See "DEBT SERVICE REQUIREMENTS – Table 3" and "TAX DATA - Tax Adequacy for Debt Service."

Future and Proposed Legislation

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

Tax Collections and Foreclosure Remedies

The District has a right to seek judicial foreclosure on a tax lien, but such remedy may prove to be costly and time consuming and, since the future market or resale market, if any, of the taxable real property within the District is uncertain, there can be no assurance that such property could be sold and delinquent taxes paid. Additionally, the District's tax lien is on a parity with the liens of all other State and local taxing authorities on the property against which the taxes are levied.

Registered Owners' Remedies

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

Statutory language authorizing districts to sue and be sued or plead and be impleaded does not in and of itself waive a district's sovereign immunity from suits for money damages. 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 Bond owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the Bond owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization or 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 Bondholders may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. Texas law requires a municipal utility district such as the District to obtain the approval of the TCEQ as a condition to seeking relief under the Federal Bankruptcy Code.

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

A district may not be forced into bankruptcy involuntarily.

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

The "Financial Institutions Reform, Recovery and Enforcement Act of 1989" ("FIRREA"), enacted on September 9, 1989, contains certain provisions which affect the time for protesting property valuations, the fixing of tax liens, and the collection of penalties and interest on delinquent taxes on real property owned by the Federal Deposit Insurance Corporation ("FDIC") when the FDIC is acting as the conservator or receiver of an insolvent financial institution.

Under FIRREA real property held by the FDIC is still subject to ad valorem taxation, but such act states (i) that no real property of the FDIC shall be subject to foreclosure or sale without the consent of the FDIC and no involuntary liens shall attach to such property, (ii) the FDIC shall not be liable for any penalties or fines, including those arising from the failure to pay any real or personal property tax when due and (iii)

notwithstanding failure of a person to challenge an appraisal in accordance with state law, such value shall be determined as of the period for which such tax is imposed.

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

Marketability

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

Continuing Compliance with Certain Covenants

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

Future Debt

The District has reserved in the Bond Order the right to issue the remaining \$191,400,000 authorized but unissued unlimited tax bonds for water, wastewater and drainage purposes, \$20,000,000 of unlimited tax bonds for parks and recreational facilities, \$15,000,000 of unlimited tax bonds for roads, and such additional bonds as may hereafter be approved by both the Board of Directors and voters of the District. All of the remaining unlimited tax bonds which have heretofore been authorized by the voters of the District may be issued by the District from time to time for qualified purposes, as determined by the Board of Directors of the District, subject to the approval of the Attorney General of the State of Texas and the TCEQ.

The Developer has advanced funds to pay for the installation of water, wastewater, and drainage facilities and parks and recreational facilities in the District. A portion of the proceeds of the Bonds will be used to reimburse the Developer for a portion of the funds it has advanced. After receiving proceeds from the Bonds, the District will continue to owe the Developer approximately \$17,220,000 plus interest, which the District intends to pay out of future bond issuances.

Each future issue of bonds is intended to be sold at the earliest practicable date consistent with the maintenance of a reasonable tax rate in the District (assuming projected increases in the value of taxable property made at the time of issuance of the bonds are accurate). The District does not employ any formula with respect to assessed valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue. The issuance of additional bonds is subject to approval by the TCEQ pursuant to its rules regarding issuance and feasibility of bonds. In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District. See "THE BONDS –Issuance of Additional Debt." See "FINANCIAL STATEMENT –Bonds Authorized but Unissued."

Environmental Regulation

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

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

Compliance with environmental laws and regulations can increase the cost of planning, designing, constructing and operating water production and wastewater treatment facilities. Sanctions against a municipal utility district or other type of district (“Utility Districts”) for failure to comply with environmental laws and regulations may include a variety of civil and criminal enforcement measures, including assessment of monetary penalties, imposition of remedial requirements, and injunctive relief as to future compliance and the ability to operate the Utility District’s water supply, wastewater treatment, and drainage facilities. Environmental laws and regulations can also impact an area’s ability to grow and develop. The following is a discussion of certain environmental concerns that relate to Utility Districts, including the District. It should be noted that changes in environmental laws and regulations occur frequently, and any changes that result in more stringent and costly requirements could materially impact the District.

Air Quality Issues... Air quality control measures required by the United States Environmental Protection Agency (the “EPA”) and the Texas Commission on Environmental Quality (“TCEQ”) may impact new industrial, commercial and residential development in Houston and adjacent areas. Under the Clean Air Act (“CAA”) Amendments of 1990, the eight-county Houston- Galveston area (“HGB area”) – Harris, Galveston, Brazoria, Chambers, Fort Bend, Waller, Montgomery and Liberty counties – was designated by the EPA in 2007 as a severe ozone nonattainment area. Such areas are required to demonstrate progress in reducing ozone concentrations each year until the EPA “8-hour” ozone standards are met. In early 2008, both the TCEQ and EPA have taken comments on the submission of a new State Implementation Plan (“SIP”) which would account for the severe classification of the HGB area and propose ways of complying with the goals for attainment – the attainment date for severe nonattainment regions is June 15, 2019. To provide for reductions in ozone concentrations as a result of this classification, the EPA and the TCEQ have imposed increasingly stringent limits on sources of air emissions and require any new source of significant air emissions to provide for a net reduction of air emissions. If the HGB area fails to demonstrate progress in reducing ozone concentrations or fails to meet EPA’s standards, EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects, as well as severe emissions offset requirements on new major sources of air emissions for which construction has not already commenced.

In order to comply with the EPA’s standards for the HGB area, the TCEQ has proposed SIPs setting emission control requirements, some of which regulate the inspection and use of automobiles. These types of measures could impact how people travel, what distances people are willing to travel, where people choose to live and work, and what jobs are available in the HGB area. In response to the severe ozone nonattainment designation, the TCEQ is now working on additional control technology proposals for the next SIP submission to the EPA, which it has requested be finalized by April 2010. This means that additional control strategies will need to be implemented in order to achieve attainment, and it is possible that these additional controls could have a negative impact on the HGB area’s economic growth and development.

Water Supply & Discharge Issues... Water supply and discharge regulations that Utility Districts, including the District, may be required to comply with involve: (1) public water supply systems, (2) waste water discharges from treatment facilities, (3) storm water discharges and (4) wetlands dredge and fill activities. Each of these is addressed below:

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

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

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

Operations of Utility Districts are also potentially subject to stormwater discharge permitting requirements under the Clean Water Act and EPA and TCEQ regulations. The TCEQ issued a general permit for stormwater discharges associated with industrial activities (which was amended and reissued on September 14, 2006) and a general permit for stormwater discharges associated with small municipal separate storm sewer systems (which was issued on September 13, 2007). Utility Districts are also required to develop and implement stormwater pollution

prevention plans and stormwater management plans. The District could incur substantial costs to develop and implement such plans as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff. Failure to comply with these requirements may result in the imposition of administrative, civil, and criminal penalties as well as injunctive relief under the Clean Water Act or the Texas Water Code.

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

Approval of the Bonds

The TCEQ approved the issuance of the Bonds by an order signed on March 18, 2014 (the “TCEQ Order”). The Attorney General of Texas must approve the legality of the Bonds prior to their delivery. The Attorney General does not pass upon or guarantee the quality of the Bonds as an investment, nor does he pass upon the adequacy or accuracy of the information contained in this Official Statement.

Forward Looking Statements

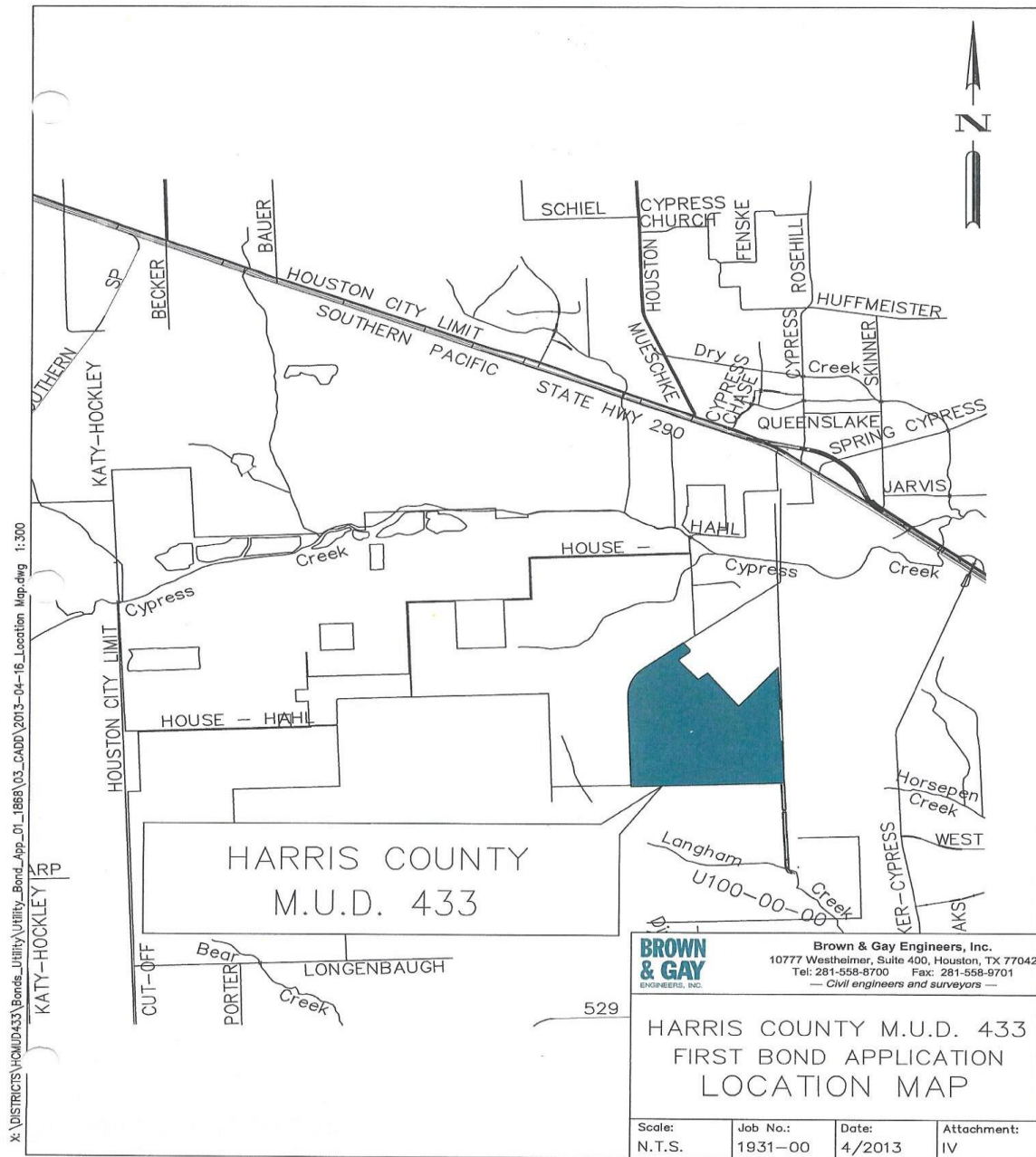
The statements contained in this Official Statement, and in any other information provided by the District, that are not purely historical, are forward-looking statements, including statements regarding the District’s expectations, hopes, intentions, or strategies regarding the future.

