

**HARRIS-MONTGOMERY COUNTIES MUNICIPAL
UTILITY DISTRICT NO. 386**
(Harris and Montgomery Counties, Texas)

PRELIMINARY OFFICIAL STATEMENT
DATED: OCTOBER 20, 2011

\$20,400,000
UNLIMITED TAX BONDS
SERIES 2011

BIDS TO BE SUBMITTED: 12:00 P.M., HOUSTON, TEXAS TIME
THURSDAY, NOVEMBER 3, 2011

BIDS TO BE PRESENTED: 2:00 P.M., HOUSTON, TEXAS TIME
THURSDAY, NOVEMBER 3, 2011



RBC Capital Markets®

Financial Advisor

PRELIMINARY OFFICIAL STATEMENT DATED OCTOBER 20, 2011

This Preliminary Official Statement is subject to completion and amendment and is intended solely for the solicitation of initial bids to purchase the Bonds. Upon the sale of the Bonds, the Official Statement will be completed and delivered to the Initial Purchaser.

IN THE OPINION OF BOND COUNSEL, INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR PURPOSES OF FEDERAL INCOME TAXATION UNDER STATUTES, REGULATIONS, PUBLISHED RULINGS AND COURT DECISIONS EXISTING ON THE DATE OF SUCH OPINION. SEE "LEGAL MATTERS" HEREIN FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL, INCLUDING A DISCUSSION OF ALTERNATIVE MINIMUM TAX CONSEQUENCES FOR CORPORATIONS.

THE BONDS HAVE **NOT** BEEN DESIGNATED "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS. SEE "LEGAL MATTERS - Qualified Tax Exempt Obligations."

NEW ISSUE - Book-Entry-Only

\$20,400,000

HARRIS-MONTGOMERY COUNTIES MUNICIPAL UTILITY DISTRICT NO. 386

(A Political Subdivision of the State of Texas, located within Harris and Montgomery Counties, Texas)

UNLIMITED TAX BONDS, SERIES 2011

Dated: December 1, 2011

Due: September 1, as shown below

The \$20,400,000 Harris-Montgomery Counties Municipal Utility District No. 386 Unlimited Tax Bonds, Series 2011 (the "Bonds"), are obligations solely of Harris-Montgomery Counties Municipal Utility District No. 386 (the "District"), and are not obligations of the State of Texas, the City of Houston, Harris County, Montgomery County, The Woodlands Township, or any entity other than the District.

Principal of the Bonds is payable at maturity or earlier redemption by the paying agent/registrar, initially, The Bank of New York Mellon Trust Company, N.A., Dallas Texas (sometimes hereinafter called the "Paying Agent" or the "Registrar"). Interest accrues from December 1, 2011, and is payable March 1, 2012, and each September 1 and March 1 (each an "Interest Payment Date") thereafter until the earlier of maturity or redemption, and will be calculated on the basis a 360-day year consisting of twelve 30-day months. The Bonds are fully registered bonds in the denomination of \$5,000 or any integral multiple thereof.

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

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS

Due (Sept. 1)	Principal Amount	Interest Rate (a)	Initial Reoffering Yield (b)	Due (Sept. 1)	Principal Amount	Interest Rate (a)	Initial Reoffering Yield (b)
2012	\$ 690,000	%	%	2024(c)	\$ 805,000	%	%
2013	445,000			2025(c)	850,000		
2014	470,000			2026(c)	895,000		
2015	495,000			2027(c)	945,000		
2016	525,000			2028(c)	1,000,000		
2017	555,000			2029(c)	1,055,000		
2018	585,000			2030(c)	1,110,000		
2019	615,000			2031(c)	1,170,000		
2020(c)	650,000			2032(c)	1,235,000		
2021(c)	685,000			2033(c)	1,305,000		
2022(c)	725,000			2034(c)	1,375,000		
2023(c)	765,000			2035(c)	1,450,000		

- After requesting competitive bids for purchase of the Bonds, the District has accepted the lowest net effective interest rate bid to purchase the Bonds, bearing interest as shown, at a price of ____% of par, plus accrued interest to the date of delivery, resulting in a net effective interest rate to the District of ____%.
- The initial reoffering yields on the Bonds are established by, and are the sole responsibility of the Initial Purchaser (hereinafter defined), and may subsequently be changed. Accrued interest from December 1, 2011 is to be added to the price.
- The Bonds maturing on and after September 1, 2020 are subject to redemption prior to maturity at the option of the District, in whole or from time to time in part, on September 1, 2019, or any date thereafter, at a price equal to the par value thereof plus accrued interest to the date fixed for redemption. See "THE BONDS - Redemption Provisions." The yield on Bonds maturing on and after September 1, 2020, is calculated to the lower of yield to redemption or maturity. In addition, the Initial Purchaser may designate one or more of the Bonds maturing in the years 2020 through 2035, both inclusive, as term bonds. See accompanying "Official Notice of Sale."

The Bonds, when issued, will constitute valid and legally binding obligations of the District and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District, as further described herein. The Bonds are obligations solely of the District and are not obligations of the State of Texas, the City of Houston, Harris County, Montgomery County, The Woodlands Township, or any entity other than the District. Investment in the Bonds is subject to special investment considerations described herein. See "INVESTMENT CONSIDERATIONS."

The Bonds are offered when, as and if issued by the District, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Schwartz, Page & Harding, L.L.P., Bond Counsel. Certain legal matters will be passed on for the District by Coats, Rose, Yale, Ryman & Lee, P.C., Houston, Texas, as Disclosure Counsel. Delivery of the Bonds in book-entry form through DTC is expected on or about December 8, 2011.

BIDS TO BE SUBMITTED: 12:00 P.M., HOUSTON, TEXAS TIME

BIDS TO BE PRESENTED: 2:00 P.M., HOUSTON, TEXAS TIME

THURSDAY, NOVEMBER 3, 2011

USE OF INFORMATION IN OFFICIAL STATEMENT

No broker, salesman or other person has been authorized by the District or the Initial Purchaser 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 or the Initial Purchaser.

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

All of the summaries of the statutes, resolutions, contracts, audits, engineering and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from the District c/o Schwartz, Page & Harding, L.L.P., 1300 Post Oak Blvd., Suite 1400, Houston, Texas 77056 upon payment of the costs for duplication thereof.

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 condition of the District or other matters described herein since the date hereof. However, the District has agreed to keep this Official Statement current by amendment or sticker to reflect material changes in the affairs of the District and, to the extent that information actually comes to its attention, the other matters described in this Official Statement until delivery of the Bonds to the Initial Purchaser, as shown on the cover page hereof.

The District has agreed to keep this Official Statement current by amendment or sticker to reflect material changes in the affairs of the District and to the extent such information actually comes to its attention, the other matters described in this Official Statement, until delivery of the Bonds to the Initial Purchaser and thereafter only as specified in "SOURCES OR INFORMATION - Updating of Official Statement" and "CONTINUING DISCLOSURE OF INFORMATION BY DISTRICT."

TABLE OF CONTENTS

<u>Page</u>	<u>Page</u>
USE OF INFORMATION IN OFFICIAL STATEMENT..... 0	Outstanding Bonds.....13
SALE AND DISTRIBUTION OF THE BONDS..... 3	Financing Recreational Facilities.....13
Award and Marketing of the Bonds.....3	Annexation, Incorporation and Consolidation14
Prices and Marketability3	Remedies in Event of Default14
No-Litigation3	Defeasance14
Securities Laws3	BOOK-ENTRY-ONLY SYSTEM 14
MUNICIPAL BOND INSURANCE AND RATING 4	Use of Certain Terms in Other Sections of this Official Statement.....16
OFFICIAL STATEMENT SUMMARY..... 5	USE AND DISTRIBUTION OF BOND PROCEEDS 17
SELECTED FINANCIAL INFORMATION..... 8	DISTRICT DEBT..... 20
INTRODUCTION..... 10	General20
THE BONDS..... 10	Estimated Direct and Overlapping Debt Statement21
General10	Debt Ratios21
Description.....10	PROJECTED DEBT SERVICE REQUIREMENTS..... 22
Authority for Issuance.....10	TAX DATA 23
Source and Security for Payment.....11	General23
Funds.....11	Maintenance Tax.....23
Record Date11	Historical Values and Tax Collection History23
Redemption Provisions11	Historical Tax Collections23
Method of Payment of Principal and Interest.....11	Tax Rate Distribution.....24
Registration12	Analysis of Tax Base24
Replacement of Paying Agent.....12	
Legal Investment and Eligibility to Secure Public Funds in Texas12	
Issuance of Additional Debt.....12	

Principal Taxpayers	24
Tax Rate Calculations	25
Estimated Overlapping Taxes	25
TAXING PROCEDURES.....	25
Property Tax Code and County-Wide	
Appraisal District	25
Property Subject to Taxation by the	
District	26
General Residential Homestead	
Exemption	27
Valuation of Property for Taxation	27
District and Taxpayer Remedies	27
Agricultural, Open Space, or Timberland	
Deferment	28
Tax Abatement	28
Levy and Collection of Taxes	28
District's Rights in the Event of Tax	
Delinquencies	29
THE DISTRICT	29
Authority	29
Description	30
CURRENT STATUS OF DEVELOPMENT IN	
 THE DISTRICT	30
Sales and Development	30
Residential	30
PHOTOGRAPHS TAKEN WITHIN THE	
 DISTRICT	32
PHOTOGRAPHS TAKEN WITHIN THE	
 DISTRICT	33
THE WOODLANDS	34
General	34
The Development Plan and Status of	
Development	34
THE SYSTEM	36
Water System	36
Sanitary Sewer System	36
Harris/Galveston Subsidence District	36
Drainage System	37
Fourth Interim Accounting	38
Water System	38
Lone Star Groundwater Conservation	
District	38
Waste Disposal System	38
Drainage System	39
MANAGEMENT OF THE DISTRICT	39
District Investment Policy	39
Consultants	39
Tax Assessor/Collector	40
Bookkeeper	40
Utility System Operator	40
Auditor	40
Engineer	40
Financial Advisor	40
Attorney	40
INVESTMENT CONSIDERATIONS.....	41

General	41
Factors Affecting Taxable Values and Tax	
Payments	41
Maximum Impact on District Tax Rates	42
Tax Collection Limitations	42
Registered Owners' Remedies and	
Bankruptcy	43
Future Debt	43
The Effect of the Financial Institutions Act	
of 1989 on Tax Collections of the	
District	43
Future and Proposed Legislation	44
Continuing Compliance with Certain	
Covenants	44
Marketability	44
Approval of the Bonds	44
Environmental Regulation	45
Bond Insurance Risk Factors	46
LEGAL MATTERS.....	47
Legal Opinions	47
Legal Review	48
Tax Exemption	48
NOT Qualified Tax-Exempt Obligations	48
Collateral Federal Income Tax	
Consequences	49
Tax Accounting Treatment of Original	
Issue Discount and Premium Bonds	49
SOURCES OF INFORMATION	50
General	50
Consultants	51
CONTINUING DISCLOSURE OF	
 INFORMATION	51
Annual Reports	51
Material Event Notices	51
Availability of Information From MSRB	52
Limitations and Amendments	52
Compliance with Prior Undertakings	52
GENERAL CONSIDERATION	53
Certification as to Official Statement	53
Updating of Official Statement	53
Official Statement "Deemed Final"	53
CONCLUDING STATEMENT	53

APPENDIX A - LOCATION MAP

APPENDIX B - DISTRICT MAP

APPENDIX C - ANNUAL FINANCIAL REPORT

SALE AND DISTRIBUTION OF THE BONDS

Award and Marketing of the Bonds

After requesting competitive bids for the Bonds, the District has accepted the lowest net effective interest rate bid, which was tendered by _____ (the "Initial Purchaser"), to purchase the Bonds bearing the interest rates shown under "MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS" on the cover page hereof at a price of _____% of the principal amount thereof, plus accrued interest to the date of delivery, which resulted in a net effective interest rate of _____% as calculated pursuant to Chapter 1204, Texas Government Code.

Prices and Marketability

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 have 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 Initial Purchaser or wholesaler. Otherwise, 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 after a bona fide offering of the Bonds is made by the Initial Purchaser at the yields specified on the cover page hereof. Information concerning reoffering yields or prices is the responsibility of the Initial Purchaser.

The prices and other terms respecting the re-offering and sale of the Bonds may be changed from time to time by the Initial Purchaser after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering price, including sales to dealers who may sell the Bonds into investment accounts.

IN CONNECTION WITH THE RE-OFFERING OF THE BONDS, THE INITIAL PURCHASER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

No-Litigation

As a condition to delivery of the Bonds, the District will furnish a certificate executed by the President and Secretary of the District that no litigation of any nature is pending against or, to the best knowledge of the District's certifying officers, threatened against the District, either in state or federal courts, contesting or attacking the Bonds; restraining or enjoining the authorization, execution or delivery of the Bonds; affecting the provision made for the payment of or security for the Bonds; in any manner questioning the authority or proceedings for the authorization, execution or delivery of the Bonds; or affecting the validity of the Bonds; the corporate existence or boundaries of the District or the titles of the then present officers and directors of the District.

Securities Laws

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

MUNICIPAL BOND INSURANCE AND RATING

Application has been made to Assured Guaranty Municipal Corp. (“AGM”) for a commitment to issue a policy of municipal bond guaranty insurance on the Bonds. The purchase of such insurance, if available, and payment of all associated costs, including the premium charged by the insurer, and fees charged by any rating company other than S&P (defined below) will be at the option and expense of the Underwriter. If the Underwriter chooses to use a rating other than the rating assigned by Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business (“S&P”), then the cost of such rating will be paid by the Underwriter. The fees charged by S&P will be paid by the District. See “INVESTMENT CONSIDERATIONS – Bond Insurance.”

S&P has assigned an underlying rating of “BBB+” to the District’s credit. In connection with the purchase of the aforementioned municipal bond guaranty insurance on the Bonds, separate rating(s), including a rating by S&P, will be assigned the Bonds based upon the understanding that upon delivery of the bonds a guaranty insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by the insurer. The District will pay the cost of the underlying rating of S&P and the S&P rating associated with the guaranty insurance policy issued relating to the Bonds.

OFFICIAL STATEMENT SUMMARY

The following summary of certain information contained herein is qualified in its entirety by the more detailed information and financial statements appearing elsewhere in this Official Statement. The reader should refer particularly to sections that are indicated for more complete information.

THE BONDS

The Issuer	Harris-Montgomery Counties Municipal Utility District No. 386 (the “District”), is a political subdivision of the State of Texas located within Harris and Montgomery Counties, Texas. See “THE DISTRICT - General.”
Description	\$20,400,000 Unlimited Tax Bonds, Series 2011, are dated December 1, 2011, and mature on September 1 in each of the years and in the principal amounts indicated on the cover page of this Official Statement (the “Bonds”). Interest on the Bonds accrues from December 1, 2011 and is payable on March 1, 2012, and on each September 1 and March 1 thereafter until maturity or prior redemption. The Bonds are issued in fully registered form and will be issued in denominations of \$5,000 of principal amount or integral multiples thereof. The Bonds maturing on or after September 1, 2020 are subject to redemption, in whole or in part, prior to their scheduled maturities, on September 1, 2019, or on any date thereafter at the option of the District. Upon redemption, the Bonds will be payable at a price equal to the principal amount of the Bonds, or portions thereof so called for redemption, plus accrued interest to the date of redemption. See “THE BONDS.”
Book-Entry Only	The Bonds are initially issuable in book-entry only form and, when issued, will be registered in the name of Cede & Co., as nominee of the Depository Trust Company, which will act as securities depository. Beneficial Owners of the Bonds will not receive physical delivery of bond certificates. See “BOOK-ENTRY-ONLY SYSTEM.”
Source of Payment.....	Principal of and interest on the Bonds are payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. See “THE BONDS - Source and Security for Payment,” “TAX DATA - Tax Rate Calculations,” and “INVESTMENT CONSIDERATIONS - Maximum Impact on District Tax Rates.”
Payment Record.....	The Bonds represent the third series of bonds issued by the District for the purpose of acquiring, constructing, owning, operating, repairing, improving or extending the water, sanitary sewer and drainage facilities to serve the District. The District has never defaulted on the timely payment of principal or interest on its outstanding indebtedness. See “THE BONDS – Source of Payment.”
Outstanding Bonds	The District has previously issued \$21,230,000 Unlimited Tax Bonds, Series 2009 (the “Series 2009 Bonds”) and \$29,775,000 Unlimited Tax Bonds, Series 2010 (the “Series 2010 Bonds”), aggregating \$51,005,000 in principal amount of unlimited tax bonds issued by the District. As of October 1, 2011, \$51,005,000 in principal amount of the previously issued Bonds remain outstanding (the “Outstanding Bonds”). See “THE BONDS – Outstanding Bonds.”

Use of Proceeds	The proceeds of the Bonds will be used to (i) reimburse the Developer for (a) water, sewer and drainage improvements in the single-family subdivisions of The Village of Sterling Ridge – Sections 94, 95, 98, 99; Village of Creekside Part – Sections 7 and 11; Sterling Ridge – Section 89A sanitary sewer extension; ditches 6K, 6L and 6M all being drainage facilities serving May Valley in the Village of Sterling Ridge; water, sewer, and drainage facilities located along Creekside Forest Dr. / Great Heron Dr., Creekside Forest Dr. – Phase IV, Creekside Forest Dr. / Wilde Creek / Creekside Green Dr., Creekside Green / Ironwind Lane and Fazio Way; Phase 1 drainage facilities Carlton Woods – Section 9; drainage facilities in Carlton Woods Creekside Park Phase I and Detention Facilities – Phase I; and (ii) to pay for water supply, sanitary sewer treatment and related distribution and transportation capacity in the system. In addition, a portion of the proceeds of the Bonds will be used to pay developer interest and bond issuance costs. See “USE AND DISTRIBUTION OF BOND PROCEEDS.”
Municipal Bond Insurance and Rating.....	An application has been made to Assured Guaranty Municipal Corp. (“AGM”) for a commitment to issue a policy of municipal bond guaranty insurance on the Bonds. The purchase of such insurance, if available, and payment of all associated costs, including the premium charged by the insurer, and fees charged by rating companies, other than that of Standard & Poor’s Ratings Services, if applicable, shall be at the option and expense of the Underwriter. The fees charged by Standard & Poor’s Rating Service will be paid by the District. See “MUNICIPAL BOND INSURANCE AND RATING.”
NOT Qualified Tax-Exempt Obligations	The bonds have NOT been designated “qualified tax-exempt obligations” for financial institutions. See “TAX MATTERS – NOT Qualified Tax-Exempt Obligations.”
Legal Opinion.....	Schwartz, Page & Harding, L.L.P., Houston, Texas, Bond Counsel. See “LEGAL MATTERS.”
Disclosure Counsel.....	Coats, Rose, Yale, Ryman & Lee, P.C., Houston, Texas.

THE DISTRICT

Description	The District was created pursuant to Article XVI, Section 59, Texas Constitution, by Senate Bill No. 1775, passed by the 77th Texas Legislature, Regular Session, 2001, Chapter 1381, codified as Chapter 1872, Special District Local Laws Code, as amended, and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. The District is comprised of approximately 2,585 acres, is located partially within Harris County (approximately 2,176 acres) with a small portion (approximately 409 acres) located within Montgomery County. The District is located approximately 27 miles north of the central business district of the City of Houston, Texas, and approximately 13 miles south of the City of Conroe. The District is accessible via Interstate Highway No. 45 and Woodlands Parkway to Gosling Road, to F.M. 2978 or Kuykendahl Road. It is partially located within the extraterritorial jurisdiction of the City of Houston and exclusively within the 28,000-acre community known as The Woodlands. The District’s Harris County portion is bordered on the north by Spring Creek and on the south by Augusta Pines, on the east by Gosling Road and on the west by Spring Creek.
-------------------	--

The Harris County portion of the District lies entirely with Tomball Independent School District. The Montgomery County portion of the District is bordered on the north by Woodlands Parkway, on the south by Spring Creek, on the east by Montgomery County Municipal Utility District No. 46 and on the west by F.M. 2978. The Montgomery County portion of the District lies entirely within Magnolia Independent School District. See “THE DISTRICT – Authority” and “- Description.”

Authority	The rights, powers, privileges, authority and functions of the District are established by Article XVI, Section 59 of the Constitution of the State of Texas and the general laws of the State of Texas pertaining to municipal utility districts, particularly Chapters 49 and 54 of the Texas Water Code, as amended. See “THE DISTRICT - General.”
The Developer	The current developer of the District is The Woodlands Land Development Company, L.P. (the “Developer”), a limited partnership whose partners are owned by General Growth Properties, Inc. and Morgan Stanley Real Estate Fund II, L.P. See “THE DEVELOPER.”
Status of Development	Of the approximate 2,585 acres of land within the District, approximately 1,620 acres (3,369 lots) have been developed as the single-family subdivisions of Village of Creekside Park, Sections 1, 2, 3, 4, 5, 6, 7, 8, 10, 11, 12, 13, 14, 15, 17, 18, 19, 21, 22, 23, 24 and 28, Creekside Park West, Sections 1, 2, 3, 4 and 6, Creekside Carlton Woods, Sections 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11 and 12 and Village of Sterling Ridge, Sections 88, 91, 92, 93, 95, 96, 97, 98 and 99. As of September 1, 2011, the District contained 1,889 occupied homes, 159 unoccupied homes, 235 homes under construction and 957 vacant, developed lots. The remaining acreage within the District is comprised of approximately 817 undeveloped acres but of that, approximately 540 acres are developable. See “CURRENT STATUS OF DEVELOPMENT IN THE DISTRICT.”
Homebuilders	Homebuilders in the District include David Weekley Homes, Lennar Homes, Trendmaker Homes, Pulte Homes, Ryland Homes, Gracepoint Homes, Highland Homes, Plantation Homes, Darling Homes and several custom homebuilders. Home prices range from \$140,000 to in excess of \$1,000,000. During 2007, 2008, 2009 and 2010, approximately 135, 479, 414 and 625 homes were constructed in the District, respectively. Through the first 8 months of 2011, approximately 395 homes have been constructed in the District. See “THE DISTRICT - Homebuilders.”