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

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

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LOCATION MAP



THE DISTRICT

General

The District was created by order of the Texas Commission on Environmental Quality (the "TCEQ"), adopted on January 17, 2006, and by a confirmation election held within the District on May 13, 2006, along with Harris County Municipal Utility District No. 435 ("HCMUD435"). On May 14, 2011, the District held an election consolidating the District with HCMUD435 by terms of a consolidation agreement dated February 1, 2011 (the "Consolidation Agreement"). The terms of the Consolidation Agreement included, among other matters, the assumption of voted but unissued bonds payable in whole or in part from taxes, the levy of taxes to pay for bonds and maintenance taxes, and the adoption of the District as the name of the consolidated district. The District operates as a municipal utility district pursuant to the provisions of Article XVI, Section 59 of the Texas Constitution and Chapters 49 and 54 of the Texas Water Code and other general statutes of the State of Texas applicable to municipal utility districts. The District is subject to the continuing supervision of the TCEQ. The District as created contained approximately 485.07 acres. After the consolidation election held on May 14, 2011, the District currently contains approximately 797.21 acres.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District may also provide solid waste collection and disposal service and is empowered to establish, operate and maintain a fire department, independently or with one or more other conservation and reclamation districts, if approved by the voters of the District, the City of Houston, and the TCEQ.

Management of the District

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

Name	Title	Term Expires	Length of Service
Clark Martinson	President	2014	8 Years
Scott Forbes	Vice President	2016	8 Years
Debbie Watson-Hartline	Secretary	2014	3 Years
Taylor Cavnar	Treasurer	2014	7 Years
Robin Humphrey	Assistant Secretary	2016	7 Months

Consultants

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

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

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

Engineer: The District's consulting engineer is Brown & Gay Engineers, Inc. (the "Engineer"). Such firm serves as consulting engineer to over 90 other special districts in the Houston metropolitan area.

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

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

Location

The District is located in Harris County within the extraterritorial jurisdiction of the City of Houston, approximately 25 miles northwest of downtown Houston and south of the intersection of U.S. Highway 290 and Fry Road. The District is located entirely within the jurisdiction of the Cypress-Fairbanks Independent School District. The District's northern boundary is Harris County Municipal Utility District No. 374, western boundary is Fry Road, eastern boundary is Harris County Municipal Utility District No. 172, and southern boundary is Harris County Municipal Utility District No. 175. Access to the District is provided by U.S. Highway 290 to Fry Road.

Status of Development

Development of the District began in 2011 and, as of March 1, 2014, approximately 345 acres of the approximate 633 developable acres located within the District have been developed with water, sanitary sewer and drainage facilities.

As of March 1, 2014, development within the District included 761 developed single family lots, 350 completed homes, 56 homes under construction, and 355 vacant developed single family lots, as shown in the chart below.

	Acreage	Platted Lots	Single Family		
			Completed Homes	Homes Under Construction	Vacant Lots
A. Developed with Utility Facilities					
Cypress Creek Lakes, Section 10	35.20	84	50	13	21
Cypress Creek Lakes, Section 11	57.09	51	29	10	12
Cypress Creek Lakes, Section 12	49.92	108	0	0	108
Cypress Creek Lakes, Section 13	33.78	80	58	11	11
Cypress Creek Lakes, Section 14	16.01	33	0	0	33
Cypress Creek Lakes, Section 16	44.99	80	0	8	72
Cypress Creek Lakes, Section 17	25.92	97	90	0	7
Cypress Creek Lakes, Section 18	27.40	77	40	14	23
Cypress Creek Lakes, Section 19	17.65	68	0	0	68
Cypress Creek Lakes, Section 20	<u>36.88</u>	<u>83</u>	<u>83</u>	<u>0</u>	<u>0</u>
Total Developed with Utilities	344.84	761	350	56	355
B. Remaining Developable Acreage					
Residential	203.85				
Retail/Commercial	<u>84.00</u>				
Total Remaining Developable Acreage	287.85				
C. Recreation Center	3.60				
D. Undevelopable Acreage ^(a)					
	<u>160.93</u>				
Total	797.21				

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

Residential Development

As of March 1, 2014, existing residential development within the District consisted of approximately 761 developed single family lots in the residential subdivision of Cypress Creek Lakes, of which there are 350 completed homes, 56 homes under construction and 355 vacant lots. In addition, there are currently nine lakes containing approximately 34.4 acres and a 3.6 acre recreation center.

Home Builders

According to the Developer, there are seven homebuilders currently active within the District including: Ashton Woods Homes, Darling Homes, Lennar Homes, Newmark Homes, Perry Homes, Village Builders and Taylor Morrison Homes. The Developer has also represented that the homes within the District are being constructed on four lot sizes (50', 60', 70' and 80') and range in price from \$200,000 to \$650,000, with square footage starting at 1,800 square feet.

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

Calendar Year	No. of Single-Family Homes Constructed
2012	45
2013	212
2014	149*

* Includes 56 homes under construction as of March 1, 2014.

Retail Development

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

Future Development

The District contains approximately 628 developable acres, of which approximately 288 acres currently remain undeveloped. If the undeveloped acreage is eventually developed, additions to the District's water, wastewater, and drainage systems required to service such property may be financed by future issues of the District's bonds and developer contributions, if any, as required by the TCEQ. The District's Engineer estimates that the \$191,400,000 authorized bonds which remain unissued will be sufficient to provide utility service to the remaining undeveloped but developable acres (approximately 288 acres) within the District. See "THE BONDS - Issuance of Additional Debt." However, the District makes no representation that any future development will occur.

THE DEVELOPER

General

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

Description of Developer

The developer currently active within the District is Mischer Development, LP ("Mischer" or the "Developer"), a Texas Limited Partnership. Mischer has advanced funds to pay for the installation of water, wastewater, and drainage facilities and parks and recreational facilities in the District. A portion of the proceeds of the Bonds will be used to reimburse Mischer for a portion of the funds it has advanced. After receiving proceeds from the Bonds, the District will continue to owe Mischer approximately \$17,220,000 plus interest, which the District intends to pay out of future bond issuances. See "INVESTMENT CONSIDERATIONS – Future Debt."

Mischer Development, L.P.

As of January 1, 2014, all of the land being developed in the District was owned by Mischer Development, L.P. ("Mischer"). Mischer is composed of Mischer Investments, L.P., a Texas Limited Partnership ("Investments") (owning a 99% limited partner interest) and Mischer Management, L.L.C., a Texas Limited Liability Company ("Management") (owning a 1% general partner interest). Mary A. Mischer, Walter M. Mischer, Jr., and Paula Mischer are the sole members of Management. The ownership of Investments is held by members of the Mischer family.

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

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

THE SYSTEM

Regulation

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

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

Water Supply and Distribution

The District owns and operates water plant No. 1, located within the District. According to the terms of a contractual agreement between the District and Harris County Municipal Utility District No. 374 (“HCMUD374”) (the “374 Agreement”), HCMUD 374 financed a portion of water plant No. 1 and a 1,000 gallons per minute (“gpm”) water well located in the District. The District has ownership rights to 304 living-unit-equivalents (“LUE’s”) and HCMUD374 has ownership rights to 1,363 LUE’s from the water plant. In addition, the District, as of May 31, 2013, also receives surface water from the West Harris County Regional Authority. See “THE SYSTEM – Subsidence and Conversion to Surface Water Supply” below. According to the Engineer, the water plant, water well and surface water currently has a combined capacity of 1,113 gpm sufficient to serve 492 LUE’s.

Subsidence and Conversion to Surface Water Supply

The District is within the boundaries of the Harris Galveston Subsidence District (the “Subsidence District”) which regulates groundwater withdrawal. The Subsidence District has adopted regulations requiring reduction of groundwater withdrawals through conversion to alternate source water (e.g., surface water) in certain areas within the Subsidence District’s jurisdiction, including the area within the District. In 2001, the Texas legislature created the West Harris County Regional Water Authority (“Authority”) to, among other things, reduce groundwater usage in, and to provide surface water to, the western portion of Harris County and a small portion of Fort Bend County. The District is located within the boundaries of the Authority. The Authority has entered into a Water Supply Contract with the City of Houston, Texas (“Houston”) to obtain treated surface water from Houston. The Authority has developed a groundwater reduction plan (“GRP”) and obtained Subsidence District approval of its GRP. The Authority’s GRP sets forth the Authority’s plan to comply with Subsidence District regulations, construct surface water facilities, and convert users from groundwater to alternate source water (e.g., surface water). The District’s groundwater well(s) are included within the Authority’s GRP.

The District’s authority to pump groundwater is subject to an annual permit issued by the Subsidence District to the Authority, which permit includes all groundwater wells that are included in the Authority’s GRP. The Authority, among other powers, has the power to: (i) issue debt supported by the revenues pledged for the payment of its obligations; (ii) establish fees (including fees to be paid by the District for groundwater pumped by the District or for surface water received by the District from the Authority), user fees, rates, charges and special assessments as necessary to accomplish its purposes; and (iii) mandate water users, including the District, to convert from groundwater to surface water. The Authority currently charges the District, and other major groundwater users, a fee per 1,000 gallons based on the amount of groundwater pumped by the District and the amount of surface water, if any, received by the District from the Authority. The Authority has issued revenue bonds to fund, among other things, Authority surface water project costs. It is expected that the Authority will continue to issue a substantial amount of bonds by the year 2035 to finance the Authority’s project costs, and it is expected that the fees 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 District currently owns and operates a 150,000 gpd wastewater treatment plant. This plant has available capacity to serve 476 LUE’s.

100-Year Flood Plain

Approximately 4.21 acres of the District are located within the boundary of the 100-year Flood Plan for Cypress Creek as defined by FEMA Map Number 48201C0405L and 48201C0415L, Harris County Unincorporated Data, dated June 18, 2007. The 4.21 acres located in the 100-year Flood Plain are located at the southwest corner of the property belonging to the Metropolitan Baptist Church. No lots are developed nor are any expected to be developed on the 4.21 acres that are located within the boundary of the 100-year Flood Plain.

Water and Wastewater Operations

Rate and Fee Schedule - Table 1

The Board of Directors of the District establishes rates and fees for water and sewer service. The rates are subject to change from time to time. The following rates were approved on November 13, 2013.

Water (monthly billings)

<i>Residential (Single-Family):</i>	
First 5,000 gallons of water used.....	\$8.00 (minimum)
5,000 – 10,000 gallons of water used.....	\$1.75 per 1,000 gallons
10,001 – 20,000 gallons of water used.....	\$2.00 per 1,000 gallons
In excess of 20,001 gallons of water used.....	\$2.50 per 1,000 gallons

Commercial and Recreational Facilities.....\$1.55 per 1,000 gallons (\$10.00 minimum)

Sewer (monthly billings)

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

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

Tap Fees:

Water:

<i>Single-Family:</i>	
¾" or 5/8"	\$850
1"	\$1,500

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

Wastewater:

Residential \$100

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

Miscellaneous:

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

Operating Revenues and Expenses Statement - Table 2

The following statement sets forth in condensed form the historical operations of the District. 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."

	Budget	Fiscal Year Ended		
	8/31/14 ^(a)	8/31/13 ^(b)	8/31/12 ^(b)	8/31/11 ^(b)
REVENUES				
Water Service	\$ 111,936	\$ 94,940	\$ 663	\$ -
Sewer Service	119,918	45,449	216	-
Property Taxes	535,000	117,658	52,471	-
Penalties and Interest	900	2,529	971	-
Tap Connection and Inspection	338,400	378,685	56,750	-
Surface Water	169,211	105,727	522	-
Miscellaneous	875	3,017	11	-
TOTAL REVENUES	\$ 1,276,240	\$ 748,005	\$ 111,604	\$ -
EXPENDITURES				
Water/Wastewater Purchases	\$ 226,624	\$ 137,437	\$ -	\$ -
Legal Fees	58,000	62,461	63,598	25,555
Audit Fees	10,000	9,500	9,500	-
Engineering Fees	25,200	227	220	441
Bookkeeping Fees	13,200	15,974	11,829	2,200
Operator Fees	32,148	13,795	1,986	156
Financial Advisor Fees	1,560	-	-	-
Garbage Collection	72,540	19,918	-	-
Security Service	65,320	47,966	-	-
Sludge and Waste Disposal	14,000	-	-	-
Tap Connection and Inspection	144,240	164,885	27,242	-
Tax Assessor/Collector	7,200	6,000	5,000	-
Appraisal District	800	788	285	-
Repairs and Maintenance	125,720	343,642	43,078	1,772
Utilities	12,000	3,239	-	-
Director Fees	9,720	6,150	6,900	1,050
Printing and Office Supplies	4,800	6,161	4,111	797
Insurance	5,000	3,911	3,182	-
Other	7,700	3,907	5,845	163
Capital Outlay	-	-	60,798	-
TOTAL EXPENDITURES	\$ 835,772	\$ 845,961	\$ 243,574	\$ 32,134
NET REVENUE / (DEFICIT)	\$ 440,468	\$ (97,956)	\$ (131,970)	\$ (32,134)
Beginning Fund Balance	\$ (149,615)	\$ (34,959)	\$ (15,989)	\$ 16,145
Plus / (Less): Fund Transfers	-	(16,700)	113,000	-
Ending Fund Balance	\$ 290,853	\$ (149,615)	\$ (34,959)	\$ (15,989)

(a) Budget - preliminary; subject to change.

(b) Audited.

DEBT SERVICE REQUIREMENTS - TABLE 3

Harris County Municipal Utility District No. 433

\$8,600,000

Unlimited Tax Bonds, Series 2014

Dated Date: April 1, 2014

First Interest Payment Due: September 1, 2014

Year Ending 31-Dec	Principal (Due 9/01)	The Bonds			Principal and Interest	Total Debt Service Requirements
		Interest		Total		
		(Due 3/01)	(Due 9/01)			
2014	\$ 100,000	\$ -	\$ 137,563	\$ 137,563	\$ 237,563	\$ 237,563
2015	125,000	163,825	163,825	327,650	452,650	452,650
2016	125,000	162,263	162,263	324,525	449,525	449,525
2017	150,000	160,700	160,700	321,400	471,400	471,400
2018	150,000	158,825	158,825	317,650	467,650	467,650
2019	175,000	156,950	156,950	313,900	488,900	488,900
2020	175,000	154,763	154,763	309,525	484,525	484,525
2021	200,000	152,575	152,575	305,150	505,150	505,150
2022	225,000	149,825	149,825	299,650	524,650	524,650
2023	250,000	146,450	146,450	292,900	542,900	542,900
2024	275,000	142,450	142,450	284,900	559,900	559,900
2025	300,000	137,913	137,913	275,825	575,825	575,825
2026	325,000	132,813	132,813	265,625	590,625	590,625
2027	350,000	127,125	127,125	254,250	604,250	604,250
2028	375,000	120,650	120,650	241,300	616,300	616,300
2029	400,000	113,431	113,431	226,863	626,863	626,863
2030	425,000	105,431	105,431	210,863	635,863	635,863
2031	450,000	96,719	96,719	193,438	643,438	643,438
2032	475,000	87,438	87,438	174,875	649,875	649,875
2033	500,000	77,344	77,344	154,688	654,688	654,688
2034	550,000	66,719	66,719	133,438	683,438	683,438
2035	600,000	54,688	54,688	109,375	709,375	709,375
2036	625,000	41,563	41,563	83,125	708,125	708,125
2037	625,000	27,891	27,891	55,781	680,781	680,781
2038	650,000	14,219	14,219	28,438	678,438	678,438
	\$ 8,600,000	\$ 2,752,566	\$ 2,890,128	\$ 5,642,694	\$ 14,242,694	\$ 14,242,694

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FINANCIAL STATEMENT
(Unaudited as of April 1, 2014)

Assessed Value - Table 4

2013 Certified Assessed Valuation	\$ 35,650,353 ^(a)
Estimated Assessed Valuation as of January 1, 2014	\$ 116,329,649 ^(b)
Gross Debt Outstanding (after the issuance of the Bonds)	\$ 8,600,000 ^(c)
Ratio of Gross Debt to 2013 Certified Assessed Valuation	24.12%
Ratio of Gross Debt to Estimated Assessed Valuation as of January 1, 2014	7.39%
2013 Tax Rate	
Debt Service	\$ -
Maintenance	1.2000
Total 2013 Tax Rate	\$ 1.2000 ^(d)
Bond Fund Balance (after the issuance of the Bonds)	\$ 735,671 ^(e)
Estimated Population as of March 1, 2014	1,225 ^(f)

Area of District: 797.21 acres

- (a) Certified assessed valuation of the District as of January 1, 2013, as provided by the Harris County Appraisal District ("HCAD"). See "TAXING PROCEDURES."
- (b) Estimated assessed valuation as of January 1, 2014, as provided by HCAD, is included solely for purposes of illustration. No tax will be levied on such amount unless it is certified by HCAD. The taxable value as of January 1, 2014 received from HCAD was \$122,049,233 but included \$4,356,000 in assessed taxable value attributed to the Metropolitan Baptist Church, which value will become tax exempt beginning in calendar year 2014; an additional \$1,363,584 of taxable value was reduced on the Cypress Creek Lakes South Residential POA. See "TAXING PROCEDURES."
- (c) The Bonds.
- (d) The District levied a 2013 maintenance only tax rate of \$1.20. The District anticipates levying a debt service tax beginning in 2014.
- (e) Represents approximately twenty-four months of capitalized interest to be deposited into the Bond Fund at closing from the proceeds of the Bonds. Neither Texas Law nor the Bond Order requires that the District maintain any particular sum in the District's Bond Fund.
- (f) Based upon 3.5 residents per completed and occupied single family home.

Unlimited Tax Bonds Authorized but Unissued - Table 5

Date of Authorization	Purpose	Amount Authorized ^(a)	Issued to Date	Unissued
11/8/2011	Water, Wastewater & Drainage	\$ 200,000,000	\$ 8,600,000 ^(b)	\$ 191,400,000
11/8/2011	Park & Recreational Facilities	20,000,000	-	20,000,000
11/8/2011	Road Facilities	15,000,000	-	15,000,000

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

Outstanding Bonds - Table 6

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

(a) The Bonds.