INVESTMENT CONSIDERATIONS

INVESTMENT IN THE BONDS IS SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS AS SET FORTH IN THIS OFFICIAL STATEMENT. PROSPECTIVE PURCHASERS SHOULD CAREFULLY EXAMINE THE ENTIRE OFFICIAL STATEMENT BEFORE MAKING THEIR INVESTMENT DECISIONS, ESPECIALLY THE PORTION OF THE OFFICIAL STATEMENT ENTITLED “INVESTMENT CONSIDERATIONS.”

SELECTED FINANCIAL INFORMATION

(Unaudited as of November 1, 2010)

2011 Certified Assessed Valuation \$739,514,994 (a)
 See "TAX DATA" and "TAXING PROCEDURES"

Direct Debt:

The Outstanding Bonds.....	\$ 51,005,000
The Bonds.....	<u>20,400,000</u>
Total	\$ 71,405,000

Estimated Overlapping Debt \$ 46,113,607 (b)

Direct and Estimated Overlapping Debt \$ 117,518,607

Operations Fund (at August 31, 2011)..... \$ 4,780,253

Capital Project Fund Balance (at August 31, 2011) \$ 1,300,956

Debt Service Fund Balance (at August 31, 2011) \$ 4,054,429 (c)

Direct Debt Ratios:

as a percentage of 2011 Certified Assessed Valuation..... 9.66 %

Direct and Estimated Overlapping Debt Ratios

as a percentage of 2011 Certified Assessed Valuation..... 15.89 %

2011 Tax Rate per \$100 of Assessed Valuation

Debt Service Tax	\$0.75
Maintenance Tax	<u>0.24</u>
Total.....	\$0.99 (d)

Projected Average Annual Debt Service Requirements on the Bonds and
 the Outstanding Bonds (Calendar Years 2012-2035)..... \$ 5,157,940

Projected Maximum Annual Debt Service Requirement of the Bonds and
 the Outstanding Bonds (Calendar Year 2034)..... \$ 5,501,063

**Tax Rate per \$100 of Assessed Valuation Required to pay the Projected Average Annual
 Debt Service Requirements of the Bonds and the Outstanding Bonds at 95%**

Tax Collections:

Based Upon 2011 Certified Assessed Valuation..... \$0.74

**Tax Rate per \$100 of Assessed Valuation Required to pay Projected Maximum Annual
 Debt Service Requirement of the Bonds and the Outstanding Bonds at 95%**

Tax Collections:

Based Upon 2011 Certified Assessed Valuation..... \$0.79

Connections as of September 22, 2011:

	<u>Harris County</u>	<u>Montgomery County</u>	<u>Total</u>
Residential	1,427	399	1,826
Builder	292	90	382
Commercial	6	0	6
Other	<u>84</u>	<u>12</u>	<u>96</u>
Total	1,809	501	2,310

Estimated District Population..... 6,391 (e)

-
- (a) Certified by Harris County Appraisal District ("HCAD") and Montgomery Central Appraisal District ("MCAD") as of January 1, 2011. Includes \$12,032,446 in owners' opinion of uncertified value from HCAD.
 - (b) See "DISTRICT DEBT."
 - (c) Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the Bond Fund. At the time of delivery of the Bonds, one year of capitalized interest on the Bonds plus accrued interest from the sale of the Bonds will be deposited into the District's Bond Fund.
 - (d) The TCEQ in its Staff Memorandum authorizing the District to issue the Bonds recommended the District to levy a debt service tax not less than \$0.79 per \$100 of Assessed Valuation. This recommendation was based upon the Bonds being sold at a maximum net effective interest rate of 6.20%. See "TAX DATA - Tax Rate Calculations."
 - (e) Based upon 3.5 residents per residential connection.

HARRIS-MONTGOMERY COUNTIES MUNICIPAL UTILITY DISTRICT NO. 386
UNLIMITED TAX BONDS
SERIES 2011

INTRODUCTION

This Official Statement provides certain information with respect to the issuance by Harris-Montgomery Counties Municipal Utility District No. 386 (the “District”), of its \$20,400,000 Unlimited Tax Bonds, Series 2011 (the “Bonds”).

There follows in this Official Statement descriptions of the Bonds and certain information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the District c/o Schwartz, Page & Harding, L.L.P., 1300 Post Oak Blvd., Suite 1400, Houston, Texas 77056, upon request and payment of the costs of duplication therefor.

THE BONDS

General

The following is a description of some of the terms and conditions of the Bonds, which description is qualified in its entirety by reference to the Bond Order, a copy of which is available from Bond Counsel upon payment of the costs of duplication therefor. The Bond Order authorizes the issuance and sale of the Bonds and prescribes the terms, conditions and provisions for the payment of the principal of and interest on the Bonds by the District.

Description

The Bonds will be dated December 1, 2011, with interest payable on March 1, 2012, and on each September 1 and March 1 thereafter (each an “Interest Payment Date”) until the earlier of maturity or redemption. The Bonds mature on September 1 of the years and in the amounts shown under “MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS” on the cover page hereof. The Bonds are issued in fully registered form only in denominations of \$5,000 or any integral multiple of \$5,000 for any one maturity. The Bonds will be registered and delivered only to The Depository Trust Company, New York, New York (“DTC”), in its nominee name of Cede & Co., pursuant to the book-entry system described herein (“Registered Owners”). No physical delivery of the Bonds will be made to the purchasers thereof. See “BOOK-ENTRY-ONLY SYSTEM.” Interest calculations are based upon a three hundred sixty (360) day year comprised of twelve (12) thirty (30) day months.

Authority for Issuance

At elections held within the District on November 8, 2005 and November 7, 2006, voters of the District authorized a total of \$282,000,000 in bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities. The Bonds constitute the third issuance of bonds from such authorization. After the issuance of the Bonds, a total of \$210,595,000 in principal amount of unlimited tax bonds for water, sanitary sewer and drainage facilities will remain authorized but unissued. The Bonds are issued by the District pursuant to the terms and provisions of the Bond Order; Article XVI, Section 59 of the Texas Constitution; Chapters 49 and 54 of the Texas Water Code, as amended; and an order of the Commission (hereinafter defined). At the above described elections, voters within the District also authorized \$282,000,000 in unlimited tax refunding bonds for the purpose of refunding outstanding bonds of the District. No bonds have been issued from said unlimited tax refunding authorization. At the above described November 8, 2005 election, voters within the District also authorized a total of \$11,500,000 in unlimited tax bonds for the purpose of acquiring or constructing recreational facilities. No bonds have been issued from said unlimited tax recreational facilities authorization. See “- Financing Recreational Facilities” below.

Source and Security for Payment

The Bonds, together with the Outstanding Bonds (defined herein) and any additional bonds payable from ad valorem taxes, are secured by and payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property located within the District (see “TAXING PROCEDURES”). Investment in the Bonds involves certain elements of risk, and all prospective purchasers are urged to examine carefully this Official Statement with respect to the investment security of the Bonds. See “INVESTMENT CONSIDERATIONS.” The Bonds are obligations solely of the District and are not obligations of the City of Houston, Harris County, Montgomery County, the State of Texas, The Woodlands Township or any political subdivision or entity other than the District.

Funds

The Bond Order confirms the establishment of the District’s Construction Fund (the “Construction Fund”) and the District’s Bond Fund (the “Bond Fund”) created and established pursuant to the orders of the District authorizing the issuance of the Outstanding Bonds. Accrued interest on the Bonds plus an amount equal to twelve (12) months interest on the Bonds will be deposited from the proceeds from the sale of the Bonds into the Bond Fund. All remaining proceeds of the Bonds will be deposited in the Construction Fund. The Bond Fund, which constitutes a trust fund for the benefit of the owners of the Outstanding Bonds, the Bonds and any additional tax bonds issued by the District, is to be kept separate from all other funds of the District, and is to be used for payment of debt service on the Outstanding Bonds, the Bonds and any of the District’s duly authorized additional bonds payable in whole or part from taxes. Amounts on deposit in the Bond Fund may also be used to pay the fees and expenses of the Paying Agent, to defray the expenses of assessing and collecting taxes levied for payment of interest on and principal of the Outstanding Bonds, the Bonds and any additional bonds payable in whole or in part from taxes, and to pay any tax anticipation notes issued, together with interest thereon, as such tax anticipation notes become due.

Record Date

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

Redemption Provisions

The District reserves the right, at its option, to redeem the Bonds maturing on or after September 1, 2020, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000, on September 1, 2019, or any date thereafter, at a price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption. If fewer than all of the Bonds are to be redeemed, the particular maturity or maturities and the amounts thereof to be redeemed shall be determined by the District. If fewer than all of the Bonds of the same maturity are to be redeemed, the particular Bonds shall be selected by DTC in accordance with its procedures. See “BOOK-ENTRY-ONLY SYSTEM.” Notice of each exercise of the reserved right of optional redemption shall be given by the Paying Agent at least thirty (30) calendar days prior to the redemption date, in the manner specified in the Bond Order.

By the date fixed for redemption, due provision shall be made with the Paying Agent for payment of the principal of the Bonds or portions thereof to be redeemed, plus accrued interest to the redemption date. When Bonds have been called for redemption in whole or in part and due provision has been made to redeem the same as herein provided, the Bonds or portions thereof so redeemed shall no longer be regarded as outstanding except for the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the Registered Owners (as defined herein) to collect interest which would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

Method of Payment of Principal and Interest

The Board has appointed The Bank of New York Mellon Trust Company, N.A., having its principal corporate trust office and its principal payment office in Dallas, Texas, as the initial paying agent/registrar for the Bonds (“Paying Agent” or “Registrar”). The principal of and interest on the Bonds shall be paid to DTC, which will make distribution of the amounts so paid. See “BOOK-ENTRY-ONLY SYSTEM.”

Registration

Section 149(a) of the Internal Revenue Code of 1986, as amended, requires that all tax exempt obligations (with certain exceptions that do not include the Bonds) be in registered form in order for the interest payable on such obligations to be excludable from a Beneficial Owner's income for federal income tax purposes. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. pursuant to the Book-Entry-Only System described herein. One fully-registered bond will be issued for each maturity of the Bonds and will be deposited with DTC. See "BOOK-ENTRY-ONLY SYSTEM." So long as any Bonds remain outstanding, the District will maintain at least one paying agent/registrars in the State of Texas for the purpose of maintaining the Register on behalf of the District.

Replacement of Paying Agent

Provision is made in the Bond Order for replacement of the Paying Agent. If the Paying Agent is replaced by the District, the new paying agent/registrars shall be required to accept the previous Paying Agent's records and act in the same capacity as the previous Paying Agent. Any paying agent/registrars selected by the District shall be a duly qualified and competent trust or banking corporation or organization organized and doing business under the laws of the United States of America or of any State thereof, with a combined capital and surplus of at least \$25,000,000, which is subject to supervision of or examination by federal or state banking authorities, and which is a transfer agent duly registered with the United States Securities and Exchange Commission.

Legal Investment and Eligibility to Secure Public Funds in Texas

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

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

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

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

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

Issuance of Additional Debt

The District may issue additional bonds, with the approval of the Texas Commission on Environmental Quality ("TCEQ" or "Commission"), 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 \$282,000,000 unlimited tax bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities and could authorize additional amounts. Following the issuance of the Bonds, the District will have \$210,595,000 of unlimited tax bonds authorized but unissued for said improvements

and facilities. The District's voters have also authorized a total of (i) \$282,000,000 in unlimited tax refunding bonds for the purpose of refunding outstanding bonds of the District, and (ii) \$11,500,000 unlimited tax bonds for the purpose of acquiring or constructing recreational facilities and could authorize additional amounts. No bonds have been issued from said unlimited tax refunding bond authorization or the unlimited tax recreational facilities bond authorizations. See "- Financing Recreational Facilities" below.

The Bond Order imposes no limitation on the amount of additional parity bonds which may be authorized for issuance by the District's voters or the amount ultimately issued by the District. See "INVESTMENT CONSIDERATIONS – Future Debt."

The District also is authorized by statute to engage in fire-fighting activities, including the issuing of bonds payable from taxes for such purpose. Before the District could issue fire-fighting bonds payable from taxes, the following actions would be required: (a) authorization of a detailed master plan and bonds for such purpose by the qualified voters in the District; (b) approval of the master plan and issuance of bonds by the Commission; and (c) approval of bonds by the Attorney General of Texas. The District does not provide fire protection service, and the Board has not considered calling such an election at this time. Issuance of bonds for fire-fighting activities could dilute the investment security for the Bonds.

Outstanding Bonds

The District has previously issued \$21,230,000 Unlimited Tax Bonds, Series 2009 (the "Series 2009 Bonds") and \$29,775,000 Unlimited Tax Bonds, Series 2010 (the "Series 2010 Bonds"), aggregating \$51,005,000 in principal amount of unlimited tax bonds issued by the District. As of October 1, 2011, \$51,005,000 in principal amount of the previously issued Bonds remain outstanding (the "Outstanding Bonds").

Financing Recreational Facilities

Pursuant to provisions of the Texas Constitution, as amended in 2003, conservation and reclamation districts in certain counties are authorized to develop and finance with property taxes certain recreational facilities after a district election has been successfully held to approve a maintenance tax to support recreational facilities and/or the issuance of bonds payable from taxes.

Pursuant to the provisions of related statutory amendments, the District is authorized to levy an operation and maintenance tax to support recreational facilities at a rate not to exceed \$0.10 per \$100 of assessed valuation of taxable property in the District, after such tax is approved at an election. Said maintenance tax is in addition to any other maintenance tax authorized to be levied by the District. In addition, the District is authorized to issue bonds payable from an ad valorem tax to pay for the development and maintenance of recreational facilities if (i) the District duly adopts a plan for the facilities; (ii) the bonds are authorized at an election; (iii) the bonds payable from any source do not exceed 1% of the value of the taxable property in the District at the time of issuance of the bonds, or an amount greater than the estimated cost of the plan, whichever amount is smaller; (iv) the District obtains any necessary governmental consents allowing the issuance of such bonds; (v) the issuance of the bonds is approved by the Commission in accordance with its rules with respect to same; and (vi) the bonds are approved by the Attorney General of Texas. The District may issue bonds for such purposes payable solely from net operating revenues without an election.

At an election held within the District on November 8, 2005, voters in the District authorized \$11,500,000 unlimited tax bonds for the purpose of financing recreational facilities to serve the District, but the Board has not considered calling an election for the purposes of authorizing the levy of an additional operation and maintenance tax to support such facilities. Due to the passage of Senate Bill No. 2483, 81st Texas Legislature, Regular Session, 2009, the restrictions in Section 49.4645(f), Texas Water Code, as amended, relating to the issuance of bonds payable from taxes to finance the development or maintenance of recreational facilities for districts located wholly or partially in Montgomery County, are not applicable to the District.

Current law may be changed in a manner to increase the amount of bonds which may be issued as related to a percentage of the value of taxable property or to allow a higher or lower maintenance tax rate for such purposes. The levy of taxes for such purposes may dilute the security for the Bonds.

Annexation, Incorporation and Consolidation

The District currently lies within the extraterritorial jurisdiction of the City of Houston, Texas (the “City”). Under Texas law, a district situated in the extraterritorial jurisdiction of a home rule city may be annexed in whole, but not in part, by such city without the district's consent, in which case the city must assume the assets, functions and obligations of the district, including the district's outstanding bonds.

In addition, the District is located entirely within The Woodlands Township, a political subdivision of the State of Texas which overlaps substantially all of the territory of The Woodlands. The Township has recently concluded agreements with the City of Houston and the City of Conroe pursuant to which the area of the Township, including the District, may not be annexed for fifty (50) years, and the area of the Township may, on or after May 29, 2014, and on request by the Township, be excluded from the extraterritorial jurisdiction of either or both cities, and may thereafter be incorporated as a municipality or may adopt a new form of local government. In the event of incorporation of the Township, the Township must dissolve the District and assume the assets, obligations and liabilities of the District, including the Bonds. No representation is made concerning the eventual likelihood of incorporation of the Township or the ability of the Township to make debt service payments should incorporation occur.

Under Texas law, the District may be consolidated with other municipal utility districts, with the assets and liabilities of the consolidating districts belonging to the consolidated district. No representation is made that the District will ever consolidate with one or more other districts, but the District currently has no plans to do so.

Remedies in Event of Default

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

Defeasance

The District may discharge its obligations to the Registered Owners of any or all of the Bonds to pay principal of and interest on the Bonds and may defease the Bonds in accordance with the provisions of applicable laws, including, without limitation, Chapter 1207, Texas Government Code, as amended.

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 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 (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) 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 (3) DTC will serve and act in the manner described in this Official Statement. Discontinuance of the DTC book-entry-only system by the District may

require consent of DTC Participants under DTC Operational Arrangements. 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 NY, will act as securities depository for the securities (the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be required by an authorized representative of DTC. One fully-registered Security certificate will be issued for each of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC. If however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

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 Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchase of each Security (“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 Securities 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 Securities, except in the event that use of the book-entry system for the Securities is discontinued.

To facilitate subsequent transfers, all Securities 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 Securities 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 Securities; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Securities 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 Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee

holding the Securities 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 Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issue 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 Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Securities 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 Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent or Issuer, 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 Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to Tender/Remarketing Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records to Tender/Remarketing Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to Tender/Remarketing Agent's DTC account.

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

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

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

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement it should be understood that while the Bonds are in the book-entry form, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the book-entry system, and (ii) except as described above, notices that are to be given to registered owners under the Bond Order will be given only to DTC.

USE AND DISTRIBUTION OF BOND PROCEEDS

The proceeds of the Bonds will be used to (i) reimburse the Developer for (a) water, sewer and drainage improvements in the single-family subdivisions of The Village of Sterling Ridge – Sections 94, 95, 98, 99; Village of Creekside Part – Sections 7 and 11; Sterling Ridge – Section 89A sanitary sewer extension; ditches 6K, 6L and 6M all being drainage facilities serving May Valley in the Village of Sterling Ridge; water, sewer, and drainage facilities located along Creekside Forest Dr. / Great Heron Dr., Creekside Forest Dr. – Phase IV, Creekside Forest Dr. / Wilde Creek / Creekside Green Dr., Creekside Green / Ironwind Lane and Fazio Way; Phase 1 drainage facilities Carlton Woods – Section 9; drainage facilities in Carlton Woods Creekside Park Phase I and Detention Facilities – Phase I; and (ii) to pay for water supply, sanitary sewer treatment and related distribution and transportation capacity in the system. In addition, a portion of the proceeds of the Bonds will be used to pay developer interest and bond issuance costs.

The use and distribution of the proceeds from the sale of the Bonds, as approved by the Commission, is set forth below.

	<u>District's Share</u>
CONSTRUCTION COSTS	
A. Developer Contribution Items	
1. Sterling Ridge Section 89A - Wastewater	\$ 4,256
2. Sterling Ridge Section 94	
a. Water	\$ 105,610
b. Wastewater	44,020
c. Drainage	<u>134,059</u>
Subtotal	\$ 283,689
3. Sterling Ridge Section 95	
a. Water	\$ 50,240
b. Wastewater	111,120
c. Drainage	156,892
d. Clearing	<u>9,730</u>
Subtotal	\$ 327,982
4. Sterling Ridge Section 98	
a. Water	\$ 59,929
b. Wastewater	197,072
c. Drainage	162,062
d. Clearing	<u>10,878</u>
Subtotal	\$ 429,941
5. Sterling Ridge Section 99	
a. Water	\$ 128,050
b. Wastewater	249,093
c. Drainage	229,267
d. Clearing	<u>4,945</u>
Subtotal	\$ 611,355
6. Ditch 6K – May Valley	
a. Drainage	\$ 2,197,350
b. Clearing	<u>36,826</u>
Subtotal	\$ 2,234,176
7. Ditch 6L and 6M – May Valley	
a. Drainage	\$ 390,873
b. Clearing – 6L	4,147
c. Clearing – 6M	<u>4,785</u>
Subtotal	\$ 399,805

8. Creekside Forest Drive/Great Heron Drive	
a. Water	\$ 83,840
b. Wastewater	46,886
c. Drainage	<u>637,652</u>
Subtotal	\$ 768,378
9. Creekside Forest Drive – Phase IV	
a. Wastewater	\$ 28,915
b. Drainage	<u>907,539</u>
Subtotal	\$ 936,454
10. Creekside Forest Drive/Wilde Creek/Creekside Green	
a. Water	\$ 35,647
b. Wastewater	97,371
c. Drainage	1,123,153
d. Clearing	<u>15,651</u>
Subtotal	\$ 1,271,822
11. Carlton Woods Section 9 Phase I- Drainage	\$56,171
12. Creekside Park Section 7	
a. Water	\$ 168,284
b. Wastewater	335,560
c. Drainage	556,929
d. Clearing	<u>40,332</u>
Subtotal	\$ 1,101,095
13. Creekside Park Section 11	
a. Water	\$ 102,557
b. Wastewater	409,569
c. Drainage	1,137,300
d. Clearing	<u>41,462</u>
Subtotal	\$ 1,690,888
14. Fazio Way Phase I	
a. Water	\$ 50,842
b. Wastewater	32,937
c. Drainage	202,577
d. Clearing	<u>11,875</u>
Subtotal	\$ 298,231
15. Fazio Way Phase 2 - Drainage	\$ 220,327
16. Fazio Way CW Phase I - Drainage	\$ 123,908
17. Creekside Green/Ironwind Lane - Drainage	\$ 41,335
18. Carlton Woods Creekside Park Phase I - Drainage	\$ 371,004
19. Detention Facilities Phase I - Drainage	\$ 2,183,944
20. Contingencies (5% of items 8, 10, and 12)	\$ 157,065
21. Engineering (11% of items 1-19)	<u>\$ 1,318,220</u>
Total Developer Contribution Items	\$14,830,046
B. District Items	
1. MUD 387 Connection Charges for 0 ESFCs	\$ 0
2. SJRA Connection Charges for 223 ESFCs	<u>731,440</u>
Total District Items	<u>\$ 731,440</u>
TOTAL CONSTRUCTION COSTS	<u>\$15,561,486</u>
NONCONSTRUCTION COSTS	
A. Legal Fees	\$ 413,000
B. Financial Advisor Fees	408,000
C. Interest Costs	
1. Developer Interest	3,295,219
D. Bond Discount	612,000
E. Bond Issuance Expenses	35,795
F. Bond Application Report	14,000

G. Attorney General's Fee	9,500
H. TCEQ 0.25% Bond Issuance Fee	<u>51,000</u>
TOTAL NONCONSTRUCTION COSTS	\$ 4,838,514
 TOTAL BOND ISSUE REQUIREMENT	 <u>\$20,400,000</u>

In the instance that approved estimated amounts exceed actual costs, the difference comprises a surplus which may be expended for uses approved by the TCEQ. In the instance that actual costs exceed previously approved estimated amounts and contingencies, additional TCEQ approval and the issuance of additional bonds may be required. The Engineer has advised the District that the proceeds of the sale of the Bonds should be sufficient to pay the costs of the above-described facilities. However, the District cannot and does not guarantee the sufficiency of such funds for such purposes.