Cash and Investment Balances - Table 7

General Fund	\$ 300,841 ^(a)
Bond Fund	735,671 ^(b)

(a) Unaudited as of April 9, 2014

(b) Represents approximately twenty-four months of capitalized interest to be deposited into the Bond Fund at closing from the proceeds of the Bonds. Neither Texas Law nor the Bond Order requires that the District maintain any particular sum in the District's Bond Fund.

Investment Authority and Investment Practices of the District

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

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

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

Board of Directors but any such changes must comply with Chapter 2256, Texas Government Code, the Public Funds Investment Act.

Under Texas law, the District's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment considering the probable safety of capital and the probable income to be derived." At least quarterly the District's investment officers must submit an investment report to the Board of Directors detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, and any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategies and (b) Texas law. No person may invest District funds without express written authority from the Board of Directors.

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

Current Investments - Table 8

As of April 9, 2014, the District did not have any funds invested.

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Estimated Overlapping Debt Statement

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

Taxing Body	Gross Debt		% of Overlapping Net Debt	Amount of Overlapping Net Debt
	Amount	As of		
Harris County	\$ 2,088,615,319	3/1/2014	0.011%	\$ 235,510
Harris County Department of Education	7,605,000	3/1/2014	0.011%	857
Harris County Flood Control District	91,076,282	3/1/2014	0.012%	10,636
Harris County Toll Road ^(a)	-	3/1/2014	0.000%	-
Harris County ESD No. 9 ^(b)	-	3/1/2014	0.000%	-
Port of Houston Authority	687,053,397	3/1/2014	0.014%	97,753
Lone Star College System	452,277,583	3/1/2014	0.027%	123,498
Cypress Fairbanks Independent School District	1,843,918,376	3/1/2014	0.100%	1,849,053
TOTAL ESTIMATED OVERLAPPING DEBT				\$ 2,317,307
The District ^(c)	\$ 8,600,000	4/1/2014	100.000%	\$ 8,600,000
TOTAL ESTIMATED DIRECT AND OVERLAPPING DEBT				\$ 10,917,307
Ratio of Estimated and Overlapping Debt to 2013 Certified Assessed Valuation				30.62%
Ratio of Estimated and Overlapping Debt to Estimated Assessed Valuation as of January 1, 2014				9.38%

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

(b) Taxing jurisdiction with no outstanding debt.

(c) The Bonds.

Overlapping Taxes for 2013

Overlapping Entity	2013 Tax Rate Per		Average Tax Bill ^(a)
	\$100 Assessed Valuation	Harris County	
Harris County	\$0.414550		\$ 1,105
Harris County Department of Education	0.006358		17
Harris County Flood Control District	0.028270		75
Harris County Toll Road ^(b)	-		-
Harris County ESD No. 9	0.060000		160
Port of Houston Authority	0.017160		46
Lone Star College System	0.116000		309
Cypress Fairbanks Independent School District	1.450000		3,867
The District	<u>1.200000</u>		<u>3,200</u>
Total	\$3.292338		\$ 8,780

(a) Based upon the 2013 average single family home value of \$266,666, 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	2013		2012		2011	
	Amount	%	Amount	%	Amount	%
Land Value	\$ 23,475,957	67.59%	\$ 4,551,644	77.16%	\$ 4,551,644	104.10%
Ag Deferred Value	4,734	0.01%	1,543,383	26.16%	116,692	2.67%
Improvement Value	11,619,316	33.46%	-	0.00%	-	0.00%
Personal Value	286,979	0.83%	99,840	1.69%	-	0.00%
Auto/Other Value	-	0.00%	-	0.00%	-	0.00%
Exemptions	(655,886)	-1.89%	(295,794)	-5.01%	(295,794)	-6.76%
Total	\$ 34,731,100	100.00%	\$ 5,899,073	100.00%	\$ 4,372,542	100.00%

Tax Collections - Table 10

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

Tax Year	Assessed Valuation	Tax Rate	Tax Levy	Current Collections		Total Collections		Year Ending
				Amount	%	Amount	%	
2011	\$ 4,372,542	\$1.2000	\$ 52,471	\$ 52,471	100.00%	\$ 52,471	100.00%	8/31/2012 ^(a)
2012	5,899,073	1.2000	70,789	70,789	100.00%	70,789	100.00%	8/31/2013 ^(a)
2013	35,650,353	1.2000	427,649	363,617	85.03%	363,617	85.03%	8/31/2014 ^(b)

(a) Audited.

(b) In process of collection. Unaudited as of January 31, 2014. Taxes were due January 31, 2014.

District Tax Rates - Table 11

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

Tax Rate Limitation

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

Maintenance Tax

The District has statutory authority to levy and collect an annual ad valorem tax for maintaining, repairing and operating the District's facilities and for paying for administrative expenses of the District, if such maintenance tax is authorized by the Districts' voters. An election for such tax was held on May 13, 2006 at which time a maintenance tax not to exceed \$1.50 per \$100 assessed valuation was approved by the District's voters. The District levied a 2013 maintenance tax of \$1.20.

Principal Taxpayers - Table 12

The following list of principal taxpayers was provided by the District's Tax Assessor/Collector based on the 2013, 2012 and 2011 tax rolls of the District, which reflect ownership as of January 1, of each year shown.

Name	Type of Property	2013	2012	2011
Metropolitan Baptist Church ^(b)	Church	\$ 4,356,000	\$ 4,247,100	\$ 4,247,100
HEB Grocery Company LP	Land Value	3,998,808	(a)	(a)
Darling Homes of Texas LLC	Land and Improvements	1,863,588	(a)	(a)
Mischer Development LP	Land and Improvements	1,424,980	1,479,757	50,423
Cypress Creek Lakes South	Land and Improvements	1,378,223	(a)	(a)
Perry Homes	Land and Improvements	1,225,381	(a)	(a)
Lennar Homes of Texas	Land and Improvements	1,180,204	(a)	(a)
Lennar Homes of Texas Land	Land and Improvements	1,122,481	(a)	(a)
Ashton Houston Residential LLC	Land and Improvements	938,825	(a)	(a)
Taylor Morrison of Texas Inc.	Land and Improvements	921,901	(a)	(a)
Trunkline Gas Company	Personal Property	(a)	98,130	(a)
Mischer Investments LP	Land	(a)	63,626	66,269
Individual Landowners	Land	(a)	8,750	8,750
Centerpoint Energy	Personal Property	(a)	1,710	(a)
Total		<u>\$ 18,410,391</u>	<u>\$ 5,899,073</u>	<u>\$ 4,372,542</u>
Percent of Assessed Valuation		51.64%	100.00%	100.00%

(a) Not a principal taxpayer for respective year.

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

Tax Adequacy for Debt Service

The calculations shown below assume, solely for purposes of illustration, no increase or decrease in assessed valuation from the 2013 Certified Assessed Valuation and the Estimated Assessed Valuation as of January 1, 2014, 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 - Impact on District Tax Rates."

Average Requirement on the Bonds (2015 through 2038).....	\$583,547
\$1.73 Tax Rate on 2013 Certified Assessed Valuation of \$35,650,353 @ 95% collections produces	\$585,914
\$0.53 Tax Rate on Estimated Assessed Valuation as of January 1, 2014 of \$116,329,649 @ 95% collections produces	\$585,720
Maximum Requirement on the Bonds (2035).....	\$709,375
\$2.10 Tax Rate on 2013 Certified Assessed Valuation of \$35,650,353 @ 95% collections produces	\$711,225
\$0.65 Tax Rate on Estimated Assessed Valuation as of January 1, 2014 of \$116,329,649 @ 95% collections produces	\$718,336

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Bond Fund Management Index

Debt Service Requirements for year ending 12/31/14	\$237,563 ^(a)
Capitalized Interest included in the proceeds of the Bonds	\$735,671 ^(b)
Total Available for Debt Service	<u>\$735,671</u>
Projected Bond Fund Balance as of September 30, 2014	\$498,108

(a) Interest requirements on the Bonds begin September 1, 2014.

(b) Represents approximately two years of capitalized interest to be deposited into the Bond Fund from proceeds of the Bonds at closing.

TAXING PROCEDURES

Authority to Levy Taxes

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

Property Tax Code and County-Wide Appraisal District

The Texas Property Tax Code (the "Property Tax Code") 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 herein.

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 the county and an appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. The Harris County Appraisal District (the "HCAD") 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"). The appraisal roll as approved by the Appraisal Review Board must be used by the District in establishing its tax roll and tax rate.

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, if approved by the Board or at an election called by the Board upon petition of at least 20% of the number of qualified voters who voted in the District's preceding election, are residence homesteads of certain persons who are disabled or at least 65 years old of \$10,000 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 Exemption: 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.

Goods-in-Transit: Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of “goods-in-transit.” “Goods-in-transit” is defined by a provision of the Tax Code, which is effective for tax years 2008 and thereafter, as personal property acquired or imported into Texas and transported to another location in the State or outside the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. The Tax Code provisions permit local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax goods-in-transit during the following tax year. A taxpayer may receive only one of the Freeport exemptions or the goods-in-transit exemptions for items of personal property. The District has taken action to tax goods-in-transit.

Tax Abatement

Harris County or the City of Houston may designate all or part of the area within the District as a reinvestment zone. Thereafter, Harris County, the City of Houston (after annexation of the District), the Cypress-Fairbanks Independent School District, or the District, at the option and discretion of each entity, may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the District, for a period of up to ten (10) years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with the terms of the agreement. Effective September 1, 1999, the terms of the tax abatement agreements of the taxing jurisdiction are not required to be identical.

Valuation of Property for Taxation

Generally, 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.

Nevertheless, certain land may be appraised at less than market value under the Property Tax Code. In November 1997, Texas voters approved a constitutional amendment to limit increases in the appraised value of residence homesteads to ten percent (10%) annually regardless of the market value of the property. The Property Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its fair market value. The Property Tax Code permits under certain circumstances that residential real property inventory held by a person in the trade or business be valued at the price that such property would bring if sold as a unit to a purchaser who would continue the business. Provisions of the Property Tax Code are complex and are not fully summarized here. Landowners wishing to avail themselves of the agricultural use, open space or timberland designation, or residential real property inventory designation must apply for the designation and the appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions while claiming it as to another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous three 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 HCAD 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 resolutions 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 such functions to another governmental entity. The rate of taxation is set by the Board of Directors, after the legally required notice has been given to owners of property within the District, based upon: a) the valuation of property within the District as of the preceding January 1, and b) the amount required to be raised for debt service, maintenance purposes and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent if not paid before February 1 of the year following the year in which imposed. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. A delinquent tax on personal property incurs an additional penalty, in an amount established by the District and a delinquent tax attorney, 60 days after the date the taxes become delinquent. Those taxes billed at a later date that become delinquent on or after June 1 will also incur an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. The delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment, and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, may be rejected.

Rollback of Operation and Maintenance Tax Rate

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

District's Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property on January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State of Texas and each local taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of such other taxing units. See "TAX DATA - Estimated Overlapping Debt Statement - Overlapping Taxes for 2013." A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

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

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LEGAL MATTERS

Legal Opinions

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

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

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

No-Litigation Certificate

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

No Material Adverse Change

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

TAX MATTERS

Tax Exemption

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

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

In rendering the foregoing opinions, Bond Counsel will rely upon representations and certifications of the District made in a certificate dated the date of delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance by the District with the provisions of the Bond Order subsequent to the issuance of the Bonds. The Bond Order contains covenants by the District with respect to, among other matters, the use of the proceeds of the Bonds and the facilities financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage "profits" from the investment of proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the District described above. No ruling has been sought from the Internal Revenue Service (the "IRS") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on tax-

exempt obligations. If an audit of the Bonds is commenced, under current procedures the IRS is likely to treat the District as the "taxpayer," and the owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the District may have different or conflicting interests from the owners of the Bonds. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

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

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

Tax Accounting Treatment of Discount and Premium on Certain Bonds

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

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

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

The initial public offering price of certain Bonds (the "Premium Bonds") is greater than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity.

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

CONTINUING DISCLOSURE OF INFORMATION

In the Bond Order, the District has the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified 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. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement under Tables 1 through 12 and in Appendix A. The District will update and provide this information within six months after the end of each fiscal year. The District will provide the updated information to the MSRB.

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

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

Notice of Certain Events

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

The District will also provide notice to the MSRB of any of the following events with respect to the Bonds without regard to whether such event is considered material within the meaning of the federal securities laws: (i) principal and interest payment delinquencies; (ii) unscheduled draws on debt service reserves reflecting financial difficulties; (iii) unscheduled draws on credit enhancements reflecting financial difficulties; (iv) substitution of credit or liquidity providers, or their failure to perform; (v) adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other events affecting the tax-exempt status of the Bonds; (vi) tender offers; (vii) defeasances; (viii) rating changes; and (ix) bankruptcy, insolvency, receivership or similar event of the District (which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District).

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

Availability of Information from MSRB

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

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

Limitations and Amendments

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

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

Compliance with Prior Undertakings

The Bonds represent the initial installment of bonds issued by the District; therefore, the District has not previously had to comply with any continuing disclosure undertaking in accordance with SEC Rule 15c2-12.

FINANCIAL ADVISOR

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

OFFICIAL STATEMENT

Preparation

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

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

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

Consultants

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

The Engineer: The information contained in the Official Statement relating to engineering matters and to the description of the System and, in particular, that information included in the sections entitled "THE DISTRICT" and "THE SYSTEM," has been provided by Brown & Gay Engineers, Inc. and has been included in reliance upon the authority of said firm as experts in the field of civil engineering.

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

Auditor: The District's 2013 financial statements were audited by McGrath & Co., PLLC, and excerpts of the District's Audited Financial Statements as of August 31, 2013, have been included as Appendix A in reliance upon such firm's authority in the field of accounting

Updating the Official Statement during Underwriting Period

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

Certification as to Official Statement

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

Annual Audits

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

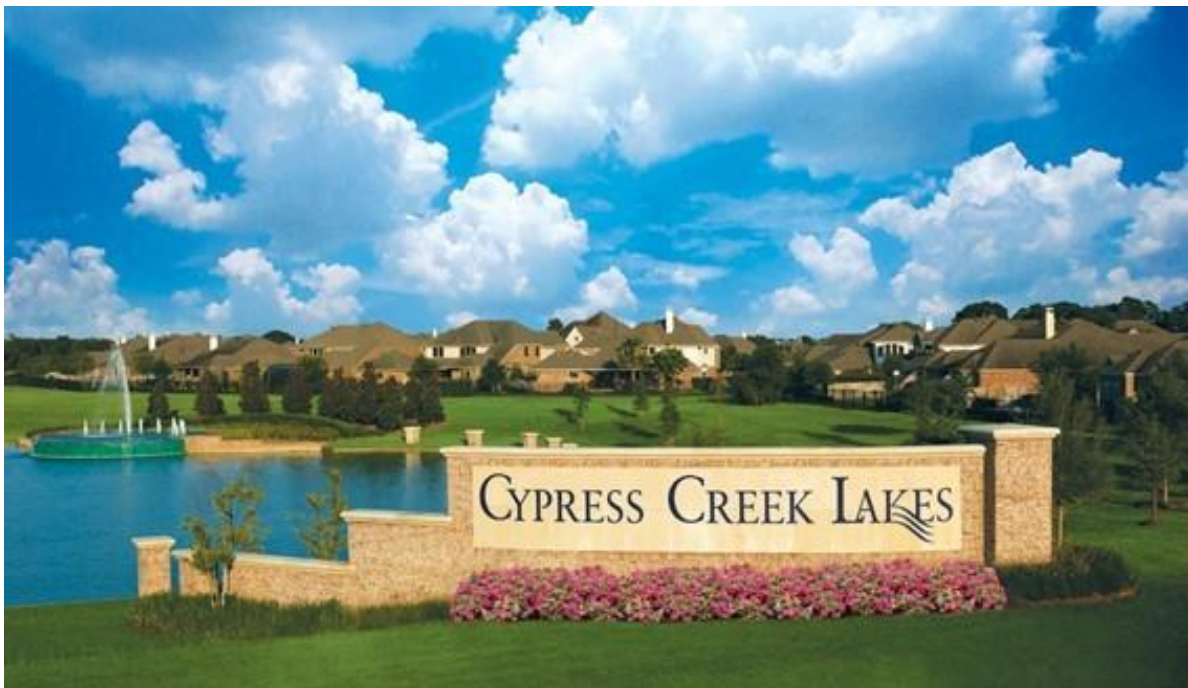
This Official Statement was approved by the Board of Directors of Harris County Municipal Utility District No. 433, as of the date shown on the first page hereof.

PHOTOGRAPHS

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







APPENDIX A

The information contained in this appendix include the audited financial statement of Harris County Municipal Utility District No. 433 for the fiscal year ended August 31, 2013.

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

HARRIS COUNTY, TEXAS

FINANCIAL REPORT

August 31, 2013

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Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities and each major fund of Harris County Municipal Utility District No. 433, as of and for the year ended August 31, 2013, which collectively comprise the basic financial statements as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Harris County Municipal Utility District No. 433, as of August 31, 2013, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the District adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Positions* as of August 31, 2013. Our opinion is not modified with respect to this matter.

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, 2013

Management's Discussion and Analysis

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***Harris County Municipal Utility District No. 433
Management's Discussion and Analysis
August 31, 2013***

Using this Annual Report

Within this section of the financial report of Harris County Municipal Utility District No. 433 (the "District"), the District's Board of Directors provides a narrative discussion and analysis of the financial activities of the District for the fiscal year ended August 31, 2013. 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).

Implementation of New Accounting Pronouncements

During the current fiscal year, the District implemented Governmental Accounting Standards Board (GASB) Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. In the past, financial statement preparers of governmental entities had to consult a variety of resources to determine relevant GAAP in certain circumstances. GASB 62 simplifies this research by codifying relevant FASB and AICPA guidance in one standard. The implementation of GASB 62 has no effect on the District's financial statements.

The District also implemented GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB 63 adds the new financial statement elements, "deferred inflows of financial resources" and "deferred outflows of financial resources," to the statement of financial position and reports "net position" instead of "net assets." A deferred outflow is the consumption of resources in one period that is applicable to a future period, while a deferred inflow is the acquisition of resources in one period that is applicable to a future period.

The District elected to early implement GASB Statement 65, *Items Previously Reported as Assets and Liabilities* in fiscal year 2013. As discussed in the preceding paragraph, GASB 63 added new elements to the statements of financial position; however, guidance was needed to identify which balances should be reported as deferred inflows of resources or deferred outflows of resources. The implementation of GASB 65 has no effect on the District's financial statements.

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*

***Harris County Municipal Utility District No. 433
Management's Discussion and Analysis
August 31, 2013***

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. 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

In the government-wide statements, net position is the residual of assets plus deferred outflows of resources less liabilities less deferred inflows of resources. The District's net position at August 31, 2013, was negative \$1,205,583.