[Remainder of Page Intentionally Left Blank]

DISTRICT DEBT

General

The following tables and calculations relate to the Bonds. The District is empowered to incur debt to be paid from revenues raised by taxation against all taxable property located within the District, and various other political subdivisions of government which overlap all or a portion of the District are empowered to incur debt to be paid from revenues raised or to be raised by taxation against all or a portion of the property within the District.

2011 Certified Assessed Valuation	\$739,514,994 (a)
See "TAX DATA" and "TAXING PROCEDURES"	

Direct Debt:

The Outstanding Bonds	\$ 51,005,000
The Bonds	<u>20,400,000</u>
Total	\$ 71,405,000

Estimated Overlapping Debt	\$ 46,113,607
----------------------------------	---------------

Direct and Estimated Overlapping Debt	\$ 117,518,607
---	----------------

Debt Service Fund Balance (August 31, 2011)	\$ 4,054,429 (b)
---	------------------

Direct Debt Ratios:

as a percentage of 2011 Assessed Valuation	9.66 %
--	--------

Direct and Estimated Overlapping Debt Ratios

as a percentage of 2011 Assessed Valuation	15.89 %
--	---------

-
- (a) Certified by Harris County Appraisal District ("HCAD") and Montgomery Central Appraisal District ("MCAD") as of January 1, 2011. Includes \$12,032,446 in owners' opinion of uncertified value from HCAD.
 - (b) Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the Bond Fund. At the time of delivery of the Bonds, one year of capitalized interest on the Bonds plus accrued interest from the sale of the Bonds to be deposited into the District's Bond Fund at delivery.

Estimated Direct and Overlapping Debt Statement

The following table indicates the direct and estimated overlapping debt of the District. The table includes the estimated amount of indebtedness of governmental entities overlapping the District, defined as outstanding bonds payable from ad valorem taxes, and the estimated percentages and amounts of such indebtedness attributable to property located within the District. This information is based upon data secured from the individual jurisdictions and/or the Texas Municipal Reports published by the Municipal Advisory Council of Texas. The calculations by which the statement was derived were made in part by comparing the reported assessed valuation of the property in the overlapping taxing jurisdictions with the assessed valuation of property within the District. No effect has been given to the tax burden levied by any applicable taxing jurisdiction for maintenance and operational or other purposes. 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. Further, certain of the entities listed below may have issued additional bonds since the date cited.

Taxing Jurisdiction	Outstanding Debt as of September 30, 2011	Overlapping	
		Percent	Amount
Magnolia Independent School District	\$ 162,575,459	2.13%	\$ 3,462,553
Tomball Independent School District	305,365,000	9.71	29,665,695
Harris County	2,874,566,628	0.17	4,862,821
Harris County Department of Education	7,980,000	0.17	13,500
Harris County Flood Control District	102,539,024	0.17	173,462
Port of Houston Authority	763,619,397	0.17	1,291,793
Montgomery County	456,800,000	0.23	1,039,336
The Woodlands Township	33,965,000	9.23	3,134,518
Lone Star College System District	526,035,000	0.47	<u>2,469,929</u>
TOTAL ESTIMATED OVERLAPPING DEBT			\$ 46,113,607
The District			<u>71,405,000(a)</u>
TOTAL DIRECT & ESTIMATED OVERLAPPING DEBT			<u>\$117,518,607</u>

(a) Includes the Bonds.

Debt Ratios

	% of 2011 Assessed Valuation
Direct Debt	9.66%
Direct and Estimated Overlapping Debt	15.89%

Under Texas law ad valorem taxes levied by each taxing authority other than the District create a lien which is on a parity with the lien in favor of the District on all taxable property within the District. In addition to the ad valorem taxes required to retire the foregoing direct and overlapping debt, the various taxing authorities mentioned above are also authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administration and/or general revenue purposes. Certain of the jurisdictions have in the past levied such taxes. The District has the power to assess, levy and collect ad valorem taxes for operation and maintenance purposes, and such taxes have been authorized by the duly qualified voters of the District at a rate not to exceed \$1.25 per \$100 of Assessed Valuation. See "TAX DATA - Maintenance Tax."

PROJECTED DEBT SERVICE REQUIREMENTS

The following schedule sets forth the debt service requirements of the principal and estimated interest requirements on the Bonds, assuming an estimated interest rate of 5.50%.

Year Ending 12-31	Outstanding Debt Service	Plus: -- The Bonds --		Total New Debt Service
		Principal	Interest	
2012	\$ 3,641,125	\$ 670,000	\$ 935,000	\$ 5,246,125
2013	3,650,400	450,000	1,085,150	5,185,550
2014	3,645,975	470,000	1,060,400	5,176,375
2015	3,658,375	500,000	1,034,550	5,192,925
2016	3,656,550	525,000	1,007,050	5,188,600
2017	3,661,025	555,000	978,175	5,194,200
2018	3,661,275	585,000	947,650	5,193,925
2019	3,669,663	615,000	915,475	5,200,138
2020	3,696,813	650,000	881,650	5,228,463
2021	3,723,313	685,000	845,900	5,254,213
2022	3,744,688	725,000	808,225	5,277,913
2023	3,775,825	765,000	768,350	5,309,175
2024	3,794,444	805,000	726,275	5,325,719
2025	3,821,606	850,000	682,000	5,353,606
2026	3,840,769	895,000	635,250	5,371,019
2027	3,867,425	945,000	586,025	5,398,450
2028	3,882,963	1,000,000	534,050	5,417,013
2029	3,906,750	1,055,000	479,050	5,440,800
2030	3,922,919	1,110,000	421,025	5,453,944
2031	3,933,844	1,175,000	359,975	5,468,819
2032	3,954,663	1,235,000	295,350	5,485,013
2033	3,965,950	1,305,000	227,425	5,498,375
2034	3,970,688	1,375,000	155,650	5,501,063
2035		1,455,000	80,025	1,535,025
Total	<u>\$87,047,044</u>	<u>\$20,400,000</u>	<u>\$16,449,675</u>	<u>\$123,896,719</u>

Average Annual Requirements - (2012-2035).....	\$5,157,940
Maximum Annual Requirement - (2034)	\$5,501,063

TAX DATA

General

All taxable property located within the District is subject to the assessment, levy and collection by the District of an annual ad valorem tax, without legal limitation as to rate or amount, sufficient to pay principal of and interest on the Bonds, and any future tax supported bonds which may be issued from time to time as authorized. Taxes are levied by the District each year against the District's assessed valuation as of January 1 of that year. Taxes are due upon receipt of a bill therefor, and become delinquent after January 31 of the following year or 30 days after the date billed, whichever is later, or, if billed after January 10, they are delinquent on the first day of the month next following the 21st day after such taxes are billed. The Board covenants in the Bond Order to assess and levy, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax ample and sufficient to produce funds to pay the principal of and interest on the Bonds when due. The actual rate of such tax will be determined from year to year as a function of the District's tax base, its debt service requirements and available funds in the Bond Fund.

Maintenance Tax

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for operation and maintenance of the District and its improvements, if such maintenance tax is authorized by a vote of the District's electorate. On November 7, 2006, the District voters authorized the levy of such a maintenance tax in an amount not to exceed \$1.25 per \$100 of Assessed Valuation. Such tax is levied in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds and any parity bonds which may be issued in the future. The District levied a maintenance tax of \$0.24 per \$100 of assessed valuation for 2011. See "Tax Rate Distribution" below.

Historical Values and Tax Collection History

The following statement of tax collections set forth in condensed form is the 2005-2010 tax collections of the District. Such summary has been prepared by the Financial Advisor for inclusion herein based upon information obtained from records of the District's tax assessor/collector. Reference is made to such records for further and more complete information.

Historical Tax Collections

Tax Year	Assessed Valuation	Tax Rate/ \$100 (a)	Adjusted Levy	% of Collections Current Year	Tax Year Ending	% of Collections as of 9/30/11
2005	\$ 7,171,880	\$1.250	\$ 89,649	91.86%	9-30-06	100.00%
2006	21,741,946	1.250	271,774	97.32	9-30-07	100.00
2007	48,307,766	1.250	603,847	97.83	9-30-08	100.00
2008	174,512,029	1.250	2,181,400	98.40	9-30-09	100.00
2009	396,248,367	1.150	4,561,304	99.66	9-30-10	99.93
2010	555,924,368	0.990	5,503,651	99.31	9-30-11	99.22
2011	739,514,994 (b)	0.990	7,321,198	(c)	9-30-12	(c)

(a) See "- Tax Rate Distribution" below.

(b) Includes \$12,032,446 of uncertified value.

(c) In process of collection.

Tax Rate Distribution

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Debt Service	\$0.75	\$0.72	\$0.000	\$0.000	\$0.000	\$0.000
Maintenance	<u>0.24</u>	<u>0.27</u>	<u>1.150</u>	<u>1.250</u>	<u>1.250</u>	<u>1.250</u>
	<u>\$0.99</u>	<u>\$0.99</u>	<u>\$1.150</u>	<u>\$1.250</u>	<u>\$1.250</u>	<u>\$1.250</u>

Analysis of Tax Base

The following table illustrates the composition of property located within the District during 2007-2011.

Type of Property	2011 Assessed Valuation (a)	2010 Assessed Valuation	2009 Assessed Valuation	2008 Assessed Valuation	2007 Assessed Valuation
Land	\$269,508,817	\$251,506,984	\$206,263,853	\$ 99,761,111	\$43,860,469
Improvements	481,495,214	330,679,102	216,010,150	75,569,767	4,884,846
Personal Property	3,076,067	2,861,576	2,013,107	867,016	15,976
Exemptions	<u>(26,597,550)</u>	<u>(29,123,294)</u>	<u>(28,038,743)</u>	<u>(1,685,865)</u>	<u>(453,525)</u>
Total	<u>\$727,482,548</u>	<u>\$555,924,368</u>	<u>\$396,248,367</u>	<u>\$174,512,029</u>	<u>\$48,307,766</u>

(a) Excludes \$12,032,446 in uncertified value.

Principal Taxpayers

Based upon information supplied by the District's Tax Assessor/Collector, the following table lists the top 10 principal District taxpayers, type of property owned by such taxpayers, and the assessed valuation of such property as of January 1, 2011. The information reflects the composition of the Appraisal District's record of property ownership as of January 1. See "DEVELOPER."

Taxpayer	Type of Property	2011 Assessed Valuation
The Woodlands Land Dev Co LP	Land & Improvements	\$48,269,017
Highland Homes Houston, Ltd.	Land & Improvements	4,438,257
Toll Houston, TX LLC	Land & Improvements	4,234,418
Partners in Building LP	Land & Improvements	4,137,397
Lennar Homes of Texas Inc.	Land & Improvements	3,844,564
D R Horton Texas, Ltd.	Land & Improvements	3,295,355
Homeowner	Land & Improvements	2,950,154
Darling Homes Houston, Ltd.	Land & Improvements	2,831,224
Homeowner	Land & Improvements	2,539,379
Homeowner	Land & Improvements	<u>2,500,000</u>
Total		<u>\$79,039,765</u>
Percentage of Total Tax Roll		10.69%

(a) See "THE DEVELOPER."

Tax Rate Calculations

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 of Assessed Valuation which would be required to meet certain debt service requirements on the Bonds (interest estimated at 5.50%) if no growth in the District occurs beyond the 2011 Assessed Valuation. The calculations also assume collection of 95% of taxes levied, no use of District funds on hand, and the sale of no additional bonds by the District except the Bonds.

Projected Average Annual Debt Service Requirements (Calendar Year 2012-2035).....	\$5,157,940
Tax Rate of \$0.74 on the 2011 Assessed Valuation (\$739,514,994)	
at 95% collection produces	\$5,198,790
Projected Maximum Annual Debt Service Requirement (Calendar Year 2034).....	\$5,501,063
Tax Rate of \$0.79 on the 2011 Assessed Valuation (\$739,514,994)	
at 95% collection produces	\$5,550,060

Estimated Overlapping Taxes

Property located within the District is subject to taxation by several taxing authorities in addition to the District. Set forth below is a compilation of all taxes levied upon property located within the District. Under Texas law, ad valorem taxes levied by each taxing authority other than the District entitled to levy taxes against property located within the District create a lien which is on a parity with the tax lien of the District. In addition to the ad valorem taxes required to make the debt service payments on bonded indebtedness of the District and of such other jurisdictions (see "DISTRICT DEBT- Estimated Direct and Overlapping Debt Statement"), certain taxing jurisdictions are authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administrative and/or general revenue purposes.

<u>Taxing Jurisdictions</u>	<u>2011 Tax Rate Per \$100 of Assessed Valuation</u>	
	<u>Harris County</u>	<u>Montgomery County</u>
The District	\$0.990000	\$0.990000
Magnolia Independent School District	---	1.399500
Tomball Independent School District	1.360000	---
Harris County	0.391170	---
Harris County Dept. of Education	0.007106	---
Harris County Hospital District	0.192160	---
Harris County Flood Control District	0.028090	---
Port of Houston Authority	0.018560	---
Montgomery County	---	0.483800
Montgomery County Hospital District	---	0.074500
The Woodlands Township	0.325000	0.325000
Lone Star College District	<u>0.121000</u>	<u>0.121000</u>
2011 Total Tax Rate	<u>\$3.433086</u>	<u>\$3.393800</u>

TAXING PROCEDURES

Property Tax Code and County-Wide Appraisal District

The Texas Tax Code (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 a single appraisal district with the responsibility for recording and appraising property for all taxing units within a county and a single appraisal review board with the responsibility for reviewing and equalizing the values established by the appraisal district. The District is located in both Harris County and Montgomery County. The Harris County Appraisal District ("HCAD") has the responsibility for appraising property within the District located in Harris County and Montgomery Central Appraisal District ("MCAD") (collectively, the "Appraisal District") has the responsibility for appraising property within the District located in Montgomery County. Such appraisal values are subject to review

and change by the Harris County Appraisal Review Board and Montgomery Central Appraisal Review Board (the "Appraisal Review Boards"), as applicable. Under certain circumstances, taxpayers and taxing units (such as the District) may appeal the orders of the Appraisal Review Boards by filing a 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. Absent any such appeal, the appraisal roll, as prepared by the Appraisal Districts and approved by the Appraisal Review Boards, must be used by each taxing jurisdiction in establishing its tax roll and tax rate. The District is eligible, along with all other conservation and reclamation districts within Harris County and Montgomery County, to participate in the nomination of and vote for a member of the Board of Directors of the Appraisal Districts.

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property and tangible personal property in the District is subject to taxation by the District; however, it is expected that no effort will be made by the District to collect taxes on personal property other than on personal property rendered for taxation, business inventories and the property of privately owned utilities. Principal categories of exempt property include: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; farm products owned by the producer; all oil, gas and mineral interests owned by an institution of higher education; certain property owned by exclusively charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; solar and wind-powered energy devices; and most individually owned automobiles. In addition, the District may by its own action exempt certain property owned by qualified organizations engaged primarily in charitable purposes, residential homesteads of persons sixty-five (65) years or older or under a disability for purposes of payment of disability insurance benefits under the Federal Old-Age Survivors and Disability Insurance Act to the extent deemed advisable by the Board. The District would be required to call an election on such residential homestead exemption upon petition by at least twenty percent (20%) of the number of qualified voters who voted in the District's preceding election and would be required to offer such an exemption if a majority of voters approve it at such election. For the 2011 tax year, the District has granted an exemption of \$10,000 of assessed valuation for persons 65 years of age and older and to persons who are under a disability for purposes of payment of disability insurance benefits under the Federal Old-Age Survivors and Disability Insurance Act. The District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, to between \$5,000 and \$12,000 of assessed valuation depending upon the disability rating of the veteran. A veteran who received a disability rating of 100% is entitled to an exemption for the full value of the veteran's residence homestead. Additionally, effective January 1, 2012, and subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied; provided, however, such exemption shall only become effective if a constitutional amendment proposed by the 82nd Texas Legislature, Regular Session, 2011, authorizing the Legislature to provide for such an exemption is approved by the voters.

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 certain tangible personal property as defined by the Property Tax Code. The exemption excludes oil, natural gas, petroleum products, aircraft and certain special inventory including dealer's motor vehicles, dealer's vessel and outboard motor vehicle, dealer's heavy equipment and retail manufactured housing inventory. For tax year 2011 and prior applicable years, the exemption applies to covered property if it is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation, and the location where said property is detained during that period is not directly or indirectly owned or under the control of the property owner. For tax year 2012 and subsequent years, such Goods-in-Transit Exemption is further limited to tangible personal property acquired in or imported into Texas for storage purposes and which 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. For tax year 2012 and subsequent years, Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit personal property. For tax year 2012 and subsequent years, 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. However, taxing units who took official action as allowed by prior law before October 1, 2011, to tax goods-in-transit property, and who pledged such taxes for the payment of debt, may continue to impose taxes against the goods-in-transit property until the debt is discharged without further action, if cessation of the imposition would impair the obligations of the contract by which the debt was created. The District has taken official action to allow taxation of all such goods-in-transit personal property, but may choose to exempt same in the future by further official action.

General Residential Homestead Exemption

Texas law authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) of the appraisal value of residential homesteads, but not less than \$5,000, if any exemption is granted, from ad valorem taxation. The law provides, however, that 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. For the 2011 tax year, the District has not granted a general residential homestead exemption.

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Assessments under the Property Tax Code are to be based upon one hundred percent (100%) of market value. The appraised value of residential homestead property may be limited to the lesser of the market value of the property, or the sum of the appraised value of the property for the last year in which it was appraised, plus ten percent (10%) of such appraised value multiplied by the number of years since the last appraisal, plus the market value of all new improvements to the property. Once an appraisal roll is prepared and approved by the Appraisal Review Board, it is used by the District in establishing its tax rate. The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraised values. The plan must provide for appraisal of all real property by the Appraisal District at least once every three (3) years. It is not known what frequency of reappraisal will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone or county-wide basis.

District and Taxpayer Remedies

Under certain circumstances, taxpayers and taxing units, including the District, may appeal orders of the Appraisal Review Board by filing a petition for review in district court within forty-five (45) days after notice is received that a final order has been entered. In such event, the property value in question may be determined by the court, or by a jury, if requested by any party. Additionally, taxing units may bring suit against the Appraisal District to comply with the Property Tax Code. The District may challenge the level of appraisal of a certain category of property, the exclusion of property from the appraisal rolls or the grant, in whole or in part, of an exemption. The District may not, however, protest a valuation of any individual property.

Texas law provides for notice and hearing procedures prior to the adoption of an ad valorem tax rate by the District. Additionally, Texas law provides for an additional notice and, upon petition by qualified voters, an election which could result in the repeal of certain tax rate increases on residential homesteads. The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property values, appraisals that are higher than renditions and appraisals of property not previously on an appraisal roll.

Agricultural, Open Space, or Timberland Deferment

The Property Tax Code permits land designated for agricultural use (including wildlife management), open space, or timberland to be appraised at its value based on the land's capacity to produce agriculture or timber products rather than at its fair market value. The Property Tax Code permits, under certain circumstances, that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Landowners wishing to avail themselves of any of such designations must apply for the designation, and the Appraisal District 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 and not as to others. If a claimant receives the 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 such taxes for a period of three (3) years to five (5) years for agricultural use, timberland or open space land prior to the loss of the designation. According to the District's Tax Assessor/Collector, as of January 1, 2011, no land within the District was designated for agricultural use, open space, inventory deferment, or timberland.

Tax Abatement

The City of Houston, Harris County and Montgomery County may designate all or part of the District as a reinvestment zone, and the District, Harris County, Montgomery County, Tomball Independent School District, Magnolia Independent School District and (after annexation of the area) the City of Houston may thereafter enter into tax abatement agreements with the owners of property within the zone. The tax abatement agreements may exempt from ad valorem tax, by the applicable taxing jurisdictions, and by 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 a comprehensive plan. According to the District's Tax Assessor/Collector, to date, none of the area within the District has been designated as a reinvestment zone.