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

Harris County Municipal Utility District No. 433
Management's Discussion and Analysis
August 31, 2013

A comparative summary of the District's overall financial position, as of August 31, 2013 and 2012, is as follows:

	2013	2012
Current and other assets	\$ 409,314	\$ 292,150
Capital assets	14,508,842	10,992,552
Total assets	<u>14,918,156</u>	<u>11,284,702</u>
Current liabilities	358,320	221,199
Long-term liabilities	15,765,419	11,908,286
Total liabilities	<u>16,123,739</u>	<u>12,129,485</u>
Net position		
Net investment in capital assets	(254,953)	(30,150)
Restricted for joint water plant operations	84,569	105,910
Unrestricted	(1,035,199)	(920,543)
Total net position	<u>\$ (1,205,583)</u>	<u>\$ (844,783)</u>

The total net position of the District decreased by \$360,800. A comparative summary of the District's *Statement of Activities* for the past two years is as follows:

	2013	2012
Revenues		
Property taxes, penalties and interest	\$ 97,469	\$ 53,442
Water and sewer	140,389	879
Water supply	673,404	670,904
Other	510,147	57,283
Total revenues	<u>1,421,409</u>	<u>782,508</u>
Expenses		
Current service operations	1,575,706	747,770
Depreciation	206,503	122,423
Total expenses	<u>1,782,209</u>	<u>870,193</u>
Change in net position	(360,800)	(87,685)
Net position, beginning of year	(844,783)	(757,098)
Net position, end of year	<u>\$ (1,205,583)</u>	<u>\$ (844,783)</u>

Financial Analysis of the District's Funds

The District's combined fund balances, as of August 31, 2013, were negative \$65,046, which consists of negative \$149,615 in the General Fund and \$84,569 in the Special Revenue Fund.

***Harris County Municipal Utility District No. 433
Management's Discussion and Analysis
August 31, 2013***

General Fund

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

	2013	2012
Total assets	<u>\$ 166,359</u>	<u>\$ 76,867</u>
Total liabilities	\$ 315,974	\$ 111,826
Total fund balance	<u>(149,615)</u>	<u>(34,959)</u>
Total liabilities and fund balance	<u>\$ 166,359</u>	<u>\$ 76,867</u>
Total revenues	\$ 748,005	\$ 111,604
Total expenditures	<u>(845,961)</u>	<u>(243,574)</u>
Revenues under expenditures	(97,956)	(131,970)
Net other items/financing uses	<u>(16,700)</u>	<u>113,000</u>
Net change in fund balance	<u>\$ (114,656)</u>	<u>\$ (18,970)</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 current and prior year, the District's actual revenues and expenditures did not meet budget projections and, as a result, fund balance in the General Fund for the current year and prior year has decreased.

Special Revenue Fund

Changes in the Special Revenue Fund for the current and previous fiscal year are as follows:

	2013	2012
Total assets	<u>\$ 242,955</u>	<u>\$ 215,283</u>
Total liabilities	\$ 158,386	\$ 109,373
Total fund balance	<u>84,569</u>	<u>105,910</u>
Total liabilities and fund balance	<u>\$ 242,955</u>	<u>\$ 215,283</u>
Total revenues	\$ 673,404	\$ 670,904
Total expenditures	<u>(729,745)</u>	<u>(564,994)</u>
Revenues over/(under) expenditures	(56,341)	105,910
Total other financing sources	<u>35,000</u>	<u></u>
Net change in fund balance	<u>\$ (21,341)</u>	<u>\$ 105,910</u>

Revenues in the Special Revenue Fund consist of charges to participants. Since these charges are based on the actual cost of providing services to participants, this fund will typically not have a fund balance. In the previous fiscal year, however, the District provided water supply services to a non-participant entity pursuant to an emergency water supply contract. The revenues from these services resulted in fund balance. Payment by the entity for these services will be credited to the participants, which will eventually eliminate the related fund balance.

Harris County Municipal Utility District No. 433
Management's Discussion and Analysis
August 31, 2013

Additionally, the \$35,000 operating reserve paid by the General Fund is included in fund balance.

General Fund Budgetary Highlights

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

Since the District's budget is primarily a planning tool, actual results varied from the budgeted amounts. Actual net change in fund balance was \$141,487 less than budgeted. The *Budgetary Comparison Schedule* on page 26 of this report provides variance information per financial statement line item.

Capital Assets

Capital assets held by the District at August 31, 2013 and 2012 are summarized as follows:

	2013	2012
Capital assets not being depreciated		
Land and improvements	\$ 5,638,525	\$ 5,638,525
Construction in progress		60,798
	<u>5,638,525</u>	<u>5,699,323</u>
Capital assets being depreciated		
Infrastructure	9,292,673	5,509,082
Less accumulated depreciation	<u>(422,356)</u>	<u>(215,853)</u>
Depreciable capital assets, net	<u>8,870,317</u>	<u>5,293,229</u>
Capital assets, net	<u>\$ 14,508,842</u>	<u>\$ 10,992,552</u>

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

- Cypress Creek Lakes, sections 11 and 13 – water, reclaimed water, sanitary sewer and drainage facilities
- Cypress Creek Lakes, section 12 – drainage facilities
- Cypress Creek Bend/Sawdust Creek phase 2 - water, reclaimed water, sanitary sewer and drainage facilities
- Cypress Creek Drive/Sawmill Creek Drive - reclaimed water distribution and sanitary sewer facilities
- Water Plant disinfection modifications
- Wastewater Treatment Plant, phase 1

As discussed in Note 5, the District has contractual commitments in the amount of \$2,492,570 for construction of water, sewer and drainage facilities. The District will owe its developers for these projects upon completion of construction.

***Harris County Municipal Utility District No. 433
Management's Discussion and Analysis
August 31, 2013***

Long-Term Debt

At August 31, 2013, the District had \$200,000,000 unlimited tax bonds authorized, but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District; \$20,000,000 for parks and recreational facilities and \$15,000,000 for road improvements.

Next Year's Budget

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

	<u>2013 Actual</u>	<u>2014 Budget</u>
Total revenues	\$ 748,005	\$ 1,276,240
Total expenditures	<u>(845,961)</u>	<u>(833,412)</u>
Revenues over/(under) expenditures	(97,956)	442,828
Net other items/financing uses	<u>(16,700)</u>	
Net change in fund balance	(114,656)	442,828
Beginning fund balance	<u>(34,959)</u>	<u>(149,615)</u>
Ending fund balance	<u><u>\$ (149,615)</u></u>	<u><u>\$ 293,213</u></u>

Property Taxes

The District's property tax base increased approximately \$28,832,000 for the 2013 tax year from \$5,899,073 to \$34,731,100. This increase was primarily due to new construction in the District. For the 2013 tax year, the District has levied a maintenance tax rate of \$1.20 per \$100 of assessed value. This is the same rate levied for the current fiscal year.

Basic Financial Statements

Harris County Municipal Utility District No. 433
Statement of Net Position and Governmental Funds Balance Sheet
August 31, 2013

	General Fund	Special Revenue Fund	Total	Adjustments	Statement of Net Position
Assets					
Cash	\$ 112,142	\$ 92,274	\$ 204,416	\$ -	\$ 204,416
Due from other districts		111,082	111,082		111,082
Customer service receivables	93,816		93,816		93,816
Internal balances	(39,599)	39,599			
Capital assets not being depreciated				5,638,525	5,638,525
Capital assets, net of depreciation				8,870,317	8,870,317
Total Assets	\$ 166,359	\$ 242,955	\$ 409,314	14,508,842	14,918,156
Liabilities					
Accounts payable	\$ 241,707	\$ 116,613	\$ 358,320		358,320
Other payables	1,592		1,592		1,592
Due to other districts		6,773	6,773		6,773
Customer deposits	6,900		6,900		6,900
Builder deposits	4,000		4,000		4,000
Unearned revenue	61,775		61,775		61,775
Operating reserve		35,000	35,000		35,000
Due to developer				15,649,379	15,649,379
Total Liabilities	315,974	158,386	474,360	15,649,379	16,123,739
Fund Balances/Net Position					
Fund Balances					
Committed		84,569	84,569	(84,569)	
Unassigned	(149,615)		(149,615)	149,615	
Total Fund Balances	(149,615)	84,569	(65,046)	65,046	
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 166,359	\$ 242,955	\$ 409,314		
Net Position					
Net investment in capital assets				(254,953)	(254,953)
Restricted for joint water plant operations				84,569	84,569
Unrestricted				(1,035,199)	(1,035,199)
Total Net Position				\$ (1,205,583)	\$ (1,205,583)

See notes to basic financial statements.

Harris County Municipal Utility District No. 433

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

For the Year Ended August 31, 2013

	General Fund	Special Revenue Fund	Total	Adjustments	Statement of Activities
Revenues					
Water service	\$ 94,940	\$ -	\$ 94,940	\$ -	\$ 94,940
Sewer service	45,449		45,449		45,449
Water supply		673,404	673,404		673,404
Property taxes	117,658		117,658		117,658
Penalties and interest	2,529		2,529		2,529
Tap connection and inspection	378,685		378,685		378,685
Surface water	105,727		105,727		105,727
Miscellaneous	3,017		3,017		3,017
Total Revenues	748,005	673,404	1,421,409		1,421,409
Expenditures/Expenses					
Current service operations					
Purchased services	137,437		137,437		137,437
Professional fees	72,188	11,878	84,066		84,066
Contracted services	269,326	11,322	280,648		280,648
Repairs and maintenance	343,642	81,008	424,650		424,650
Utilities	3,239	64,409	67,648		67,648
Regional Water Authority fees		549,362	549,362		549,362
Administrative	18,985	11,766	30,751		30,751
Other	1,144		1,144		1,144
Depreciation				206,503	206,503
Total Expenditures/Expenses	845,961	729,745	1,575,706	206,503	1,782,209
Revenues Under Expenditures	(97,956)	(56,341)	(154,297)	154,297	
Other Financing Sources/(Uses)					
Internal transfers	(35,000)	35,000			
Other Items					
Capital costs paid by developer	18,300		18,300	(18,300)	
Net Change in Fund Balances	(114,656)	(21,341)	(135,997)	135,997	
Change in Net Position				(360,800)	(360,800)
Fund Balance/Net Position					
Beginning of the year	(34,959)	105,910	70,951	(915,734)	(844,783)
End of the year	\$ (149,615)	\$ 84,569	\$ (65,046)	\$ (1,140,537)	\$ (1,205,583)

See notes to basic financial statements.