Levy and Collection of Taxes

The District is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. The District adopts its tax rate each year after it receives a tax roll certified by the Appraisal District. Taxes are due upon receipt of a bill therefor, and become delinquent after January 31 of the following year or 30 days after the date billed, whichever is later, or, if billed after January 10, they are delinquent on the first day of the month next following the 21st day after such taxes are billed. 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 a one percent (1%) penalty 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. However, a tax delinquent on July 1 incurs a total penalty of twelve percent (12%) of the amount of the delinquent tax without regard to the number of months the tax has been delinquent, which penalty remains at such rate without further increase. If the tax is not paid by July 1, an additional penalty of up to the amount of the compensation specified in the District's contract with its delinquent tax collection attorney, but not to exceed twenty percent (20%) of the total tax, penalty and interest, may, under certain circumstances, be imposed by the District. With respect to personal property taxes that become delinquent on or after February 1 of a year and that remain delinquent sixty (60) days after the date on which they become delinquent and as an alternative to the penalty described in the foregoing sentence, an additional penalty of up to the amount specified in the District's contract with its delinquent tax attorney, but not to exceed twenty percent (20%) of the total tax, penalty and interest, may, under certain circumstances, be imposed by the District. The District's contract with its delinquent tax collection attorney currently specifies a twenty percent (20%) additional penalty. A delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid beginning the first calendar month it is delinquent. The District may waive penalties and interest on delinquent taxes only if an error or omission of a representative of the District, including the Appraisal Districts, caused the failure of the taxpayer to pay taxes. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency of taxes under certain circumstances. Additionally, the owner of a

residential homestead property that is a person sixty-five (65) years of age or older is entitled by law to pay current taxes on a residential homestead in installments or to defer the payment of taxes without penalty during the time of ownership.

District's Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property against which the tax is levied. In addition, on January 1, of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of each taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of other such taxing units (see "DISTRICT DEBT – Estimated Direct and Overlapping Debt Statement"). 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. Further, personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalties, 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, or by taxpayer redemption rights (a taxpayer may redeem property that is a residence homestead or was designated for agricultural use within two (2) years after the deed issued at foreclosure is filed of record and may redeem all other property within six (6) months after the deed issued at foreclosure is filed of record) or by bankruptcy proceedings which restrict the collection of taxpayer debt. The District's ability to foreclose its tax lien or collect penalties and interest may be limited on property owned by a financial institution which is under receivership by the Federal Deposit Insurance Corporation pursuant to the Federal Deposit Insurance Act, 12 U.S.C. 1825, as amended. Generally, the District's tax lien and a federal tax lien are on par with the ultimate priority being determined by applicable federal law. See "INVESTMENT CONSIDERATIONS - Tax Collection Limitations" and "The Effect of the Financial Institutions Act of 1989 on Tax Collections of the District."

THE DISTRICT

Authority

The District is a municipal utility district created pursuant to Article XVI, Section 59, Texas Constitution, by Senate Bill No. 1775, passed by the 77th Texas Legislature, Regular Session, 2001, Chapter 1381, codified as Chapter 8272, Special District Local Laws Code, as amended. The District operates pursuant to the provisions of Article XVI, Section 59, Texas Constitution, Chapters 49 and 54, Texas Water Code, as amended, and various general laws of the State applicable to municipal utility districts. The District, which lies wholly within the extraterritorial jurisdiction of the City of Houston, is subject to the continuing supervisory jurisdiction of the Commission.

The District is empowered, among other things, to finance, 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 disposal and collection services. The District is also empowered to establish, operate and maintain fire-fighting facilities, independently or with one or more conservation and reclamation districts, after approval by the Commission and the voters of the District. Additionally, the District may, subject to certain limitations, develop and finance recreational facilities. See "THE BONDS – Issuance of Additional Debt" and "– Financing Recreational Facilities."

The District is required to observe certain requirements of the City of Houston which limit the purposes for which the District may sell bonds to the acquisition, construction, and improvement of waterworks, wastewater, and drainage, recreational, road and fire-fighting facilities and the refunding of outstanding debt obligations; limit the net effective interest rate on such bonds and other terms of such bonds; require approval by the City of Houston of District construction plans; and permit connections only to lots and reserves described in a plat that has been approved by the City of Houston and filed in the real property records of Harris County or Montgomery County, as applicable. The District is also required to obtain certain Commission approvals prior to acquiring, constructing and

financing road and fire-fighting facilities, as well as voter approval of the issuance of bonds for said purposes and for the purposes of financing recreational facilities. Construction and operation of the District's drainage system is subject to the regulatory jurisdiction of additional State of Texas and local agencies. See "THE SYSTEM."

Description

At the time of creation, the District contained approximately 200.00 acres. The District annexed approximately 705.6446 acres of land on November 30, 2004; excluded approximately 0.0572 of an acre of land on July 28, 2005; annexed approximately 572.8357 acres of land on July 28, 2005; annexed approximately 458.527 acres of land on July 26, 2007; annexed approximately 242.681 acres of land on May 15, 2008; annexed approximately 249.742 acres of land on December 18, 2008; annexed approximately 12.684 acres of land on May 28, 2009 and annexed approximately 145.883 acres of land on March 31, 2011 for a total of approximately 2,585 acres currently contained within the District's boundary. The District has taken action to annex an additional approximately 95 acres. Such action is expected to be complete on October 27, 2012.

The District is located partially within Harris County (approximately 2,029.2431 acres) with a small portion located within Montgomery County (approximately 408.504 acres), approximately 27 miles north of the central business district of the City of Houston, Texas, and approximately 13 miles south of the City of Conroe. The District is accessible via Interstate Highway No. 45 and Woodlands Parkway to Gosling Road, to F.M. 2978 or Kuykendahl Road. It is located within the extraterritorial jurisdiction of the City of Houston and exclusively within the 28,000-acre community known as The Woodlands. The District's Harris County portion is bordered on the north by Spring Creek and on the south by Augusta Pines, on the east by Gosling Road and on the west by Spring Creek. The Harris County portion lies entirely within the Tomball Independent School District. The Montgomery County portion is bordered on the north by Woodlands Parkway, on the south by Spring Creek, on the east by Montgomery County Municipal Utility District No. 46 and on the west by F.M. 2978. The Montgomery County portion lies entirely within Magnolia Independent School District.

CURRENT STATUS OF DEVELOPMENT IN THE DISTRICT

Sales and Development

Of the approximate 2,585 acres of land within the District, approximately 1,620 acres (3,369 lots) have been developed as the single-family subdivisions of Village of Creekside Park, Sections 1, 2, 3, 4, 5, 6, 7, 8, 10, 11, 12, 13, 14, 15, 17, 18, 19, 21, 22, 23, 24 and 28, Creekside Park West, Sections 1, 2, 3, 4 and 6, Creekside Carlton Woods, Sections 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11 and 12 and Village of Sterling Ridge, Sections 88, 91, 92, 93, 95, 96, 97, 98 and 99. As of September 1, 2011, the District contained 1,889 occupied homes, 159 unoccupied homes, 235 homes under construction and 957 vacant, developed lots. The remaining acreage within the District is comprised of approximately 817 undeveloped acres but of that, approximately 540 acres are developable.

Residential

The table below summarizes the construction activity occurring in the District as of September 1, 2011.

Village	Lots	Homes Under Construction	Completed Homes	Vacant Lots
Creekside Woods				
Creekside Park				
CS Carlton Woods				
Section 1	8	1	1	6
Section 2	5	0	2	3
Section 3	38	4	12	22
Section 4	24	2	4	18
Section 5	46	3	19	24
Section 6	44	1	4	39
Section 7	17	0	3	14
Section 8	30	3	0	27
Section 9	16	2	1	13
Section 10	26	0	0	26

Section 11	28	2	1	25
Section 12	<u>5</u>	<u>1</u>	<u>0</u>	<u>4</u>
Sub-Total	287	19	47	221
Creekside Park				
Creekside Park				
Section 1	95	5	89	1
Section 2	46	0	45	1
Section 2 Replat	21	0	21	0
Section 3	112	5	107	0
Section 4	141	3	138	0
Section 5	104	0	104	0
Section 6	126	0	126	0
Section 7	115	14	93	8
Section 8	130	0	130	0
Section 10	105	10	86	9
Section 11	90	10	58	22
Section 12	119	3	116	0
Section 13	134	4	117	13
Section 14	161	10	120	31
Section 15	46	15	0	31
Section 17	49	1	0	48
Section 18	106	19	7	80
Section 19	32	1	31	0
Section 21	92	12	0	80
Section 22	36	9	14	13
Section 23	31	13	5	13
Creekside Park West				
W. Section 1	18	4	10	4
W. Section 2	137	13	97	27
W. Section 4	84	5	0	79
W. Section 6	<u>34</u>	<u>6</u>	<u>6</u>	<u>22</u>
Sub-Total	<u>2,251</u>	<u>178</u>	<u>1,539</u>	<u>534</u>
Total Creekside Park	2,538	197	1,586	755
Montgomery County-May Valley				
Village of Sterling Ridge				
Section 88 Duplex	88	0	88	0
Section 91	141	13	105	23
Section 92	43	0	33	10
Section 93	69	2	66	1
Section 95	38	1	24	13
Section 96	41	5	29	7
Section 97	97	10	83	4
Section 98	54	4	29	21
Section 99	<u>131</u>	<u>3</u>	<u>5</u>	<u>123</u>
Sub-Total	<u>702</u>	<u>38</u>	<u>462</u>	<u>202</u>
Total	<u>3,240</u>	<u>235</u>	<u>2,048</u>	<u>957</u>

Homebuilding in the District began in 2005. Currently, there are 136 homes under construction. New homes being built within the District generally range from 1,400 to an excess of 6,000 square feet and are being marketed in the \$140,000 to in excess of \$1,000,000 price range. Homebuilders in the District include Weekly, Lennar, Trendmaker, Pulte, Ryland, Grace Point, Highland, Plantation, Darling and several custom home builders.

PHOTOGRAPHS TAKEN WITHIN THE DISTRICT
(taken October, 2011)



PHOTOGRAPHS TAKEN WITHIN THE DISTRICT
(taken October, 2011)



THE WOODLANDS

THE INFORMATION CONTAINED IN THIS SECTION OF THE OFFICIAL STATEMENT HAS BEEN FURNISHED BY THE DEVELOPER AND IS, OF NECESSITY, BASED IN LARGE PART ON PLANS AND ESTIMATES. THIS SECTION INCLUDES A DISCUSSION OF THE WOODLANDS, A RESIDENTIAL, INDUSTRIAL AND COMMERCIAL DEVELOPMENT OF WHICH THE DISTRICT IS A PART. THE DISTRICT IS PRIMARILY RESIDENTIAL DEVELOPMENT AND THIS DISCUSSION IS NOT INTENDED TO BE A REPRESENTATION THAT DEVELOPMENT SIMILAR TO THAT UNDERTAKEN IN THE COMMERCIAL AND INDUSTRIAL AREAS OF THE WOODLANDS WILL BE UNDERTAKEN IN THE DISTRICT.

THE DEVELOPER HAS NO BINDING COMMITMENT TO THE DISTRICT TO CARRY OUT ANY PLAN OF DEVELOPMENT AND THE FURNISHING OF INFORMATION RELATING TO THE PROPOSED DEVELOPMENT BY THE DEVELOPER SHOULD NOT BE INTERPRETED AS SUCH A COMMITMENT. NEVERTHELESS, THE DEVELOPER HAS ADVISED THE DISTRICT THAT IT HAS THE PRESENT INTENTION TO CARRY OUT THE DEVELOPMENT OF THE WOODLANDS ACCORDING TO THE PLANS PRESENTED.

General

The Woodlands is a community being developed approximately 27-32 miles north of downtown Houston. Located within a 28,000-acre tract of densely forested land, the community is generally situated adjacent to and west of Interstate Highway 45, south of FM 1488, and north of Spring Creek, the boundary line between Montgomery and Harris Counties. Additional acreage, known as The Woodlands Trade Center ("Trade Center"), is adjacent to and east of Interstate Highway 45 between Texas State Highway 242 and FM 1488.

The Woodlands is located in a market sector of the greater Houston metropolitan area containing approximately 150 residential developments. Residential developments located in the market sector offer a variety of housing ranging in price generally from \$95,000 to in excess of \$2 million. The majority of these subdivisions offer some recreational facilities (e.g., swimming pools and clubhouses) and a few provide golf and tennis facilities. In some cases, schools are located within the subdivisions.

Formal opening of The Woodlands occurred in October, 1974. Substantial development, as more fully described herein, has occurred in the Village of Grogan's Mill, the Village of Panther Creek, the Village of Cochran's Crossing, the Village of Indian Springs, the Village of Alden Bridge, the Village of Sterling Ridge, Village of Creekside Park and College Park, which are eight of the eight residential villages planned for The Woodlands; parts of the Town Center, Research Forest, College Park; and the Trade Center. See "AREA MAP" for location of improvements in The Woodlands. These areas currently have a population of approximately 97,023 people, and 1,712 employers provide employment for approximately 47,100 people.

The Development Plan and Status of Development

- Access and Circulation -

Primary access to The Woodlands is provided by Interstate Highway 45, a four to six lane limited access highway running in a north-south direction. The Woodlands has direct access by way of five freeway intersections, Woodlands Parkway, Rayford-Sawdust Road, Lake Woodlands Drive, Research Forest Drive (Tamina Road) and College Park Drive (Texas State Highway 242). Additional access between The Woodlands and downtown Houston and the Houston Intercontinental Airport is provided by the Hardy Toll Road which is owned and operated by the Harris County Toll Road Authority. An alternate access is provided from the FM 1960 area to The Woodlands via Kuykendahl Road in the westernmost portions of The Woodlands. Texas State Highway 242, a major east-west artery connects U.S. 59, in southeast Montgomery County, to FM 1488, north of The Woodlands.

The internal circulation system within The Woodlands, designed to enhance and preserve the community's natural surroundings, is planned to include arterials, collector and local streets; bicycle paths; and pedestrian walkways.

- Commercial, Industrial and Technology Development -

The Woodlands master plan calls for commercial and business activities to be conducted in urban and village shopping and service centers. The centers are planned to be scattered throughout the community, with most of the commercial activity centered in the Town Center. Some of the property has been designated for industrial, technological and research use to provide a diverse range of employment opportunities for residents of The Woodlands. Most of the industrial development planned for The Woodlands will be centered in the Trade Center, a rail-served industrial park, while technology and research development will primarily be located in the Research Forest, College Park and northern portions of the Town Center.

To date, approximately 26.5 million square feet of commercial, retail, industrial, research, technology and institutional facilities have been constructed in The Woodlands. Significant corporate commitments include a General Growth Properties, Inc. of The Woodlands Mall, site of Sears; Dillard's; Mervyn's; J.C. Penney's; Barnes & Noble; P.F. Chang's; The Cheesecake Factory; Brio; Flemings Steakhouse; Anthropologie; Ann Taylor Loft; Williams Sonoma; Pottery Barn; Panera Bread Bakery & Café; Macy's; Macy's Furniture Gallery; Sweet Tomatoes; Donoho's Jewelers; Benihana Japanese Cuisine; Toys R Us; Target; Landry's; Cinemark Tinseltown 17 screen theatre; Best Buy; Brinker International; Macaroni Grill; TGI Friday's; Bank of America; Shell; Chevron; Burger King; Compass Bank; Exxon; Memorial Health Care System; St. Luke's Episcopal Health System; Drury Inn; CVS Pharmacy; Martin Brower (distribution for McDonald's Restaurants); Anadarko Petroleum; 90-room Courtyard Inn by Marriott; Chevron Phillips Chemical Company; Entergy; Houston Advanced Research Center; Hughes Christensen; Chicago Bridge & Iron; Halliburton; Huntsman Chemical; La Quinta Motor Inn; Maersk Sealand; 90-room Residence Inn by Marriott; Amegy Bank; State Farm Insurance; U.S. Post Office, among others. Leasing commitments have been made by Allstate Insurance; Bank One; Barnes & Noble; Bruker Instruments; Chevron Pipeline; Cost Plus; CVS Pharmacy; Exult; Kroger; Marshall's; Merrill Lynch Pierce Fenner & Smith; Office Max; Randall's; Ross; Ulta (Beauty Store); WorldCom Network Services; and many more.

Improvements currently under construction include The Village at the Woodlands Waterway®, a luxury senior living community overlooking The Woodlands Waterway® that will include 188 units and approximately 250,000 square feet that was completed in September 2011. This community offers both independent and assisted living rental apartments complemented by many amenities. Also in the Town Center is a 23,000 square feet, 2-story Dr. Hede medical office building that opened in mid-2011. In Research Forest, a 50,000 square foot professional/office building will be constructed by Technology Land Investment, L.P. and be available in 2011. Warmack Investments is constructing a 68,000 square foot multi-tenant office building for completion in fall 2011. Southern Builders, the largest homebuilding company in the Shreveport-Bossier City, LA area has purchased a 7-acre parcel on Technology Forest Drive for construction of a 44-unit, for sale office condominium project that will consist of 11 buildings, each containing four units. Completion of the project is estimated for the fall of 2011. A Hyatt Place® Hotel that will contain 150 guestrooms and 6,000 square feet of banquet and meeting space is expected to be under construction in late 2011 with opening planned in mid-2013. In College Park, St. Luke's The Woodlands Hospital has completed a 700-car parking garage and has broken ground for its 100,000 square-foot Medical Arts Center III building with completion planned in early 2012. In the Village of Grogan's Mill, Greystar Real Estate Partners has purchased a 12.4 acre site and is constructing The Woodlands Lodge, a 300-unit upscale garden apartment community, with opening planned for early 2012. HEB is constructing its third store in The Woodlands at FM 1488 and Kuykendahl Road.

The final village, Creekside Park, in The Woodlands continues to be developed with 1,586 completed homes and 197 homes currently under construction. Also currently under construction is Tomball ISD's second elementary school in the Village of Creekside Park for students in grades K-6. The new school will open for the 2012-2013 school year. Its aquatic center is open and includes a water slide, interactive water feature for children, a lazy river and lap pool.

- Residential Development -

Since formal opening of The Woodlands in 1974, approximately 40,550 dwelling units have been completed, including approximately 29,710 single family detached units, approximately 3,650 townhouses and condominiums, and twenty-one apartment complexes and assisted living containing 7,190 apartment units. New housing prices generally range from \$95,000 to in excess of \$2.0 million.

Residential support services include churches, schools, a hospital, a library and governmental services. Thirty different religious organizations have constructed churches and related facilities. There are fourteen schools providing schooling from kindergarten to the 12th grade. Additionally, there are two private schools currently providing schooling from kindergarten through 12th grade and pre-kindergarten to 9th grade. The North Harris/Montgomery College District constructed a campus which opened in September, 1995. Health care is provided at Memorial Hermann - The Woodlands Hospital, a 254-bed acute care facility. In addition, St. Luke's Hospital has purchased approximately 40 acres and has completed a 150-bed health care facility. There are six fire stations and The Woodlands Fire Training Facility owned by The Woodlands Fire Department, which are located in the Villages of Sterling Ridge, Alden Bridge, Cochran's Crossing, Grogan's Mill, College Park and the main station located near Town Center. Montgomery County, in four separate buildings, operates a Court House Annex, a Public Library, a Community Center, and a public safety building, a branch of the Sheriff's Department. About one-third of all the land in The Woodlands is planned to be open space, including wildlife corridors, park land, lakes and recreational areas. Many parks and open spaces are available today, including the 203 acre Lake Woodlands. Other recreational facilities include 117 holes of golf, a swimming, diving, tennis and gym facility, two YMCAs and the Cynthia Woods Mitchell Pavilion, an amphitheater with seating capacity of 16,090.

THE SYSTEM

- Harris County -

The Harris County portion of the District is within the 28,000 acres of The Woodlands. The District has entered into a long term agreement with Harris County Municipal Utility District No. 387 ("HCMUD 387") for provision of financing, operation and maintenance of master water and sanitary sewer facilities to serve the Harris County portion of the District. HCMUD 387 operates the central water plants, wastewater treatment plants and major water distribution and wastewater transportation facilities which serve the developed portions of the District within Harris County.

Water System

The central water supply facilities presently consist of Water Plant No. 1 and No. 2. Water Plant No. 1 is located on Creekside Green Drive and consists of two (2) 1,000 gpm water wells. This water plant has two (2), 500,000 gallon ground storage tanks, booster pump station with installed capacity of 9,800 gpm, two 15,000 gallon pressure tanks, chlorination facilities and related appurtenances. Water Plant No. 2 is located west of Kuykendahl on N. Heritage Mill Rd. in Creekside Park West. It consists of one (1) 1,000 gpm water well, a 500,000 gallon ground storage tank, booster pump station with installed capacity of 2,700 gpm, two 15,000 gallon pressure tanks, chlorination facilities and related appurtenances. The central water distribution facilities originating at the plants consist of looped network of mains and secondary feeders ranging to 16 inches in diameter. The District has previously purchased 1,710 equivalent single-family connections ("ESFCs") of water capacity from HCMUD 387 to serve the Harris County portion of the District.

Sanitary Sewer System

A central sanitary sewer system is located on the eastern side of the District on Gosling Road. Phase I and II of the plant have been completed bringing the total capacity of the plant to 0.48 MGD (approximately 1,600 ESFCs) with provisions to increase the capacity to 3.0 MGD. The wastewater collection system within the District consists of a network of collection lines ranging to 30 inches in diameter, which transports wastewater to the treatment facilities. The District has previously purchased 1,710 ESFCs of sanitary sewer capacity from HCMUD 387 to serve the Harris County portion of the District.

Harris/Galveston Subsidence District

The Harris County portion of the District is located within Area 3 of the boundaries of the Harris-Galveston Coastal Subsidence District (the "Subsidence District"), the entity which regulates groundwater withdrawal in Harris and Galveston Counties. HCMUD 387's ability to pump groundwater from its wells is subject to annual permits issued by the Subsidence District. On April 14, 1999 the Subsidence District adopted a Regulatory Plan (the "Regulatory Plan") to reduce groundwater withdrawal through conversion to surface water consumption by the areas within the

Subsidence District's boundaries. Under the Regulatory Plan, areas within the Subsidence District's boundaries must convert to 30% surface water by 2010, 70% surface water by 2020 and 80% surface water by 2030. Water permittees, including HCMUD 387, are required to adopt and implement a groundwater reduction plan to meet the schedule for surface water conversion.

The District is also located within the boundaries of the North Harris County Regional Water Authority (the "Water Authority"). The Water Authority was created to accomplish the conversion to surface water by entities within the Subsidence District's Area 3 in accordance with the Subsidence District's Regulatory Plan. To implement the required conversion to surface water in accordance with the Subsidence District's Regulatory Plan, the Water Authority has adopted a ground water reduction plan providing for the design, construction and operation of a network of surface water transmission lines, storage tanks, and pumping stations to transport and distribute surface water to the areas within the Water Authority's boundaries (the "Surface Water Facilities"). The Water Authority has also contracted with the City of Houston to secure a long-term supply of surface water. To obtain funding to accomplish its purposes, the Water Authority is currently assessing a groundwater pumpage fee in the amount of \$1.75 per 1,000 gallons of water which applies to certain water well permittees in its boundaries, including the District. The Water Authority has sold three issues of Senior Lien Revenue Bonds in the principal amount of \$456,675,000 to finance costs related to the design, acquisition and construction of Phase 1 of the Surface Water Facilities. The Water Authority bonds are secured by revenues of the Water Authority, including the groundwater pumpage fee. The groundwater pumpage fee may increase in the future.

HCMUD 387 is required to pay for its share of the cost to acquire, design, construct and operate the Surface Water Facilities, which cost will be passed through to the District pursuant to its agreement with HCMUD 387. The District's share of the cost of Phase 1 of the Surface Water Facilities is being paid through the pumpage fee. For future phases of the Surface Water Facilities, current rules of the Water Authority allow HCMUD 387 to elect to pay for its share of the costs of the Surface Water Facilities through upfront capital contributions, which may be financed by either HCMUD 387 or the District through the issuance of bonds.

No representation is made that the Water Authority will continue in existence or will build the Surface Water Facilities to meet the Subsidence District's Regulatory Plan. If such event occurs, HCMUD 387 would be subject to the Subsidence District's disincentive fee and would be required to proceed with preparing and implementing its own groundwater reduction plan.

Drainage System

The land within the District and in Harris County drains through a series of designated channels outfalling into Dry Creek, then ultimately into Spring Creek.

- Montgomery County -

The Montgomery County portion the District is also within the 28,000 acres of The Woodlands. The revised general plan of the Developer contemplates the establishment of central or regional systems whereby sanitary sewage would be collected and treated within three identifiable regions. Water supply would be provided in five different service zones, while drainage systems generally correspond to natural drainage patterns. The San Jacinto River Authority ("SJRA") has entered into a long term cooperative agreement with the Developer for the planning, financing, construction, ownership, operation and maintenance of the water supply and sanitary sewage treatment facilities serving The Woodlands, including the Montgomery County portion of the District. The SJRA owns the existing central water plants, wastewater treatment plants and major water distribution and wastewater transportation facilities which serve the developed portions of The Woodlands, including the Montgomery County portion of the District. The District and neighboring MCMUD Nos. 6, 7, 36, 39, 40, 46, 47, 60, and 67, The Woodlands MUD 2, and Metro Center MUD have entered into agreements with SJRA for the financing, construction, and operation of central water supply and wastewater treatment facilities for all twelve districts. Under these agreements, each district, as a customer of SJRA, has made or will make or finance capital payments to SJRA proportionate to the costs of facilities construction and its ultimate service needs, and each makes payments to SJRA for operation and maintenance expenses in proportion to its volume of usage. These payments were based on estimated unit costs for such capacities and are made subject to such adjustments as may be necessary at the time when a periodic accounting for such costs can be made.

Fourth Interim Accounting

SJRA provides a periodic accounting to each customer district showing the actual and projected future unit cost of purchasing capacities in SJRA's Systems and the amounts payable to SJRA for reserved capacities in SJRA's Systems. Each customer district is then responsible for issuing the district's bonds, utilizing other district revenues or participating in a joint bond issue with other similarly situated districts to secure sufficient funds to make such payments to SJRA. At the end of 2007, SJRA completed a Fourth Interim Accounting updating and revising such unit costs for capacities in SJRA's Systems, and such periodic accounting report was approved by all customer districts. Based on such report, the District has acquired and made full payment for its current needs for capacities in SJRA's Systems equal to 610 equivalent connections.

Water System

Water for the Montgomery County portion of the District is supplied from groundwater wells located within The Woodlands. The water distribution system presently planned for the ultimate development will consist of five central pump stations, one in each service zone, together with appurtenant ground and elevated storage tanks and underground distribution piping. Based on an estimated population of 150,000 people at full development of The Woodlands, water demands are projected at 22.1 million gallons per day ("MGD") for average daily demand and 54 MGD for peak-day demand. An evaluation of the ground water potential of The Woodlands by LBG-Guyton Associates indicates that the ultimate peak-day demand could be satisfied from the two main water bearing formations underlying The Woodlands. This evaluation has been confirmed in a subsequent study by LBG-Guyton Associates of the underground water supply for a larger regional area encompassing The Woodlands. A new surface water supply from Lake Conroe is planned to supplement the groundwater supply for The Woodlands in 2016.

The central water supply facilities within The Woodlands presently consist of Water Plant Nos. 1, 2, 3, 4, and 5 and six elevated storage tanks (EST Nos. 1, 2, 3, 4, 5, and 7). The central water distribution facilities originating at the five water plants consist of a looped network of mains and secondary feeders (ranging to 30 inches in diameter) sized to supply peak day demands and emergency requirements. Water distribution within the Participant Districts is accomplished through a looped network of mains, secondary feeders, and neighborhood distribution lines ranging to 12 inches in diameter.

The District has previously purchased 1,071 equivalent single-family connections ("ESFC's") of water capacity from SJRA and will purchase an additional 223 ESFC's of water capacity with a portion of the proceeds of the Bonds totaling 1,294 ESFC's to serve the Montgomery County portion of the District.

Lone Star Groundwater Conservation District

The Montgomery County portion of the District is included in the boundaries of the Lone Star Groundwater Conservation District ("LSGCD"), a Montgomery County-wide regulatory agency. LSGCD has adopted a regulatory plan which requires groundwater users within Montgomery County to reduce groundwater usage by thirty-percent (30%) by January 1, 2016. In order to meet the requirements of the regulatory agency, the District will be required to convert to surface water sources by such date. The direct costs to the District for making such conversion currently are not known. The District has joined the SJRA to implement a groundwater reduction plan and treated surface water system for all of Montgomery County, including the Montgomery County portion of the District, and the SJRA is currently assessing a groundwater pumpage fee in the amount of \$0.75 per 1,000 gallons of water, which applies to certain large volume water users within Montgomery County, including the District, as to that portion of the District which lies within Montgomery County.

Waste Disposal System

A central sanitary sewage treatment plant exists in each of the three regions within The Woodlands. This plan is in general conformity with the Water Quality Management Plan developed by the Houston-Galveston Area Council ("H-GAC") for the Lake Houston area as part of its overall conceptual study of regional sanitary sewage systems for the eight county H-GAC area. The plan adheres to the objectives of the H-GAC plan for the regional system and, at the same time, provides additional flexibility necessary to meet future changes in the service area and the

final implementation of a regional plan. The sanitary sewage load for full development has been recently estimated at 12.8 million gallons per day (“MGD”) for the three central plants. The first central wastewater treatment plant of SJRA (“WWTP1”) is located adjacent to MCMUD 6 along Sawdust Road and currently has capacity of 7.8 MGD. The second wastewater treatment plant (“WWTP2”) is located west of the intersection of Gosling Road and Research Forest Drive. WWTP2 has a permitted capacity of 6.0 MGD with provisions to increase to 7.8 MGD. The third wastewater treatment plant (“WWTP3”), located in MCMUD 39, and has a permitted capacity of 900,000 gallons per day. The wastewater collection system within the District consists of a network of collection lines ranging to 21 inches in diameter. This collection system empties wastewater into trunk sewers, a part of the SJRA central system, which transports wastewater to the treatment facilities.

The District has previously purchased 1,071 ESFC’s of sanitary sewer capacity from SJRA and will purchase an additional 223 ESFC’s of sanitary sewer capacity with a portion of the proceeds of the Bonds totaling 1,294 ESFC’s to serve the Montgomery County portion of the District

Drainage System

The District’s Montgomery County portion lies within the Spring Creek watershed. The District’s drainage system consists of (a) a major outfall drainage channel originating at the northern boundary of May Valley, running through the District to its southeastern corner and continuing outside the boundaries of the District to Spring Creek.

MANAGEMENT OF THE DISTRICT

The District is governed by a Board of Directors, consisting of five directors. The Board of Directors has control over and management supervision of all affairs of the District. Directors serve four-year staggered terms. Elections are held in May of even numbered years. The current members and officers of the Board, along with their respective terms of office, and their occupations are listed below. One of the Directors currently resides within the District and the four remaining directors all own property within the District.

Name	Position	Occupation	Term Expires May
Jerry C. Perciful	President	Retired	2012
Armando Wood	Vice President	Financial Consultant	2012
Lucile Landis	Secretary/Treasurer/ Records Management Officer	Retired	2014
Craig Brast	Assistant Vice President	Investment Banking	2014
E. Alan Fritsche	Assistant Secretary/Treasurer	Retired	2012

District Investment Policy

The District's goal is to minimize credit and market risks while maintaining a competitive yield on its portfolio. The District does not currently own, nor does it anticipate the inclusion of long term securities or derivative products in the District's investment portfolio.

Consultants

Although the District does not have a general manager or any other full-time employees, it has contracted for utility system operating, bookkeeping, tax assessing and collecting, auditing, engineering, financial advisory, and legal services as follows:

Tax Assessor/Collector

The District's Tax Assessor/Collector is Mr. Tim Spencer of Ad Valorem Appraisals, Inc. (the "Tax Assessor/Collector"). Mr. Spencer serves as tax assessor/collector for more than 3 other taxing jurisdictions. The Tax Assessor/Collector applies the District's tax levy to tax rolls prepared by the Harris County Appraisal District and Montgomery Central Appraisal District and bills and collects such levy.

Bookkeeper

The District's bookkeeper is Municipal Accounts & Consulting, L.P. Such firm acts as bookkeeper for more than 250 utility districts.

Utility System Operator

The District's operator is Municipal District Services, LLC. Such firm acts as operator for approximately 50 utility districts.

Auditor

As required by the Texas Water Code, the District retains an independent auditor to audit the District's financial statements annually, which annual audit is filed with the TCEQ. Sandersen Knox & Co., L.L.P. prepared the financial statements of the District for the fiscal year ending March 31, 2011. Such financial statements are included as APPENDIX C.

Engineer

The consulting engineer for the District in connection with the design and construction of the facilities for which the Bonds are being sold to reimburse the Developer is Pate Engineers, Inc. (the "Engineer"). The Engineer has also been employed by the Developer in connection with certain planning activities and the design of certain streets and related improvements within the District.

Financial Advisor

The District has engaged RBC Capital Markets, LLC (the "Financial Advisor") as financial advisor to the District. The fees paid to the Financial Advisor for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued and sold. Therefore, the payment of such fees is contingent upon the sale and delivery of the Bonds. The District has authorized the Financial Advisor to bid on the Bonds.

Attorney

The District has engaged Schwarz, Page & Harding, L.L.P., as general counsel to the District and as bond counsel ("Bond Counsel") in connection with the issuance of the Bonds. The fees to be paid Bond Counsel in connection with the issuance of the Bonds are contingent upon the sale and delivery of the Bonds. See "LEGAL MATTERS."

INVESTMENT CONSIDERATIONS

General

The Bonds, which are obligations solely of the District and not of the State of Texas, Harris County, Montgomery County, the City of Houston, The Woodlands Township, or any political subdivision or agency other than the District, are secured by the levy of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. The ultimate security for payment of the principal of and interest on the Bonds depends upon the District's ability to collect from the property owners within the District taxes levied against all taxable property located within the District, or, in the event taxes are not collected and foreclosure proceedings are instituted by the District, upon the value of the taxable property with respect to taxes levied by the District and by other taxing authorities. The District makes no representation that over the life of the Bonds the taxable property within the District will maintain a value sufficient to justify continued payment of taxes by property owners or that there will be a market for any property if the District forecloses on property to enforce its tax lien. The potential increase in taxable valuation of District property is directly related to the economics of the residential housing industry, not only due to general economic conditions, but also due to the particular factors discussed below. Further, the collection of delinquent taxes owed the District, and the enforcement by a Registered Owner of the District's obligation to collect sufficient taxes, may be costly and lengthy processes. See "Tax Collection Limitations and Beneficial Owners' Remedies and Bankruptcy" below and "THE BONDS - Source and Security for Payment, and - Remedies in the Event of Default."

Factors Affecting Taxable Values and Tax Payments

National Economy: Nationally, there has been a significant downturn in new housing construction caused, in part, by the unavailability of mortgage funds, resulting in a decline in housing market values. Although the Houston area has not experienced the same rate of decline as much of the rest of the nation, the Houston area, which includes the District, has seen reduced levels of home construction. The District cannot predict what impact, if any, a continued downturn in the housing market may have on the Houston-area market, though a significant decrease in housing market values would result in a decrease in taxable values in the District.

Economic Factors and Interest Rates: The rate of development of the District and maintenance of taxable values is directly related to the vitality of the residential housing industry, which has slowed both nationally and in the Houston area. New residential housing construction and appraised values of existing housing can be significantly affected by factors such as interest rates, construction costs, energy availability, gasoline prices, foreclosure rates, availability of mortgage financing, and consumer demand. Decreased levels of home construction activity tend to restrict the growth of property values in the District.

Interest rates and the availability of mortgage loans both have a direct impact on the level of housing construction activity. Long-term rates affect a home purchaser's ability to qualify for and to afford the total financing costs of a new home. High long-term interest rates or unavailability of credit may negatively affect home sales and the rate of growth of taxable property values in the District. Further, the short-term interest rates at which developers and builders are able to obtain financing for development and building costs may affect the developers' or builders' ability or willingness to complete development or building plans.

Competitive Nature of Residential Housing Market: The housing industry in the Greater Houston Metropolitan Area is very competitive, and the District can give no assurance that the building programs which are planned by the Developer will be implemented or completed. The competitive position of the Developer in the sale of improved lots to builders or in the construction of single-family residential units by the builders is affected by most of the factors discussed in this section, and such competitive position is directly related to tax revenues received by the District and the growth and maintenance of taxable values in the District.

Developer's Obligations to the District: There is no commitment by or legal requirement of the Developer, or any other landowner to the District, to proceed at any particular rate or according to any specified plan with the development of land in the District, or of any homebuilder to proceed at any particular pace with the construction of homes in the District. Moreover, there is no restriction on any landowner's right to sell its land. Therefore, the District can make no representation about the probability of future development, if any, or the rate of future home construction activity in the District. Failure to construct taxable improvements on developed lots would restrict the rate of growth of taxable values in the District and result in higher tax rates. The Developer is owed in part by General Growth Properties, Inc., which company voluntarily filed for relief under Chapter 11 of the United States Bankruptcy Code. According to representatives of the Developer, they do not anticipate such bankruptcy to materially affect the Developer's activities in the District. See "CURRENT STATUS OF DEVELOPMENT IN THE DISTRICT" and "THE DEVELOPER."

The Developer is not responsible or liable for, and has not made any commitment for payment of, debt service on the Bonds. The Developer's sole responsibility is to pay the ad valorem taxes levied by the District on its property. Further, the financial condition of the Developer is subject to change at any time. Likewise, the Developer may sell or otherwise dispose of its property within the District at any time.

Maximum Impact on District Tax Rates

The value of the land and improvements currently located within the District will be a major determinant of the ability of the District to collect, and the willingness of District property owners to pay, ad valorem taxes levied by the District. The 2011 Assessed Valuation of property located within the District (see "TAX DATA") is \$739,514,994. After issuance of the Bonds, and assuming an interest rate of 5.50% per annum on the Bonds, the Projected Maximum Annual Debt Service Requirement will be \$5,501,063 (2034) and the Projected Average Annual Debt Service Requirements will be \$5,157,940 (2012 through 2035, inclusive). Assuming no increase to or decrease from the 2011 Assessed Valuation, and no use of other District funds, tax rates of \$0.79 and \$0.74 per \$100 of Assessed Valuation at a 95% tax collection rate would be necessary to pay the Projected Maximum Annual Debt Service Requirement and the Projected Average Annual Debt Service Requirements, respectively. See "TAX DATA - Tax Rate Calculations."

Tax Collection Limitations

The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other state and local taxing authorities on the property against which taxes are levied, and such lien may be enforced by judicial foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time consuming and expensive collection procedures, (b) a bankruptcy court's stay of tax collection procedures against a taxpayer, (c) market conditions affecting the marketability of taxable property within the District and limitation of the proceeds from a foreclosure sale of such property, (d) adverse effects on the proceeds of a foreclosure sale resulting from a taxpayer's limited right to redeem its foreclosed property as set forth below, or (e) insufficient foreclosure bids to satisfy the tax liens of all state and local taxing authorities which have parity liens on the property. While the District has a lien on taxable property within the District for taxes levied against such property, such lien can be foreclosed only in a judicial proceeding. Moreover, the value of the property to be sold for delinquent taxes and thereby the potential sales proceeds available to pay debt service on the Bonds, may be limited by among other factors, the existence of other tax liens on the property, by the current aggregate tax rate being levied against the property, or by the taxpayers' right to redeem residential or agricultural use property within two (2) years following the date of recordation of the deed issued at foreclosure and all other property within six (6) months following the date of recordation of the deed issued at foreclosure. See "TAXING PROCEDURES."

Registered Owners' Remedies and Bankruptcy

In the event of default in the payment of principal of or interest on the Bonds, the Registered Owners have a right to seek a writ of mandamus requiring the District to levy adequate taxes each year to make such payments. Except for mandamus, the Bond Order does not provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Although the Registered Owners could obtain a judgment against the District, such a judgment could not be enforced by a direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District in order to pay the principal of and interest on the Bonds. Since there is no trust indenture or trustee, the Registered Owners would have to initiate and finance the legal process to enforce their remedies. The enforceability of the rights and remedies of the Registered Owners may be further 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. In this regard, should the District file a petition for protection from creditors under federal bankruptcy laws, a suit seeking the remedy of mandamus would be automatically stayed and could not be pursued unless authorized by a federal bankruptcy judge.

Future Debt

The District reserves in the Bond Order the right to issue the remaining \$210,595,000 in unlimited tax bonds authorized but unissued for waterworks, sanitary sewer and drainage facilities, the \$11,500,000 in unlimited tax bonds for recreational facilities, and such additional bonds as may hereafter be approved by both the voters and the Board of Directors of the District. The District has also reserved the right to issue certain other additional bonds, special project bonds, and other obligations described in the Bond Order. All of the remaining bonds described above for waterworks, sanitary sewer and drainage facilities and the remaining bonds described above for recreational facilities which have heretofore been authorized by the voters of the District may be issued by the District from time to time as needed. The issuance of such \$210,595,000 in bonds for waterworks, wastewater and drainage facilities and the \$11,500,000 in unlimited tax bonds for recreational facilities are also subject to Commission authorization. Following the issuance of the Bonds, the District will have approximately 915 acres of undeveloped but developable land. According to the District's Engineer, the remaining authorized but unissued bonds are sufficient in amount to fully develop the District. Following the issuance of the Bonds, the Developer will still be owed approximately \$16,300,000 for monies advanced for the existing water, sewer and drainage infrastructure and \$8,875,000 for monies advanced for park and recreation infrastructure. Such monies will be paid from future bond issues. See "THE DEVELOPER – Description of the Developer.

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

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

There has been no definitive judicial determination of the validity of these 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 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.

Future and Proposed Legislation

From time to time, there are Presidential proposals, proposals of various federal committees, and legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to herein or adversely affect the marketability or market value of the Bonds or otherwise prevent holders of the Bonds from realizing the full benefit of the tax exemption of interest on the Bonds. Further, such proposals may impact the marketability or market value of the Bonds simply by being proposed. One such proposal is the American Jobs Act of 2011 (S.1549) (the "Jobs Bill") which was introduced in the Senate on September 13, 2011 at the request of the President. If enacted in its current form, the Jobs Bill could adversely impact the marketability and market value of the Bonds and prevent certain bondholders (depending on the financial and tax circumstances of the particular bondholder) from realizing the full benefit of the tax exemption of interest on the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value, marketability or tax status of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds would be impacted thereby.

Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The disclosures and opinions expressed herein are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds, and no opinion is expressed as of any date subsequent thereto or with respect to any proposed or pending legislation, regulatory initiatives or litigation.

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. Failure by the District to comply with such covenants on a continuous basis prior to maturity of the Bonds could result in interest on the Bonds becoming taxable retroactively to the date of original issuance. See "LEGAL MATTERS - Tax Exemption."

Marketability

The District has no understanding (other than the initial reoffering yields) with the Initial Purchaser regarding the reoffering yields or prices of the Bonds and has no control over the trading of the Bonds in the secondary market. There is no assurance that a secondary market will be made for the Bonds. If there is a secondary market, the difference between the bid and asked price of the Bonds may be greater than the bid and asked spread of other bonds generally bought, sold or traded in the secondary market. See "SALE AND DISTRIBUTION OF THE BONDS."

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 security of the Bonds as an investment, nor does he pass upon the adequacy or accuracy of the information contained in this Official Statement.

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 remedial 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 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 of and the ability to operate the 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 Districts. 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 2008 as a severe ozone attainment area. Such areas are required to demonstrate progress in reducing ozone concentrations each year until the EPA "8-hour" ozone standards are met. Both the TCEQ and EPA took comments on the submission of a new State Implementation Plan ("SIP") which would account for the severe classification of the HGB area, and on March 10, 2010, the Commission adopted a series of SIP revisions and associated rule revisions for the HGB nonattainment area for the 1997 eight-hour ozone standard. New designation submittals were due to the EPA in March 2011 to comply with a newly lowered EPA ozone standard – because the standard was lowered in 2010, it is expected that HGB area will remain in severe nonattainment. To provide for reductions in ozone concentrations to reach the newly lowered ozone standard, the EPA and the TCEQ will continue to impose 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 sever 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 adopted additional control technologies 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.