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Harris County Municipal Utility District No. 433
Notes to Basic Financial Statements
August 31, 2013

Note 1 – Summary of Significant Accounting Policies

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

Creation

The District was established on July 13, 2011 through the consolidation of Harris County Municipal Utility District No. 433 (MUD 433), a separate entity from the District, and Harris County Municipal Utility District No. 435 (MUD 435). All rights, obligations and property of MUD 433 and MUD 435 were assumed by the District. The District operates in accordance with the Texas Water Code, Chapters 49 and 54 and held its first meeting on July 13, 2011.

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

Reporting Entity

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

Government-Wide and Fund Financial Statements

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

Fund financial statements display information at the individual fund level. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for a specific purpose. Each fund is considered to be a separate accounting entity. Most governments typically have many funds; however, governmental financial statements focus on the most important or “major” funds with non-major funds aggregated in a single column. The District has two governmental funds, which are both 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, tap connections and inspection fees and water and sewer service fees. Expenditures include costs associated with the daily operations of the District.
- The Special Revenue Fund is used to account to account for the operations of a joint water plant. The principal source of revenues is charges to the participating districts, which equal the costs of operating the plant.

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

Measurement Focus and Basis of Accounting

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

The fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized in the accounting period in which it becomes both available and measurable to finance expenditures of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Revenues susceptible to accrual include property taxes, interest earned on investments and income from District operations. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable.

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)

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, 2013, 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 water, wastewater and drainage facilities, are reported in the government-wide financial statements. The District defines capital assets as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of one year. Capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at the estimated fair market value at the date of donation. The District has not capitalized interest incurred during the construction of its capital assets.

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

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

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

Fund Balances – Governmental Funds

Governmental accounting standards establish the following fund balance classifications:

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

Note 1 – Summary of Significant Accounting Policies (continued)

Fund Balances – Governmental Funds (continued)

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments. The District does not have any restricted fund balances.

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

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

Unassigned - all other spendable amounts in the General Fund.

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses/expenditures during the period reported. These estimates include, among others, the collectibility of receivables; the 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. 433
Notes to Basic Financial Statements
August 31, 2013

Note 1 – Summary of Significant Accounting Policies (continued)

Recently Adopted Accounting Standards

In June 2011, the GASB issued Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. As a result of the implementation of GASB 63, the *Statement of Net Assets* has been renamed the *Statement of Net Position*. GASB 63 was issued to provide guidance on reporting deferred inflows of resources, deferred outflows of resources and net position in a statement of financial position. Deferred outflows and deferred inflows are the result of the consumption or acquisition, respectively, of net assets in one period that is applicable to future periods. The District adopted this statement for the 2013 fiscal year.

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	\$ (65,046)
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

Historical cost	\$ 14,931,198	
Less accumulated depreciation	<u>(422,356)</u>	
Change due to capital assets		14,508,842

Amounts due to the District's developer for prefunded construction and operating advances are recorded as a liability in the <i>Statement of Net Position</i> .	(15,649,379)
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Total net position - governmental activities	<u><u>\$ (1,205,583)</u></u>
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Harris County Municipal Utility District No. 433
Notes to Basic Financial Statements
August 31, 2013

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	\$ (135,997)
In the <i>Statement of Activities</i> , the cost of capital assets is charged to depreciation expense over the estimated useful life of the asset.	(206,503)
The elimination of retainage payable for capital costs paid by the developer provides financial resources in the funds; but increases the liability for due to developer in the government wide statements.	(18,300)
Change in net position of governmental activities	<u><u>\$ (360,800)</u></u>

Note 3 – Deposits and Investments

Deposit Custodial Credit Risk

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

Investments

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

Harris County Municipal Utility District No. 433
Notes to Basic Financial Statements
August 31, 2013

Note 3 – Deposits and Investments (continued)

Investments (continued)

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.

Note 4 – Capital Assets

A summary of changes in capital assets, for the year ended August 31, 2013, follows:

	Beginning Balances	Additions and Adjustments	Ending Balances
Capital assets not being depreciated			
Land	\$ 5,638,525	\$ -	\$ 5,638,525
Construction in progress	60,798	(60,798)	
	<u>\$ 5,699,323</u>	<u>\$ (60,798)</u>	<u>\$ 5,638,525</u>
Capital assets being depreciated			
Infrastructure	5,509,082	3,783,591	9,292,673
Less accumulated depreciation	(215,853)	(206,503)	(422,356)
Subtotal depreciable capital assets, net	<u>5,293,229</u>	<u>3,577,088</u>	<u>8,870,317</u>
Capital assets, net	<u>\$ 10,992,552</u>	<u>\$ 3,516,290</u>	<u>\$ 14,508,842</u>

Depreciation expense for the current year was \$206,503.

Note 5 – 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.

The District's developer has also advanced funds to the District for operating expenses.

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

Due to developer, beginning of year	\$ 11,908,286
New developer funded construction	<u>3,741,093</u>
Due to developer, end of year	<u>\$ 15,649,379</u>

Harris County Municipal Utility District No. 433
Notes to Basic Financial Statements
August 31, 2013

Note 5 – Due to Developer (continued)

In addition, the District will owe the developer approximately \$2,492,570, which is included in the following schedule of contractual commitments. The exact amount is not known until approved by the TCEQ and audited by the District's auditor. As previously noted, these projects will be reported in the government-wide financial statements upon completion of construction.

	Contract Amount	Amounts Paid	Remaining Commitment
	\$ 775,218	\$ 701,661	\$ 73,557
Cypress Creek Lakes Section 10 and Cypress Creek Bend/Sawmill Creek Drive, Phase 3 - utilities			
Cypress Creek Lakes, Section 14 - utilities	261,541		261,541
Cypress Creek Lakes, Section 16 - utilities	763,166		763,166
Cypress Creek Lakes, Section 18 - utilities	692,645	495,819	196,826
	<u>\$ 2,492,570</u>	<u>\$ 1,197,480</u>	<u>\$ 1,295,090</u>

Note 6 – Long-Term Debt

At August 31, 2013, the District had authorized but unissued bonds in the amount of \$200,000,000 for water, sewer and drainage facilities; \$20,000,000 for park and recreational facilities; and \$15,000,000 for road improvements.

Note 7 – Property Taxes

On May 14, 2011 the voters of the District authorized the District's Board of Directors to levy taxes annually for use in financing general operations limited to \$1.50 per \$100 of assessed value.

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 2013 fiscal year was financed through the 2012 tax levy. The District levied property taxes of \$1.20 per \$100 of assessed value which was allocated to maintenance and operations. The resulting tax levy was \$70,789 on the adjusted taxable value of \$5,899,073. The District also received rollback taxes of \$46,869 during the current year.

Note 8 – Water Supply Agreement

The District and Harris County Municipal Utility District No. 374 (“MUD 374”) are party to a water supply agreement, which establishes the terms and conditions under which the districts will allocate costs for the construction and operation of a water plant to serve the districts. The District shall hold legal title to the water plant and the water plant site for benefit of the participants. Each participating district shall have an undivided, equitable interest in the water plant based on the district’s allocated share of equivalent single family connections (ESFCs) as a percentage of total available ESFCs. As of August 31, 2013, MUD 374 has an 82% interest and the District has an 18% interest.

The District is responsible for the operation and maintenance of the water plant and has established a separate fund (the Special Revenue Fund) to account for all activity related to the water plant. Each participating district shall be billed monthly based on a pro rata share of water usage. For the fiscal year ended August 31, 2013, MUD 374 was charged \$535,966 and the District was charged \$137,437 for water supplied pursuant to this agreement.

MUD 374 was required to provide an initial operating reserve deposit of \$5,000 to the District, which has the authority to increase the reserve as needed to ensure effective payment of operating and maintenance costs. As of August 31, 2013, the reserve requirement for MUD 374 was \$35,000. During the current fiscal year, the District provided its initial operating reserve deposit of \$35,000.

Note 9 – Emergency Water Supply

On May 1, 2010, the District, MUD 374 and Harris County Municipal Utility District No. 418 (“MUD 418”) entered into an Emergency Water Supply Contract where each District desires to obtain a supply of potable water for use during emergency situations. During the prior fiscal year, the District supplied water to MUD 418 in the amount of \$112,683. As of August 31, 2013, HC 418 still owes the District \$56,342.

Note 10 – 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.

Note 11 – Concentration of Risk

Approximately all of the taxable property within the District is owned by the top 4 taxpayers. Since property taxes are a primary source of revenue for the General Fund, the continued ability of these taxpayers to continue to pay their property taxes is an important factor in the District’s ability to meet its future obligations.