Other constraints on economic growth and development include lawsuits filed under the Clean Air Act by plaintiffs seeking to require emission reduction measures that are even more stringent than those adopted by TCEQ and approved by EPA. From time to time, various plaintiff environmental organizations have filed lawsuits against TCEQ and EPA seeking to compel the early adoption of additional emission reduction measures, many of which could make it more difficult for businesses to construct or expand industrial facilities or which could result in travel restrictions or other limitations on the actions of businesses, governmental entities and private citizens. Any

successful court challenge to the currently effective air emissions control plan could result in the imposition of even more stringent air emission controls that could threaten continued growth and development in the Houston-Galveston CMSA.

In addition, TCEQ recently announced enforcement initiatives addressed to sources of NO_x and HRVOCs in the Houston area. TCEQ announced that it is dedicating additional enforcement resources to perform in-depth, on-site inspections of industrial facilities that have unauthorized emissions of significant amounts of HRVOCs in the past year. TCEQ also announced a diesel engine initiative, pursuant to which TCEQ will be investigating the regulatory compliance of stationary diesel engines at facilities along the Houston Ship Channel. The City has also undertaken its own initiative to increase local enforcement of air emissions limits imposed by the TCEQ. On December 29, 2004, TCEQ and the City amended a contract that the City has with TCEQ authorizing the City to conduct inspections and investigations of industrial facilities. Prior to the amendment, the City did not have the authority under the contract to initiate enforcement actions. The amendment allows the City to initiate enforcement actions rather than referring its investigation results to the TCEQ for action. These enforcement initiatives may help the Houston-Galveston CMSA attain compliance with EPA's ozone standards, but they could also have an adverse impact on local industrial output.

It remains to be seen exactly what steps will ultimately be required to meet federal air quality standards, how the EPA may respond to developments as they occur, and what impact such steps and any EPA responses may have upon the economy and the business and residential communities in the Houston-Galveston CMSA.

Stormwater Issues. On March 10, 2003, the EPA's Phase II Stormwater Permitting requirements (the "Phase II Rules") became effective, which requirements directly affect the interest of many political subdivisions in the State of Texas, including certain cities, counties, municipal utility districts and authorities that own or operate storm drainage areas subject to certain terms, conditions, and limitations. The EPA has delegated Phase II permitting oversight to the TCEQ pursuant to the provisions of the Clean Water Act. Effective August 13, 2007, the TCEQ issued a general permit which obviates the necessity for each political subdivision requiring Phase II permit coverage to file for an individual small MS4 permit. That general permit is currently undergoing revision and renewal by the TCEQ. Further, the TCEQ has agreed that small MS4s in Harris County, Texas (including the portion of the District located in Montgomery County), will be covered under the large MS4 permit issued jointly to the City of Houston, Harris County, and the Texas Department of Transportation.

Bond Insurance Risk Factors

The Issuer has applied for a bond insurance policy to guarantee the scheduled payment of principal and interest on the Bonds. The Issuer has yet to determine whether an insurance policy will be purchased with the Bonds. If an insurance policy is purchased, the following are risk factors relating to bond insurance.

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

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

In the event the Bond Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Bonds are payable solely from the moneys received pursuant to the applicable bond documents. In the event the Bond Insurer becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds.

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

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

Neither the Issuer or Underwriter have made independent investigation into the claims paying ability of the Bond Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Bond Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the Issuer to pay principal and interest on the Bonds and the claims paying ability of the Bond Insurer, particularly over the life of the investment. See "Bond Insurance" herein for further information provided by the Bond Insurer and the Policy, which includes further instructions for obtaining current financial information concerning the Bond Insurer.

LEGAL MATTERS

Legal Opinions

The District will furnish to the Initial Purchaser a transcript of certain certified proceedings incident to the issuance and authorization of the Bonds, including a certified copy of the approving opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Attorney General has examined a transcript of proceedings authorizing the issuance of the Bonds, and that based upon such examination, the Bonds are valid and binding obligations of the District payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District. The District will also furnish the approving legal opinion of Schwartz, Page & Harding, L.L.P., Houston, Texas, Bond Counsel, to the effect that, based upon an examination of such transcript, the Bonds are valid and binding obligations of the District under the Constitution and laws of the State of Texas, except to the extent that enforcement of the rights and remedies of the Registered Owners of the Bonds 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 and to the effect that interest on the Bonds is excludable from gross income for federal income tax purposes under the statutes, regulations, published rulings and court decisions existing on the date of such opinion, assuming compliance by the District with certain covenants relating to the use and investment of the proceeds of the Bonds. See "Tax Exemption" below. The legal opinion of Bond Counsel will further state that the Bonds are payable, both as to principal and interest, from the levy of ad valorem taxes, without legal limitation as to rate or amount, upon all taxable property within the District. Bond Counsel's opinion will also address the matters described below.

In addition to serving as Bond Counsel, Schwartz, Page & Harding, L.L.P., also serves as counsel to the District on matters not related to the issuance of bonds. The legal fees to be paid to 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. Certain legal matters will be passed upon for the District by Coats, Rose, Yale, Ryman & Lee, P.C., Houston, Texas, as Disclosure Counsel.

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.

Legal Review

In its capacity as Bond Counsel, Schwartz, Page & Harding, L.L.P., has reviewed the information appearing in this Official Statement under the captioned sections "THE BONDS," "THE DISTRICT-General," "MANAGEMENT OF THE DISTRICT-Bond Counsel and General Counsel," "TAXING PROCEDURES," and "LEGAL MATTERS" solely to determine whether such information fairly summarizes the law and documents referred to therein. Such firm has not independently verified factual information contained in this Official Statement, nor has such firm conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon such firm's limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the other information contained herein.

Tax Exemption

On the date of initial delivery of the Bonds, Bond Counsel will render its opinion that in accordance with statutes, regulations, published rulings and court decision existing on the date thereof ("Existing Law") (i) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof, and (ii) the Bonds will not be treated as "specific private activity bonds" the interest on which would be included as an alternative minimum tax preference item under Section 57(a)(5) of the internal Revenue Code of 1986, as amended (the "Code"). Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt of interest on or disposition of the Bonds.

In rendering its opinion, Bond Counsel will rely upon, and assume continuing compliance with, (a) certain information and representations of the District, including information and representations contained in the District's federal tax certificate, and (b) the covenants of the District contained in the Bond Order relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the property financed or refinanced therewith. Failure by the District to observe the aforementioned representations or covenants could cause the interest on the Bonds to be come taxable retroactively to the date of issuance.

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinion is not a guarantee of a result. Existing Law, upon which Bond Counsel has based its opinion, is subject to change by Congress, administrative interpretation by the Department of the Treasury and subsequent judicial interpretation. There can be no assurance that Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of ownership of the Bonds.

NOT Qualified Tax-Exempt Obligations

Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer's taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a "financial institution" allocable to tax-exempt obligations, other than "private activity bonds," that are designated by a "qualified small issuer" as "qualified tax-exempt obligations." A "qualified small issuer" is any governmental issuer (together with any "on-behalf of" and "subordinate" issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term "financial institution" as any "bank" described in Section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to "qualified tax-exempt obligations" provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a "bank," as defined in Section 585(a)(2) of the Code, for interest on indebtedness

incurred or continued to purchase "qualified tax-exempt obligations" shall be reduced by twenty-percent (20%) as a "financial institution preference item."

The District will **NOT** designate the Bonds as "qualified tax-exempt obligations".

Collateral Federal Income Tax Consequences

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on Existing Law which is subject to change or modification retroactively.

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences. The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, including financial institutions, life insurance and property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and individuals otherwise qualifying for the earned income credit. **INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIFIC PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP, AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.**

Interest on the Bonds will included as an adjustment to "adjusted current earnings" of a corporation for purposes of computing its alternative minimum tax under Section 55 of the Code.

Under Section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount bonds" to the extent such gain does not exceed the accrued market discount of such bonds; although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

State, Local and Foreign Taxes

Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

Tax Accounting Treatment of Original Issue Discount and Premium Bonds

The initial public offering price to be paid for one or more maturities of the Bonds may be less than the principal amount thereof or one or more periods for the payment of interest on the Bonds may not be equal to the accrued period or be in excess of one year (the "Original Issue Discount Bonds"). The difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond in the initial public offering of the Bonds. The "stated redemption price at maturity" means the sum of all payments to be made on the Bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, such initial power is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner. See "Tax Exemption" herein for a discussion of certain collateral federal tax consequences.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income.

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

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. ALL OWNERS OF ORIGINAL ISSUE DISCOUNT BONDS SHOULD CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE DETERMINATION FOR FEDERAL, STATE AND LOCAL INCOME TAX PURPOSES OF INTEREST ACCRUED UPON REDEMPTION, SALE OR OTHER DISPOSITION OF SUCH ORIGINAL ISSUE DISCOUNT BONDS AND WITH RESPECT TO THE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP, REDEMPTION, SALE OR OTHER DISPOSITION OF SUCH ORIGINAL ISSUE DISCOUNT BONDS.

The initial public offering price to be paid for certain maturities of the Bonds may be greater than the amount payable on such Bonds at maturity (the "Premium Bonds"). An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity. PURCHASERS OF THE PREMIUM BONDS SHOULD CONSULT WITH THEIR OWN TAX ADVISORS WITH RESPECT TO THE DETERMINATION OF AMORTIZABLE BOND PREMIUM WITH RESPECT TO THE PREMIUM BONDS FOR FEDERAL INCOME TAX PURPOSES AND WITH RESPECT TO THE STATE AND LOCAL TAX CONSEQUENCES OF OWNING PREMIUM BONDS.

SOURCES OF INFORMATION

General

The information contained in this Official Statement has been obtained primarily from the District's records, the Tax Assessor/Collector, the Harris County Appraisal District, the Montgomery Central Appraisal District, the Developer, and other sources believed to be reliable; however, no representation is made as to the accuracy or completeness of the information contained herein, except as described below under "GENERAL CONSIDERATIONS - Certification of Official Statement." The summaries of the statutes, resolutions, orders and engineering and other related reports set forth herein are included subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information.

The financial statements of the District and the accompanying report of Sanderson Knox & Co., L.L.P., Certified Public Accountants, for the fiscal year ended March 31, 2010, included herein in "APPENDIX C," have been published with the consent of Sanderson Knox & Co., L.L.P., Certified Public Accountants.

Consultants

The information contained in this Official Statement relating to engineering, to the description of the System generally and, in particular, the engineering information included in the sections captioned "THE DISTRICT" and "THE SYSTEM," has been provided by the Engineer.

The information contained in this Official Statement in the sections captioned "STATUS OF DEVELOPMENT WITHIN THE DISTRICT" and "THE WOODLANDS," has been provided by the Developer.

The information contained in this Official Statement relating to assessed valuations of property generally and, in particular, that information concerning valuations contained in the sections captioned "TAX DATA" and "DISTRICT DEBT" has been provided by the Harris County Appraisal District, Montgomery Central Appraisal District and Mr. Tim Spencer. The District has included certain information herein in reliance upon Mr. Spencer's authority as an expert in the field of tax assessing and real property appraisal. The District has included certain information herein in reliance upon the Appraisal Districts' authority as an expert in the field of tax assessing and real property appraisal.

CONTINUING DISCLOSURE OF INFORMATION

In the Bond Order the District has made 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 the Municipal Securities Rulemaking Board. This information will be available to the public without charge.

Annual Reports

The District will provide certain financial information and operating data annually. The information to be updated includes all quantitative financial information and operating data of the general type included in the Official Statement with respect to the District under the sections entitled: "PROJECTED DEBT SERVICE REQUIREMENTS," "INVESTMENT CONSIDERATIONS – Future Debt," "THE DISTRICT," "THE SYSTEM," and "TAX DATA." The District will update and provide this information to the Municipal Securities Rulemaking Board (the "MSRB") or any successor to its functions as a repository through its Electronic Municipal Market Access ("EMMA") system within six months after the end of each of its fiscal years ending in or after 2012. 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 updated information will include audited financial statements if it commissions an audit and the audit is completed by the required time. If the audit of such financial statements is not complete within such period, then the District shall provide unaudited financial statements for the applicable fiscal year to the MSRB within such six month period, and audited financial statements when the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in the Bond Order 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 March 31. Accordingly, it must provide updated information by September 30 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

Material Event Notices

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4)

unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other events affecting the tax-exempt status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of CFR §240.15c2-12 (the "Rule"); (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material to a decision to purchase or sell Bonds. The term "material" when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Order makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information From MSRB

The District has agreed to provide the foregoing information only to the MSRB. Investors will be able to access continuing disclosure information filed with the MSRB at www.emma.msrb.org.

Limitations and Amendments

The District has agreed to update information and to provide notices of material 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 holders or beneficial owners of Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

The District may amend its continuing disclosure agreement from time to time to adapt 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, if, but only if, (1) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering made hereby in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (2) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. If the District so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance with Prior Undertakings

In connection with this issuance of its Outstanding Bonds, the District agreed to provide its annual audit report and additional financial and operational data to EMMA as described in the initial offering statement. However, in 2010, the District failed to timely file the audited financial statements and the additional financial and operational data with EMMA, and consequently, the District did not timely comply with its prior undertakings with EMMA. Upon

discovery of such deficiency, the District promptly filed a notice of non-compliance and filed the audit and additional financial and operational data as continuing disclosure filings to EMMA, and the District has implemented procedures to ensure proper filing in the future.

GENERAL CONSIDERATION

Certification as to Official Statement

At the time of payment for and delivery of the Bonds, the District will furnish the Initial Purchaser a certificate, executed by the President and Secretary of the Board of Directors of the District, acting in their official capacities, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the District contained in this Official Statement, on the date thereof and on the date of delivery, were and are true and correct in all material respects; (b) insofar as the District and its affairs, including its financial affairs, are concerned, this Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated herein or necessary to make the statements herein, in the light of the circumstances under which they were made, not misleading; and (c) insofar as the descriptions and statements, including financial data, contained in this Official Statement, of or pertaining to entities other than the District, such statements and data have been obtained from sources which the District believes to be reliable, and the District has no reason to believe that they are untrue in any material respect.

Updating of Official Statement

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

Official Statement "Deemed Final"

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission, this document, as the same may be supplemented or corrected by the District from time to time, may be treated as an Official Statement with respect to the Bonds described herein and has been "deemed final" by the District as of the date hereof (or of any such supplement or correction).

This Official Statement, when further supplemented by adding information specifying interest rates and certain other information relating to the Bonds, shall constitute a "Final Official Statement" of the District with respect to the Bonds, as that term is defined in Rule 15c2-12.

CONCLUDING STATEMENT

The information set forth herein has been obtained from the District's records, audited financial statements and other sources which are considered to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will ever be realized. All of the summaries of the statutes, documents, resolutions and orders contained in this Official Statement are made subject to all of the provisions of the provisions of such statutes, documents, resolutions and orders. These summaries do not purport to be complete statements of such provisions and reference is made to such summarized documents for further information. Reference is made to official documents in all respects.

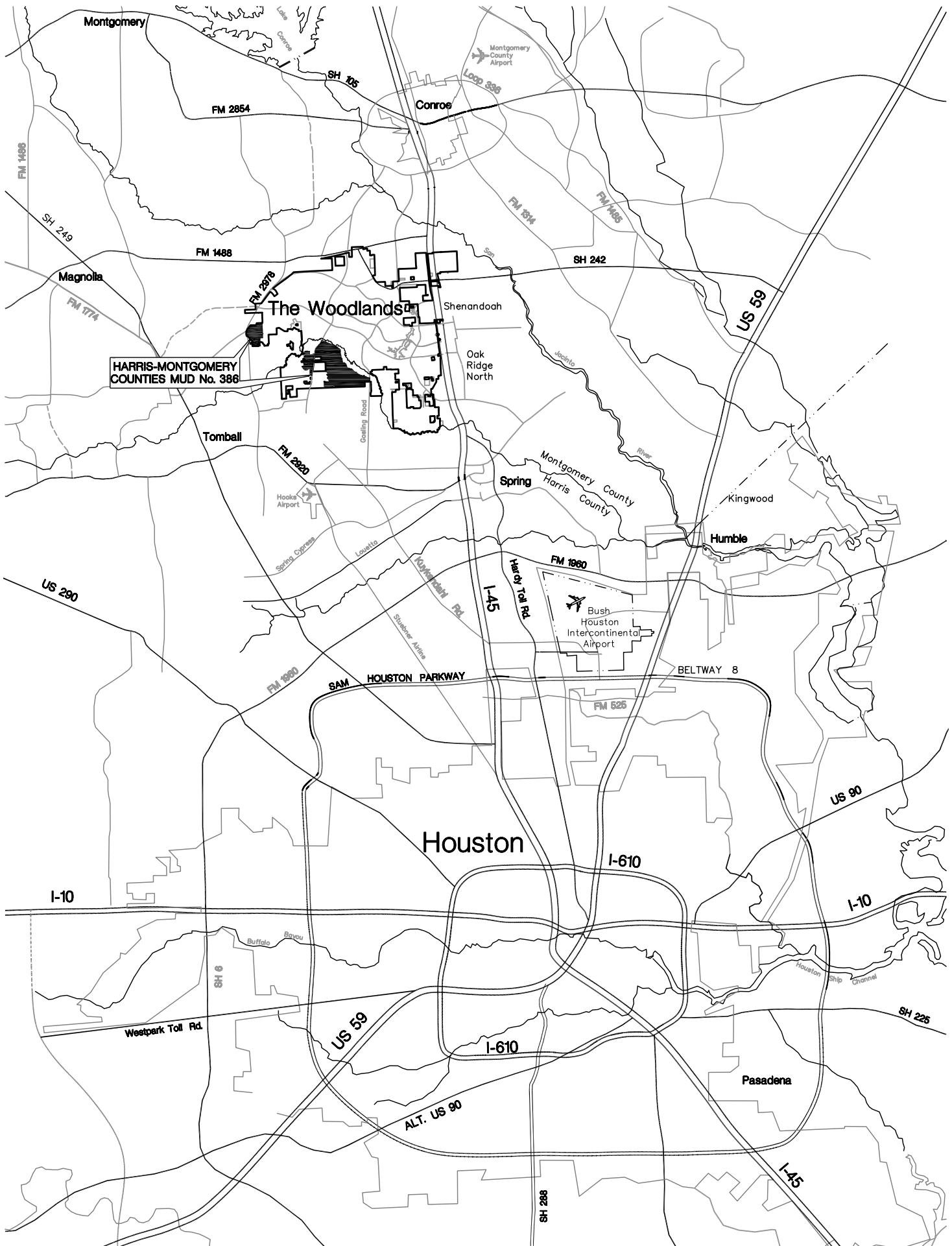
This Official Statement was duly authorized and approved by the Board of Directors of Harris-Montgomery Counties Municipal Utility District No. 386 as of the date specified on the first page hereof.

/s/ _____
Jerry C. Perciful
President, Board of Directors
Harris-Montgomery Counties Municipal Utility District No. 386

ATTEST:

/s/ _____
Lucile Landis
Secretary, Board of Directors
Harris-Montgomery Counties Municipal Utility District No. 386

APPENDIX A
LOCATION MAP



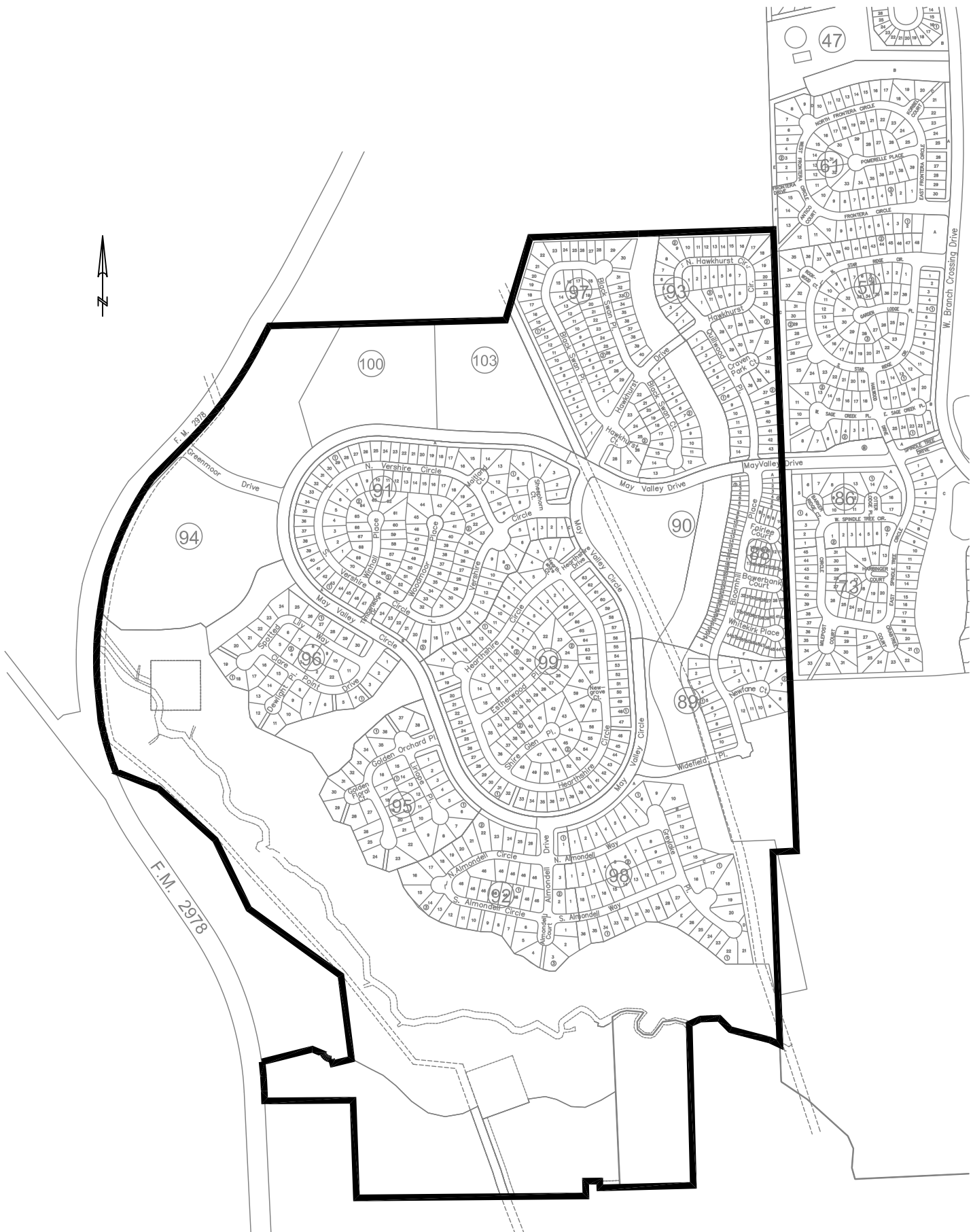
APPENDIX B

DISTRICT MAP

- Harris County -



- Montgomery County -



APPENDIX C

The information contained in this appendix has been excerpted from the audit report of Harris-Montgomery Counties Municipal Utility District No. 386 for the period ended March 31, 2011. Certain information not considered to be relevant to this financing has been omitted; however, complete audit reports are available upon request.

HARRIS-MONTGOMERY COUNTIES MUNICIPAL UTILITY DISTRICT NO. 386

ANNUAL FINANCIAL REPORT

March 31, 2011

Harris-Montgomery Counties
Municipal Utility District No. 386

HARRIS & MONTGOMERY COUNTIES, TEXAS

FINANCIAL REPORT

March 31, 2011

--ooOoo--

C O N T E N T S

	<u>Exhibits</u>	<u>Page</u>
<u>FINANCIAL SECTION</u>		
Independent Auditors' Report		1-2
Management's Discussion and Analysis		3-7
<u>Basic Financial Statements</u>		
Government-wide and Fund Financial Statements		
Statement of Net Assets and Governmental Funds Balance Sheet	B(1)	10-11
Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balance	B(2)	12-13
Notes to Financial Statements	B(3)	15-28
<u>Required Supplementary Information</u>		
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	C(1)	30
Notes to Required Supplementary Information	C(2)	31
<u>TEXAS SUPPLEMENTARY INFORMATION</u>		
Schedule of Services and Rates (Unaudited)	TSI-1	34-35
Schedule of General Fund Expenditures	TSI-2	36
Schedule of Temporary Investments	TSI-3	37
Analysis of Taxes Levied and Receivable	TSI-4	38
Long-Term Debt Service Requirements - By Years	TSI-5	39
Change in Long-Term Bonded Debt	TSI-6	40
Comparative Schedule of Revenues and Expenditures – General Fund	TSI-7	42-43
Board Members, Key Personnel, and Consultants	TSI-8	44

--ooOoo--



130 Industrial Blvd, Suite 130 • Sugar Land, Texas 77478 • 281/242-3232 • fax 281/242-3252 • www.sktx.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Harris-Montgomery Counties Municipal Utility
District No. 386
Harris and Montgomery Counties, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Harris-Montgomery Counties Municipal Utility District No. 386 (the "District"), as of and for the year ended March 31, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 the District as of March 31, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 7 and page 30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 (TSI) is presented for purposes of additional analysis and is not a required part of the financial statements. The information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in 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 as a whole.

A handwritten signature in cursive script that reads "Sam Karp & Co.".

Sugar Land, Texas
July 5, 2011

Management's Discussion and Analysis

As management of Harris-Montgomery Counties Municipal Utility District No. 386 (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended March 31, 2011.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$8,923,143 (net assets).
- As of March 31, 2011, the District's governmental funds reported an ending fund balance of \$13,902,757.
- The District's cash and temporary investments at March 31, 2011 was \$12,953,136, representing a decrease of \$1,850,871 from March 31, 2010.
- The District had revenues of \$8,148,449 and a change in net assets of \$2,855,857 for the year ended March 31, 2011.
- At the end of the fiscal year, unreserved and undesignated fund balance for the General Fund was \$4,852,948.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., depreciation and earned but unused vacation leave).

The government-wide financial statements present functions of the District that are provided from funding sources (governmental activities). The government-wide financial statements can be found on pages 10-13 of this report.

FUND FINANCIAL STATEMENTS

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the District consist solely of the General Fund, the Capital Projects Fund and the Debt Service Fund.

Governmental Funds - Governmental funds are used to account for essentially the same function reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented in the governmental funds with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide an adjustments column to facilitate this comparison between the governmental funds and *governmental activities*. The basic governmental fund financial statements can be found on pages 10-13 of this report.

NOTES TO THE FINANCIAL STATEMENTS

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 15 through 28 of this report.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's General Fund budget. Required supplementary information can be found on page 30 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$8,923,143 as of March 31, 2011, of which \$4,925,855 is unrestricted and available for future operations.

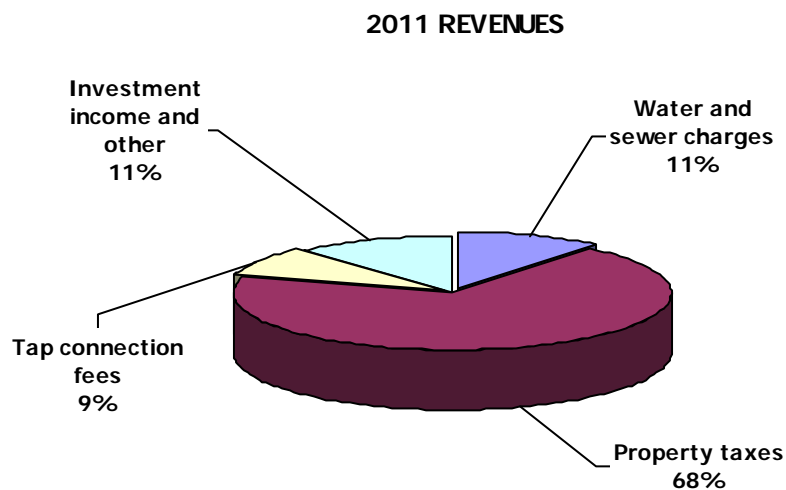
SUMMARY OF STATEMENT OF NET ASSETS
As of March 31, 2011 and 2010

	Governmental Activities	
	2011	2010
Current and other assets	\$ 18,166,457	\$ 16,120,428
Capital assets, net	42,278,781	10,939,031
Total Assets	60,445,238	27,059,459
Long-term liabilities	51,005,000	21,230,000
Other liabilities	517,095	367,667
Total Liabilities	51,522,095	21,597,667
Net Assets:		
Invested in capital assets, net of debt	(2,090,021)	(218,487)
Restricted for:		
Debt service	6,087,309	1,920,986
Unrestricted	4,925,855	4,364,787
Total Net Assets	\$ 8,923,143	\$ 6,067,286

Net assets of the District, all of which relate to governmental activities, increased by \$2,855,857. Key elements of the increase are as follows:

	Governmental Activities	
	2011	2010
Revenues		
Water and sewer charges	\$ 876,810	\$ 518,103
Property taxes, penalties and interest	5,596,835	4,591,394
Tap connection and inspection fees	705,653	789,841
Investment income and other	969,151	738,597
Total Revenues	8,148,449	6,637,935
Expenses		
Purchased services	1,324,084	1,274,394
Professional fees	116,455	77,488
Contracted services	139,583	67,245
Repairs and maintenance	277,938	228,310
Tap connections and inspections	400,503	265,797
Administration and other	457,402	458,680
Interest and fiscal charges on long-term debt	1,578,664	366,385
Depreciation and amortization	997,963	175,113
Total Expenses	5,292,592	2,913,412
Change in Net Assets	2,855,857	3,724,523
Net assets, beginning	6,067,286	2,342,763
Net Assets, Ending	\$ 8,923,143	\$ 6,067,286

The primary reason for the increase in net assets was due to an increase in appraised property values due to continued development within the District.



FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As previously noted, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District's governmental funds are discussed below:

Governmental Funds - The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, fund balances may serve as a useful measure of a government's net resources available for spending for program purposes at the end of the fiscal year.

As of March 31, 2011, the District's governmental funds reported an ending fund balance of \$13,902,757.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The District's investment in capital assets as of March 31, 2011 amounts to \$42,278,781 (net of accumulated depreciation). This investment in capital assets includes capacity rights and water and wastewater infrastructure.

CAPITAL ASSETS SCHEDULE (Net of Depreciation)

	Governmental Activities	
	2011	2010
Capacity rights	\$ 9,778,391	\$ 2,155,911
Infrastructure	32,500,390	8,783,120
Total Capital Assets, Net	\$ 42,278,781	\$ 10,939,031

The District has contractual commitments on open and closed projects in the amount of \$41,948,957 for the construction of parks and infrastructure. The District will pay the developer for these projects from the proceeds of future bond sales and will capitalize the assets when they are conveyed to the District by the developer. Additional information on the District's capital assets and amounts due to developer can be found in Note 7 and Note 9, respectively, in the notes to financial statements.

LONG-TERM DEBT

As of March 31, 2011, the District has a total bonded debt outstanding of \$51,005,000. Interest expense for the 2011 fiscal year totaled \$1,578,664 on this bonded debt. These outstanding bonds have maturities ranging from fiscal year 2011 to fiscal year 2035. Additional information on the District's long-term debt can be found in Note 9 in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Economic Factors

- Unreserved fund balance in the General Fund increased to \$4,852,948 from a balance of \$4,073,745. A planned increase of fund balance of \$1,299,598 was projected.

REQUESTS FOR INFORMATION

The financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Harris-Montgomery Counties Municipal Utility District No. 386, c/o Schwartz, Page & Harding, L.L.P., 1300 Post Oak Blvd., Suite 1400, Houston, Texas 77056.

(This Page Intentionally Left Blank)

FINANCIAL STATEMENTS

Harris-Montgomery Counties Municipal Utility District No. 386

STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET

March 31, 2011

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>
<u>Assets</u>			
Cash	\$ 136,510	\$ 3,597,488	\$ 2,998,380
Temporary investments	4,540,758	1,680,000	
Receivables:			
Property taxes	72,907	174,866	
Customer service accounts	98,335		
Accrued interest	10,311	725	
Intergovernmental advance	1,100,000		
Other	30,360		
Interfund receivable	74,538	938,111	
Prepayments	5,123		
Deferred charges			
Capital assets, net of accumulated depreciation:			
Capacity rights			
Infrastructure			
Total Assets	<u>\$ 6,068,842</u>	<u>\$ 6,391,190</u>	<u>\$ 2,998,380</u>
<u>Liabilities and Fund Balances/Net Assets</u>			
<u>Liabilities</u>			
Accounts payable and accrued liabilities	\$ 97,746	\$ 82,019	\$ 8,338
Accrued interest payable			
Customer deposits	15,344		
Due to other governments	91,786		
Interfund payable	938,111		74,538
Deferred revenue	72,907	174,866	
Noncurrent liabilities:			
Due in more than one year			
Total Liabilities	<u>1,215,894</u>	<u>256,885</u>	<u>82,876</u>
<u>Fund Balances/Net Assets</u>			
Fund Balances:			
Reserved for:			
Capital projects			2,915,504
Debt service		6,134,305	
Unreserved:			
Undesignated	4,852,948		
Total Fund Balances	<u>4,852,948</u>	<u>6,134,305</u>	<u>2,915,504</u>
Total Liabilities and Fund Balances	<u>\$ 6,068,842</u>	<u>\$ 6,391,190</u>	<u>\$ 2,998,380</u>
Net Assets:			
Invested in capital assets, net of related debt			
Restricted for:			
Debt service			
Unrestricted			
Total Net Assets			

Exhibit B(1)

<u>Total</u>	<u>Adjustments (Note 2)</u>	<u>Statement of Net Assets</u>
\$ 6,732,378	\$	\$ 6,732,378
6,220,758		6,220,758
247,773		247,773
98,335		98,335
11,036		11,036
1,100,000		1,100,000
30,360		30,360
1,012,649	(1,012,649)	
5,123		5,123
	3,720,694	3,720,694
	9,778,391	9,778,391
	32,500,390	32,500,390
<u>\$ 15,458,412</u>	<u>44,986,826</u>	<u>\$ 60,445,238</u>
\$ 188,103	\$	\$ 188,103
	221,862	221,862
15,344		15,344
91,786		91,786
1,012,649	(1,012,649)	
247,773	(247,773)	
	51,005,000	51,005,000
<u>1,555,655</u>	<u>49,966,440</u>	<u>51,522,095</u>
2,915,504	(2,915,504)	
6,134,305	(6,134,305)	
4,852,948	(4,852,948)	
<u>13,902,757</u>	<u>(13,902,757)</u>	
<u>\$ 15,458,412</u>		
	(2,090,021)	(2,090,021)
	6,087,309	6,087,309
	4,925,855	4,925,855
	<u>\$ 8,923,143</u>	<u>\$ 8,923,143</u>

Harris-Montgomery Counties Municipal Utility District No. 386

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

For the Year Ended March 31, 2011

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>
<u>Revenues</u>			
Water service	\$ 401,321	\$	\$
Sewer service	475,489		
Surface water conversion	524,785		
Grants	241,727		
Property taxes	1,719,162	3,827,871	
Penalties and interest	11,337	81,734	
Tap connection and inspection fees	705,653		
Investment earnings	27,592	66,733	10,723
Other revenue	42,174	55,417	
Total Revenues	<u>4,149,240</u>	<u>4,031,755</u>	<u>10,723</u>
<u>Expenditures/Expenses</u>			
Current:			
Purchased services	1,324,084		
Professional fees	102,485	13,970	
Contracted services	70,325	69,258	
Repairs and maintenance	277,938		
Tap connections and inspections	400,503		
Administration and other	450,413	6,909	80
Debt service:			
Interest		1,448,398	
Bond issuance costs			2,348,039
Capital outlay			32,175,944
Depreciation and amortization			
Total Expenditures/Expenses	<u>2,625,748</u>	<u>1,538,535</u>	<u>34,524,063</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,523,492	2,493,220	(34,513,340)
<u>Other Financing Sources (Uses)</u>			
Transfers in		231,534	512,755
Transfers (out)	(744,289)		
Proceeds from debt issuance		1,396,969	28,378,031
Total Other Financing Sources (Uses)	<u>(744,289)</u>	<u>1,628,503</u>	<u>28,890,786</u>
Change in Fund Balances/Net Assets	779,203	4,121,723	(5,622,554)
Fund Balances/Net Assets - Beginning (See Note 14)	4,073,745	2,012,582	8,538,058
Fund Balances/Net Assets - Ending	<u>\$ 4,852,948</u>	<u>\$ 6,134,305</u>	<u>\$ 2,915,504</u>

Exhibit B(2)

Total	Adjustments (Note 2)	Statement of Activities
\$ 401,321	\$	\$ 401,321
475,489		475,489
524,785		524,785
241,727		241,727
5,547,033	(43,269)	5,503,764
93,071		93,071
705,653		705,653
105,048		105,048
97,591		97,591
<u>8,191,718</u>	<u>(43,269)</u>	<u>8,148,449</u>
1,324,084		1,324,084
116,455		116,455
139,583		139,583
277,938		277,938
400,503		400,503
457,402		457,402
1,448,398	130,266	1,578,664
2,348,039	(2,348,039)	
32,175,944	(32,175,944)	
	997,963	997,963
<u>38,688,346</u>	<u>(33,395,754)</u>	<u>5,292,592</u>
(30,496,628)	30,496,628	
744,289	(744,289)	
(744,289)	744,289	
<u>29,775,000</u>	<u>(29,775,000)</u>	
<u>29,775,000</u>	<u>(29,775,000)</u>	
(721,628)	3,577,485	2,855,857
14,624,385	(8,557,099)	6,067,286
<u>\$ 13,902,757</u>	<u>\$ (4,979,614)</u>	<u>\$ 8,923,143</u>

(This Page Intentionally Left Blank)

Harris-Montgomery Counties

Municipal Utility District No. 386

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the District conform with generally accepted accounting principles. The following is a summary of the most significant policies:

A. Reporting Entity

Harris-Montgomery Counties Municipal Utility District No. 386 (the "District") was created by an amendment to the Texas Special District Laws Code, adding Chapter 1381, 77th Texas Legislature, Regular Session, 2001. Pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, sanitary sewer service, storm sewer drainage, irrigation, solid waste collection and disposal, including recycling, parks and recreational facilities for the residents of the District. The District is also empowered to contract for or employ its own peace officers with powers to make arrests and to, subject to the provisions of Texas Water Code, Section 49.351 et seq., including the approval of a fire plan by the Texas Commission on Environmental Quality and the voters within the District, establish, operate and maintain a fire department to perform all fire-fighting activities within the District. The Board of Directors held its first meeting on June 26, 2003. As of March 31, 2011, the District has issued \$51,005,000 in unlimited tax bonds.

The District is a political subdivision of the State of Texas governed by an elected five member board and is considered a primary government. As required by generally accepted accounting principles, these general purpose financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the District's financial reporting entity. Based on these considerations, no other entities, organizations, or functions have been included in the District's financial reporting entity. Additionally, as the District is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the District's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the District is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the District's financial reporting entity status is that of a primary government are that it has a separately elected governing body; it is legally separate; and it is fiscally independent of other state and local governments. Although not considered significant in the District's reporting entity evaluation, other prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable; and considerations pertaining

Harris-Montgomery Counties

Municipal Utility District No. 386

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

to other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The District's primary activities include construction, maintenance, and operation of water and sewer system facilities and debt service on bonds issued to construct the facilities, if applicable.

B. Financial Statement Presentation

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This statement, known as the "Reporting Model" statement, affects the way the District prepares and presents financial information. State and local governments traditionally have used a financial reporting model substantially different from the one used to prepare private-sector financial information.

GASB Statement No. 34 establishes new requirements and a new reporting model for the annual financial reports of state and local governments. The Statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions.

Some of the significant changes of GASB Statement No. 34 include the following:

Management's Discussion and Analysis - GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to the analysis that private sector companies provide in their annual reports.

Government-wide Financial Statements - The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities, but also capital assets and long-term liabilities (such as buildings and infrastructure and general obligation debt). Accrual accounting reports all of the revenues and costs of providing services each year, not just those received or paid in the current or soon thereafter, as is the case with the modified accrual basis of accounting. Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Assets and report related depreciation expense, the cost of "using up" capital assets, in the Statement of Activities. The net assets of a government are broken down into three categories: 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Harris-Montgomery Counties

Municipal Utility District No. 386

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

Fund Financial Statements - These statements focus on the District's major funds and are prepared using the modified basis of accounting.

C. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all the non-fiduciary activities of the primary government and its component units, as applicable. The effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable. The District had no business-type activities or component units as of and for the year ended March 31, 2011.

The governmental funds financial statements consist of the balance sheet and statement of revenues, expenditures and changes in fund balance. These financial statements have been adjusted to arrive at the government-wide financial statement balances (statement of net assets and statement of activities). Major individual governmental funds are reported as separate columns in the fund financial statements.

D. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using 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 related cash flows.

Governmental funds financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if they are collected within 60 days of the end of the current fiscal period. Revenues accrued include interest earned on investments and income from District operations. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service requirements, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The accounting system is organized on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which comprise its assets, liabilities, fund equity or deficit, revenues and expenditures.

Harris-Montgomery Counties

Municipal Utility District No. 386

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

The District reports the following governmental funds:

General Fund

The General Fund is used to account for the operations of the District's water and sewer system and all other financial transactions not properly includable in other funds. The principal sources of revenue are related to water and sewer service operations and property taxes. Expenditures include all costs associated with the daily operations of the District.

Debt Service Fund

The Debt Service Fund is used to account for the payment of interest and principal on the District's general long-term debt. The primary source of revenue for debt service is property taxes pursuant to requirements of the District's bond resolutions.

Capital Projects Fund

The Capital Projects Fund is used to account for the expenditure of bond proceeds for the construction of the District's water and sewer facilities.

E. Budget

An unappropriated budget is adopted for the General Fund. The budget is prepared using the same method of accounting as for financial reporting and serves as a planning tool. Encumbrance accounting is not utilized.

F. Investments

The District classifies investments that have a remaining maturity of one year or less at the date of purchase as "money market investments" in accordance with Governmental Accounting Standards Board Statement No. 31, "Accounting and Reporting for Certain Investments and External Investment Pools" (Statement No. 31). Statement No. 31 defines "money market investments" as short-term, highly liquid debt instruments including commercial paper, banker's acceptances and U.S. Treasury and agency obligations. The District values its "money market investments" at cost, which is considered to approximate market value. The District's certificates of deposit, if any, are recorded at cost in accordance with Statement No. 31.

G. Deferred Charges

Included within other assets are debt issuance costs and bond discounts. The debt issuance costs and bond discounts are being amortized over the life of the related obligation on the straight-line method. Results obtained are not materially different from the interest method.

Harris-Montgomery Counties

Municipal Utility District No. 386

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

H. Capital Assets

Capital assets, which include infrastructure assets are reported in the government-wide financial statements. Capital assets, other than infrastructure items, are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Capacity rights	N/A
Water system	40 years
Wastewater system	40 years
Engineering	40 years

I. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Bond premiums or discounts, as well as issuance costs, are deferred and amortized over the life of the bonds.

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

J. Fund Equity

Reserved/restricted equity balances represent those portions of fund balance/net assets not appropriable for expenditures/expenses or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources. Undesignated/unrestricted fund balances/net assets represent available balances for the District's future use.