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Required Supplementary Information

Harris County Municipal Utility District No. 433
Required Supplementary Information - Budgetary Comparison Schedule - General Fund
For the Year Ended August 31, 2013

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues			
Water service	\$ 21,038	\$ 94,940	\$ 73,902
Sewer service	35,437	45,449	10,012
Property taxes	52,400	117,658	65,258
Penalties and interest	750	2,529	1,779
Tap connection and inspection	230,000	378,685	148,685
Surface water	33,525	105,727	72,202
Miscellaneous	240	3,017	2,777
Total Revenues	373,390	748,005	374,615
Expenditures			
Current service operations			
Purchased services	44,176	137,437	(93,261)
Professional fees	69,900	72,188	(2,288)
Contracted services	147,513	269,326	(121,813)
Repairs and maintenance	63,750	343,642	(279,892)
Utilities		3,239	(3,239)
Administrative	21,220	18,985	2,235
Other		1,144	(1,144)
Total Expenditures	346,559	845,961	(499,402)
Revenues Over (Under) Expenditures	26,831	(97,956)	(124,787)
Other Financing Use			
Internal transfers		(35,000)	(35,000)
Other Item			
Capital costs paid by developer		18,300	18,300
Net Change in Fund Balance	26,831	(114,656)	(141,487)
Fund Balance			
Beginning of the year	(34,959)	(34,959)	
End of the year	<u>\$ (8,128)</u>	<u>\$ (149,615)</u>	<u>\$ (141,487)</u>

Harris County Municipal Utility District No. 433
Required Supplementary Information - Budgetary Comparison Schedule - Special Revenue Fund
For the Year Ended August 31, 2013

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues				
Water supply	\$ 595,200	\$ 622,200	\$ 673,404	\$ 51,204
Total Revenues	595,200	622,200	673,404	51,204
Expenditures				
Current service operations				
Professional fees	4,500	4,500	11,878	(7,378)
Contracted services	14,200	14,200	11,322	2,878
Repairs and maintenance	65,700	65,700	81,008	(15,308)
Utilities	54,000	54,000	64,409	(10,409)
Regional Water Authority fees	445,000	472,000	549,362	(77,362)
Administrative	11,800	11,800	11,766	34
Total Expenditures	595,200	622,200	729,745	(107,545)
Revenues Under Expenditures			(56,341)	(56,341)
Other Financing Sources				
Internal transfers			35,000	35,000
Net Change in Fund Balance			(21,341)	(21,341)
Fund Balance				
Beginning of the year	105,910	105,910	105,910	
End of the year	<u>\$ 105,910</u>	<u>\$ 105,910</u>	<u>\$ 84,569</u>	<u>\$ (21,341)</u>

***Harris County Municipal Utility District No. 433
Notes to Required Supplementary Information
August 31, 2013***

Budgets and Budgetary Accounting

An annual unappropriated budget is adopted for the General Fund and Special Revenue Fund by the District's Board of Directors. The budget is prepared using the same method of accounting as for financial reporting. There were no amendments to the General Fund budget during the year. The Special Revenue Fund budget was amended during the year to increase water supply revenues and expenditures related to Regional Water Authorities fees.

Texas Supplementary Information

Harris County Municipal Utility District No. 433
TSI-1. Services and Rates
August 31, 2013

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

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

2. Retail Service Providers

(You may omit this information if your district does not provide retail services)

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

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

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

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

b. Water and Wastewater Retail Connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFC'S
Unmetered			x 1.0	
less than 3/4"	157	156	x 1.0	156
1"	80	80	x 2.5	200
1.5"	1	1	x 5.0	5
2"	16	16	x 8.0	128
3"	2	2	x 15.0	30
4"			x 25.0	
6"			x 50.0	
8"			x 80.0	
10"			x 115.0	
Total Water	256	255		519
Total Wastewater	238	237	x 1.0	237

See accompanying auditor's report.

Harris County Municipal Utility District No. 433
TSI-1. Services and Rates
August 31, 2013

3. Total Water Consumption during the fiscal year (rounded to the nearest thousand):

(You may omit this information if your district does not provide water)

Gallons pumped into system:	<u>289,834</u>	Water Accountability Ratio:
Gallons billed to customers:	<u>60,377</u>	(Gallons billed / Gallons pumped)
Gallons sold to HC MUD 374:	<u>213,743</u>	<u>94.58%</u>

4. Standby Fees (authorized only under TWC Section 49.231):

(You may omit this information if your district does not levy standby fees)

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

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

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

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

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

Is the District located entirely within one county? Yes ☒ No ☐

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

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

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

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

Entirely ☒ Partly ☐ Not at all ☐

ETJs in which the District is located: City of Houston

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

If Yes, by whom? _____

See accompanying auditors' report.

***Harris County Municipal Utility District No. 433
TSI-2 General Fund Expenditures
For the Year Ended August 31, 2013***

Purchased services for resale	<u>\$ 137,437</u>
Professional fees	
Legal	62,461
Audit	9,500
Engineering	<u>227</u>
	<u>72,188</u>
Contracted services	
Bookkeeping	15,974
Operator	13,795
Garbage collection	19,918
Security service	47,966
Tap connection and inspection	164,885
Tax assessor/collector	6,000
Appraisal district	<u>788</u>
	<u>269,326</u>
Repairs and maintenance	<u>343,642</u>
Utilities	<u>3,239</u>
Administrative	
Directors fees	6,150
Printing and office supplies	6,161
Insurance	3,911
Other	<u>2,763</u>
	<u>18,985</u>
Other	<u>1,144</u>
Total expenditures	<u><u>\$ 845,961</u></u>

See accompanying auditors' report.

Harris County Municipal Utility District No. 433
TSI-4. Taxes Levied and Receivable
August 31, 2013

	Maintenance Taxes
Taxes Receivable, Beginning of Year	\$ -
2012 Original Tax Levy	70,789
Adjustments	
Adjusted Tax Levy	<u>70,789</u>
Total collections - current year	<u>70,789</u>
Taxes Receivable, End of Year	<u><u>\$ -</u></u>

	2012	2011
Property Valuations:		
Land	\$ 6,095,027	\$ 4,668,336
Improvements		
Personal Property	99,840	
Exemptions	(295,794)	(295,794)
Total Property Valuations	<u><u>\$ 5,899,073</u></u>	<u><u>\$ 4,372,542</u></u>
Tax Rates per \$100 Valuation:		
Maintenance tax rates	<u><u>\$ 1.20</u></u>	<u><u>\$ 1.20</u></u>
Adjusted Tax Levy:	<u><u>\$ 70,789</u></u>	<u><u>\$ 52,471</u></u>
Percentage of Taxes Collected to Taxes Levied **	<u><u>100.00%</u></u>	<u><u>100.00%</u></u>

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

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

See accompanying auditors' report.

Harris County Municipal Utility District No. 433

**TSI-7a. Comparative Schedule of Revenues and Expenditures - General Fund
For the Last Three Fiscal Periods**

	Amounts			Percent of Fund Total Revenues		
	2013	2012	2011**	2013	2012	2011**
Revenues						
Water service	\$ 94,940	\$ 663	\$ -	13%	1%	
Sewer service	45,449	216		6%	*	
Property taxes	117,658	52,471		16%	47%	
Penalties and interest	2,529	971		*	1%	
Tap connection and inspection	378,685	56,750		51%	51%	
Surface Water	105,727	522		14%	*	
Miscellaneous	3,017			*		
Investment earnings		11			*	
Total Revenues	748,005	111,604		100%	100%	
Expenditures						
Current service operations						
Purchased services	137,437			18%		
Professional fees	72,188	73,318	25,996	10%	66%	N/A
Contracted services	269,326	46,342	2,356	36%	42%	N/A
Repairs and maintenance	343,642	43,078	1,772	46%	39%	N/A
Utilities	3,239			*		
Administrative	18,985	20,038	2,010	3%	18%	N/A
Other	1,144			*		
Capital outlay		60,798			54%	
Total Expenditures	845,961	243,574	32,134	113%	219%	N/A
Revenues Under Expenditures	\$ (97,956)	\$ (131,970)	\$ (32,134)	-13%	-119%	N/A
Total Active Retail Water Connections	255	24	0			
Total Active Retail Wastewater Connections	237	18	0			

*Percentage is negligible

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

See accompanying auditors' report.

Harris County Municipal Utility District No. 433
TSI-8. Board Members, Key Personnel and Consultants
For the Year Ended August 31, 2013

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

Names:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid *	Expense Reimburse- ments	Title at Year End
Board Members				
Clark Martinson	07/11 - 05/14	\$ 1,500	\$ 236	President
Scott Forbes	05/12 - 05/16	1,350	328	Vice President
Debbie Watson-Hartline	07/11 - 05/14	1,200		Secretary
Robin Humphry	09/13 - 05/16			Assistant Secretary
Taylor Cavnar	07/11 - 05/14	1,650	338	Treasurer
Wade Stevens	05/12 - 09/13	450	79	Former Director
Consultants				
		Amounts Paid		
Fulbright & Jaworski, LLP	02/06	\$ 62,461		Attorney
Severn Trent Services, Inc.	02/06	567,923		Operator
Avanta Services	02/06	21,021		Bookkeeper
Tax Tech, Inc.	02/08	6,000		Tax Collector
Harris County Appraisal District	Legislation	556		Property Valuation
Brown & Gay Engineers, Inc.	02/06	9,604		Engineer
McGrath & Co., PLLC	Annual	12,000		Auditor
Southwest Securities, Inc.	02/06			Financial Advisor

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

APPENDIX B
Form of Bond Counsel Opinion

April 30, 2014



Fulbright & Jaworski LLP
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Houston, Texas 77010-3095
United States

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We have acted as bond counsel in connection with the issuance by Harris County Municipal Utility District No. 433 (the “*Issuer*”) of its Unlimited Tax Bonds, Series 2014 (the “*Bonds*”) in the aggregate principal amount of \$8,600,000.

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

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

1. The Bonds are valid and legally binding obligations of the Issuer payable from the sources, and enforceable in accordance with the terms and conditions, described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors’ rights or the exercise of judicial discretion in accordance with general principles of equity.
2. The Bonds are payable from and equally and ratably secured solely by a lien on and pledge of ad valorem taxes levied, without legal limit as to rate or amount, upon all taxable property within the Issuer.
3. Pursuant to the Internal Revenue Code of 1986, as amended and in force on the date hereof (the “*Code*”), and existing regulations, published rulings, and court decisions thereunder, assuming continuing compliance with the provisions of the Order relating to sections 141 through 150 of the Code, interest on the Bonds is excludable from the gross income, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes pursuant to section 103 of the Code, and such interest will not be included for federal income tax purposes in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations.

Fulbright & Jaworski LLP is a limited liability partnership registered under the laws of Texas.

Fulbright & Jaworski LLP, Norton Rose Fulbright LLP, Norton Rose Fulbright Australia, Norton Rose Fulbright Canada LLP, Norton Rose Fulbright South Africa (incorporated as Deneys Reitz, Inc.), each of which is a separate legal entity, are members of Norton Rose Fulbright Verein, a Swiss Verein. Details of each entity, with certain regulatory information, are at nortonrosefulbright.com. Norton Rose Fulbright Verein helps coordinate the activities of the members but does not itself provide legal services to clients.

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

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

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