Harris-Montgomery Counties **Municipal Utility District No. 386**

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

K. Reclassifications

Certain reclassifications to prior year balances have been made to conform to current year presentation. Such reclassifications have had no effect on the excess of revenues over expenditures.

L. Date of Management's Review

In preparing the financial statements, the District has evaluated events and transactions for potential recognition or disclosure through July 5, 2011, the date that the financial statements were available to be issued.

M. Use of Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes an adjustments column to arrive at the government-wide statement of net assets balances. Amounts reported in the statement of net assets are different because:

Total fund balances - governmental funds	\$ 13,902,757
Capital assets and deferred charges used in governmental activities are not financial resources and are not reported in the funds.	45,999,475
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	247,773
Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.	<u>(51,226,862)</u>
Net Assets of Governmental Activities	<u>\$ 8,923,143</u>

Harris-Montgomery Counties **Municipal Utility District No. 386**

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures and changes in fund balances includes an adjustments column to arrive at changes in net assets as reported in the government-wide statement of activities. Amounts reported in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ (721,628)
--	--------------

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current fiscal year.	33,526,020
---	------------

The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	(29,775,000)
---	--------------

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.	(130,266)
---	-----------

Revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(43,269)
---	----------

Change in Net Assets of Governmental Activities	<u>\$ 2,855,857</u>
--	----------------------------

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Deficit Net Assets

"Invested in capital assets, net of related debt" has a deficit balance of \$2,090,021 as of March 31, 2011. As the majority of the capital assets were financed with general obligation debt, timing differences generally arise related to the straight line depreciation of the capital assets as compared to the level principal and interest payment structure of the debt, which yields lower principal retirement in the early years of the debt. As bond principal retirement increases over time, the deficit will be eliminated.

Harris-Montgomery Counties

Municipal Utility District No. 386

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

NOTE 4 - CASH AND TEMPORARY INVESTMENTS

Cash consists of interest bearing checking accounts and temporary investments consist of Texpool and certificates of deposit.

The carrying amounts for cash and temporary investment balances, which approximate fair values, by fund at March 31, 2011, are as follows:

	<u>Checking</u>	<u>CD's</u>	<u>Texpool</u>	<u>Total</u>
General	\$ 136,510	\$ 2,160,000	\$ 2,380,758	\$ 4,677,268
Debt Service	3,597,488	1,680,000		5,277,488
Capital Projects	2,998,380			2,998,380
	<u>\$ 6,732,378</u>	<u>\$ 3,840,000</u>	<u>\$ 2,380,758</u>	<u>\$ 12,953,136</u>

The District considers the holdings in Texpool to have a one day weighted average maturity due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

Custodial Credit Risk - Deposits

For deposits, this is the risk that in the event of bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. Collateral is required for all bank deposits at 100% of deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and school districts. Collateral pledged to cover the District's deposits is required to be held in the District's name by the trust department of a bank other than the pledging bank (the District's agent). Collateral securities must bear a Baa-1 or better rating to qualify for use in securing uninsured depository balances. Deposits at year-end are representative of the types of deposits maintained by the District during the year.

The District's deposits in banks at year-end were entirely covered by federal depository insurance or by acceptable collateral held by the District's agent in the District's name.

Investment Policies

The District has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code. The investments of the District are in compliance with its investment policy.

Applicable state laws and regulations allow the District to invest its funds in direct or indirect obligations of the United States, the State, or any county, city, school district, or other political subdivision of the State. Funds may also be placed in certificates of deposit of state

Harris-Montgomery Counties

Municipal Utility District No. 386

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

or national banks or savings and loan associations (depository institutions) domiciled within the State. Related state statutes and provisions included in the District's bond resolutions require that all funds invested in depository institutions be guaranteed by federal depository insurance and/or be secured in the manner provided by law for the security of public funds. Balances in checking accounts in depository institutions were entirely guaranteed by federal depository insurance or security as provided by statutes and bond provisions at March 31, 2011.

Investment Pools

The State Comptroller of Public Accounts exercises oversight responsibility of Texpool, the Texas Local Government Investment Pool. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in Texpool and other persons who do not have a business relationship with Texpool. The advisory board members review the investment policy and management fee structure. Texpool is rated AAA by Standard & Poor's. Texpool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

Texpool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position of the pool is the same as the value of the underlying shares.

Interest Rate Risk

In accordance with its investment policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than two years to meet cash requirements for ongoing operation.

Credit Risk - Investments

In accordance with its investment policy, the District minimized credit risk losses due to default of a security issuer or backer, by limiting investments to the safest types of securities. As of March 31, 2011, Texpool is rated AAAM by Standard and Poor's.

NOTE 5 - PROPERTY TAXES

The voters of the District have authorized the District's Board of Directors to levy maintenance taxes annually for use in financing general operations limited in the maximum amount of \$1.25 per \$100 of assessed value. The District's bond authorized resolution requires that ad valorem taxes be levied for use in paying interest and principal on long-term debt following

Harris-Montgomery Counties **Municipal Utility District No. 386**

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

the issuance of bonds and for use in paying the cost of assessing and collecting taxes. Taxes levied for debt service requirements are without limitation as to rate or amount.

All property values for the land located within Harris County are determined by the Harris County Appraisal District. All property values for the land located within Montgomery County are determined by the Montgomery Central Appraisal District. A tax lien attaches to all properties within the District on January 1st of each year. Taxes are generally levied on October 1 and are due upon receipt of the tax bill by the property owner. Penalties and interest are charged if taxes are not paid by the succeeding January 31st. There is an additional twenty percent penalty charged on accounts delinquent after July 1st of each year which generally is payable to the District's delinquent tax attorney.

Property taxes are levied for operations and maintenance and debt service. For the 2010 tax year, the District levied a tax rate of \$0.99 per \$100 of assessed valuation of which \$0.72 was allocated to debt service and \$0.27 to operations and maintenance. The resulting tax levy was \$5,503,763 on the adjusted taxable valuation of \$555,935,682 for the 2010 tax year.

Property taxes receivable at March 31, 2011, consisted of the following:

	<u>General Fund</u>	<u>General Fund</u>	<u>Total</u>
2010 Levy	\$ 65,575	\$ 174,866	\$ 240,441
2009 Levy	3,696		3,696
2008 Levy	1,212		1,212
2007 Levy	1,212		1,212
2006 Levy	1,212		1,212
	<u>\$ 72,907</u>	<u>\$ 174,866</u>	<u>\$ 247,773</u>

NOTE 6 - RECEIVABLES

Receivables as of year-end for the government's individual major funds are as follows:

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>
Receivables:			
Property taxes	\$ 72,907	\$ 174,866	\$ 247,773
Customer service accounts	98,335		98,335
Accrued interest	10,311	725	11,036
Intergovernmental advance	1,100,000		1,100,000
Other	30,360		30,360
Total Receivables	<u>\$ 1,311,913</u>	<u>\$ 175,591</u>	<u>\$ 1,487,504</u>

Harris-Montgomery Counties **Municipal Utility District No. 386**

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes receivable - General Fund	\$ 72,907	\$
Delinquent property taxes receivable - Debt Service Fund	174,866	
Total Deferred Revenue for Governmental Funds	<u>\$ 247,773</u>	<u>\$</u>

NOTE 7 – DEFERRED CHARGES

A summary of changes in deferred charges follows:

	<u>Original Deferred Charges</u>	<u>Balance at Apr. 1, 2010</u>	<u>Current Year Amortization</u>	<u>Balance at Mar. 31, 2011</u>
Unlimited Tax Bonds				
Series 2009	\$ 1,598,358	\$ 1,534,424	\$ 63,934	\$ 1,470,490
Series 2010	2,348,039		97,835	2,250,204
Total Deferred Charges	<u>\$ 3,946,397</u>	<u>\$ 1,534,424</u>	<u>\$ 161,769</u>	<u>\$ 3,720,694</u>

NOTE 8 - CAPITAL ASSETS

A summary of changes in capital assets for the year ended March 31, 2011, follows:

	<u>Balance Apr. 1, 2010</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Balance Mar. 31, 2011</u>
Governmental Activities:				
Non-depreciable Assets:				
Capacity rights	\$ 2,155,911	\$ 7,622,480	\$	\$ 9,778,391
Total Non-depreciable Assets	2,155,911	7,622,480		9,778,391
Depreciable Assets:				
Infrastructure	\$ 8,894,299	\$ 24,553,464	\$	\$ 33,447,763
Total Depreciable Assets	8,894,299	24,553,464		33,447,763
Less Accumulated Depreciation	(111,179)	(836,194)		(947,373)
Totals	<u>\$ 10,939,031</u>	<u>\$ 31,339,750</u>	<u>\$</u>	<u>\$ 42,278,781</u>

Depreciation expense for the year ended March 31, 2011 totaled \$836,194.

Harris-Montgomery Counties Municipal Utility District No. 386

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

NOTE 9 - LONG-TERM DEBT

Long-term debt consists of bonds payable. Payments of principal and interest on the bonds are to be provided from tax levies on properties within the District. Investment income realized by the Debt Service Fund from investment of funds will be used to pay outstanding bond principal and interest.

The following is a summary of changes in bonds payable for the year ended March 31, 2011:

Bonds payable, April 1, 2010	\$ 21,230,000
Bond additions	29,775,000
Bond retirements	
Bonds Payable, March 31, 2011	<u><u>\$ 51,005,000</u></u>

Bonds payable at March 31, 2011, are comprised of the following individual issues:

<u>Series</u>	<u>Amount Outstanding</u>	<u>Interest Rate</u>	<u>Date Serially Begin/End</u>	<u>Maturity Interest Dates</u>
2009	\$21,230,000	4.125- 5.750%	September 1 2012/2034	March 1/ Sept. 1
2010	\$29,775,000	4.000- 5.500%	September 1 2012/2034	March 1/ Sept. 1

As of March 31, 2011, the debt service requirements on bonds outstanding for the next five fiscal years and thereafter through 2035 are as follow:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$	\$ 2,496,125	\$ 2,496,125
2013	1,145,000	2,465,762	3,610,762
2014	1,215,000	2,403,187	3,618,187
2015	1,275,000	2,337,175	3,612,175
2016	1,355,000	2,267,462	3,622,462
2017-2021	7,960,000	10,196,205	18,156,205
2022-2026	10,440,000	8,191,103	18,631,103
2027-2031	13,675,000	5,412,363	19,087,363
2032-2035	13,940,000	1,520,724	15,460,724
	<u><u>\$ 51,005,000</u></u>	<u><u>\$ 37,290,106</u></u>	<u><u>\$ 88,295,106</u></u>

At March 31, 2011, the District has voted and approved, issued bonds in the amount of \$51,005,000 in tax bonds.

Harris-Montgomery Counties

Municipal Utility District No. 386

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

As of March 31, 2011, the Debt Service Fund has \$2,012,582 available to service the above bonds.

The District is in compliance with all significant bond requirements and restrictions contained in the bond resolutions

NOTE 10 - AGREEMENT WITH OTHER DISTRICT

The District has entered into an agreement with Harris County Municipal Utility District No. 387 (MUD "387") to provide its customers within Harris County with water and sewer services to the District. MUD 387 invoices the District for services provided. The District records an intergovernmental payable for amounts due to MUD 387, as applicable, for these services.

Under the terms of the agreement, the District pays its proportionate share of capital and operating costs for reserved capacity in the water supply and waste disposal facilities. Capital payments will come from the proceeds of bonds issued by the District or other legally available funds of the District and will be included as capital assets. Operating costs are recorded as current expenditures in the District's General Fund.

The relationship between MUD 387 and the District is purely contractual. MUD 387 is a separate functioning governmental entity whose management and Board of Directors are not subject to the control of the District. The District, together with other area municipal utility districts with similar contracts with MUD 387 (collectively the "Customer Districts"), contracts directly with MUD 387 for required facilities and does not have a contract with other Customer Districts. MUD 387 is not a participating facility user.

MUD 387 serves as the sponsor and common provider to each of its Customer Districts of facilities and related services and has full legal title and ownership to facilities, subject only to the contractual rights of the Customer Districts to receive services.

NOTE 11 - CONTRACT WITH SAN JACINTO RIVER AUTHORITY

The District has contracted with the San Jacinto River Authority ("SJRA") to provide its customers within Montgomery County with water and sanitary sewer services through the planning, construction, operation and maintenance of central water supply and waste disposal facilities. The contract was entered into on July 26, 2007, and will continue in full force and effect for a forty year period or until the outstanding bonds of the District related thereto are paid in full. Thereafter, the District shall retain a proportionate and equitable ownership interest in the capacity in the facilities.

Harris-Montgomery Counties

Municipal Utility District No. 386

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

Under the terms of the agreement, the District pays its proportionate share of capital and operating costs for reserved capacity in the water supply and waste disposal facilities. Capital payments will come from the proceeds of bonds issued by the District or other legally available funds of the District and will be included as capital assets. Operating costs are recorded as current expenditures in the District's General Fund.

The relationship between the SJRA and the District is purely contractual. The SJRA is a separate functioning governmental entity whose management and Board of Directors are not subject to the control of the District. The District, together with other area municipal utility districts with similar contracts with the SJRA (collectively the "Customer Districts"), contracts directly with the SJRA for required facilities and does not have a contract with other Customer Districts. The SJRA is not a participating facility user.

The SJRA serves as the sponsor and common provider to each of its Customer Districts of facilities and related services and has full legal title and ownership to facilities, subject only to the contractual rights of the Customer Districts to receive services.

NOTE 12 - COMMITMENTS UNDER PRE-FUNDING AGREEMENTS

The District has entered into pre-funding agreements with the District's developer for the financing of the construction of water, wastewater and drainage facilities. Under the agreements, the developer will advance funds to construct facilities to serve the District. The District will reimburse the developer from water capacity fees charged to other Districts, the proceeds of future bond issues or other lawfully available funds. The District does not record capital assets in the Statement of Net Assets until the facilities are conveyed by the Developer to the District. The amounts reimbursed to the developer will include interest on the District's portion of facility costs, in accordance with applicable regulations.

The District will owe the developer approximately \$41,948,957, which represents contractual commitments on completed and uncompleted facilities as of March 31, 2011. As previously noted, these facilities will be capitalized and reported in the financial statements when the developer conveys the facilities to the District.

NOTE 13 - RISK MANAGEMENT

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

REQUIRED SUPPLEMENTARY INFORMATION

Harris-Montgomery Counties Municipal Utility District No. 386

Exhibit C(1)

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND

For the Year Ended March 31, 2011

	<u>Budgeted Amounts</u>			<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Over</u>
				<u>(Under)</u>
<u>Revenues</u>				
Water service	\$ 318,144	\$ 318,144	\$ 401,321	\$ 83,177
Sewer service	356,412	356,412	475,489	119,077
Surface water conversion	528,600	528,600	524,785	(3,815)
Grants	242,040	242,040	241,727	(313)
Property taxes	1,595,000	1,595,000	1,719,162	124,162
Penalties and interest	9,492	9,492	11,337	1,845
Tap connection & inspection fees	502,776	502,776	705,653	202,877
Interest on investments	15,300	15,300	27,592	12,292
Other revenue	24,108	24,108	42,174	18,066
Total Revenues	<u>3,591,872</u>	<u>3,591,872</u>	<u>4,149,240</u>	<u>557,368</u>
<u>Expenditures</u>				
Current:				
Purchased services	1,271,524	1,271,524	1,324,084	(52,560)
Professional fees	85,750	85,750	102,485	(16,735)
Contracted services	51,300	51,300	70,325	(19,025)
Repairs and maintenance	198,960	198,960	277,938	(78,978)
Tap connections & inspections	257,460	257,460	400,503	(143,043)
Administration and other	427,280	427,280	450,413	(23,133)
Capital outlay				
Total Expenditures	<u>2,292,274</u>	<u>2,292,274</u>	<u>2,625,748</u>	<u>(333,474)</u>
Excess of Revenues				
Over Expenditures	1,299,598	1,299,598	1,523,492	223,894
<u>Other Financing Use</u> - Transfer out			(744,289)	(744,289)
Fund Balances - Beginning	4,073,745	4,073,745	4,073,745	
Fund Balances - Ending	<u>\$ 5,373,343</u>	<u>\$ 5,373,343</u>	<u>\$ 4,852,948</u>	<u>\$ (520,395)</u>

Harris-Montgomery Counties
Municipal Utility District No. 386

Exhibit C(2)

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Budgets and Budgetary Accounting

An annual unappropriated budget is adopted for the General Fund by the District's Board of Directors. The budget is prepared using the same method of accounting as for financial reporting. The budget was amended during the year by the Board of Directors.

For the year ended March 31, 2010, expenditures exceeded appropriations by \$333,474. The excess of expenditures was funded by available fund balance.

(This Page Intentionally Left Blank)

TEXAS SUPPLEMENTARY INFORMATION

4. Standby Fees (n/a)**5. Location of District:**

County(ies) in which District is located.

Harris and MontgomeryIs the District located entirely within one county? Yes ☐ No ☒Is the District located within a city? Entirely ☐ Partly ☐ Not at all ☒

City(ies) in which District is located.

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

Entirely ☒ Partly ☐ Not at all ☐

ETJ's in which District is located.

City of Houston

Are Board members appointed by an office outside this District?

Yes ☐ No ☒

If yes, by whom?

Harris-Montgomery Counties
Municipal Utility District No. 386

TSI-2

SCHEDULE OF GENERAL FUND EXPENDITURES

Year Ended March 31, 2011

Professional Fees:

Auditing	\$ 7,750
Legal	74,584
Engineering	20,151
	<u>102,485</u>

Purchased Services For Resale:

Bulk Water and Wastewater Service Purchases	<u>1,324,084</u>
---	------------------

Contracted Services:

Bookkeeping	19,093
Billing and Service Fees	51,232
	<u>70,325</u>
	<u>277,938</u>

Repairs and Maintenance

Administrative Expenditures:

Directors Fees	9,893
Office Supplies and Expenses	31,935
Insurance	5,079
Grants	241,727
Other Administrative Expenditures	161,779
	<u>450,413</u>
	<u>400,503</u>

Tap Connections and Inspections

Capital Outlay

TOTAL EXPENDITURES	<u><u>\$ 2,625,748</u></u>
---------------------------	----------------------------

	<u>Full-Time</u>	<u>Part-Time</u>
Number of employees employed by the District:	0	0

Harris-Montgomery Counties Municipal Utility District No. 386

TSI-3

SCHEDULE OF TEMPORARY INVESTMENTS

Year Ended March 31, 2011

<u>Funds</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate (%)</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at End of Year</u>
<u>General Fund</u>					
Texpool	7904300001	Variable	N/A	\$ 2,380,758	\$
Certificate of deposit	3499	0.75	11/6/2011	240,000	543
Certificate of deposit	79	0.85	10/8/2011	240,000	972
Certificate of deposit	9951	0.64	1/16/2012	120,000	21
Certificate of deposit	9439	1.40	5/27/2011	120,000	1,427
Certificate of deposit	1612	0.85	9/15/2011	120,000	486
Certificate of deposit	1639	0.65	1/17/2012	120,000	21
Certificate of deposit	4299	0.80	7/5/2011	240,000	1,105
Certificate of deposit	95	1.25	4/6/2011	240,000	2,951
Certificate of deposit	5061	0.75	12/12/2011	240,000	207
Certificate of deposit	9804	0.60	8/1/2011	240,000	698
Certificate of deposit	2498	1.30	6/18/2011	120,000	1,222
Certificate of deposit	2659	1.15	9/15/2011	120,000	658
Total General Fund				<u>4,540,758</u>	<u>10,311</u>
<u>Debt Service Fund</u>					
Certificate of deposit	4254	0.75	8/20/2011	\$ 240,000	\$ 217
Certificate of deposit	351	0.30	8/20/2011	240,000	4
Certificate of deposit	2830	0.75	8/15/2011	240,000	345
Certificate of deposit	5426	0.40	8/20/2011	240,000	3
Certificate of deposit	5129	0.50	8/20/2011	240,000	145
Certificate of deposit	2746	0.25	8/22/2011	240,000	3
Certificate of deposit	3851	0.60	8/20/2011	240,000	8
Total Debt Service Fund				<u>1,680,000</u>	<u>725</u>
Total - All Funds				<u>\$ 6,220,758</u>	<u>\$ 11,036</u>

Harris-Montgomery Counties Municipal Utility District No. 386

TSI-4

ANALYSIS OF TAXES LEVIED AND RECEIVABLE

March 31, 2011

	Debt Service	Maintenance		
	Taxes	Taxes	Total	
Taxes receivable - Beginning of Year	\$	\$ 291,042	\$ 291,042	
2010 Original Tax Levy	3,821,569	1,433,089	5,254,658	
Adjustments and corrections	181,168	67,938	249,106	
Adjusted Tax Levy	4,002,737	1,501,027	5,503,764	
Total to be Accounted for	4,002,737	1,792,069	5,794,806	
<u>Tax Collections</u>				
Current year	3,827,871	1,435,452	5,263,323	
Prior years		283,710	283,710	
Total Collections	3,827,871	1,719,162	5,547,033	
Taxes Receivable - End of Year	<u>\$ 174,866</u>	<u>\$ 72,907</u>	<u>\$ 247,773</u>	
<u>Taxes Receivable - By Tax Years</u>				
2010	\$ 174,866	\$ 65,575	\$ 240,441	
2009		3,696	3,696	
2008		1,212	1,212	
2007 and prior		2,424	2,424	
Taxes Receivable - End of Year	<u>\$ 174,866</u>	<u>\$ 72,907</u>	<u>\$ 247,773</u>	
<u>Assessed</u>				
<u>Property Valuations</u>	2010	2009	2008	2007
Land	\$ 250,648,180	\$ 204,245,586	\$ 99,146,369	\$ 43,863,572
Improvements	330,679,102	215,819,311	75,569,767	4,884,846
Personal Property	2,861,576	2,092,366	867,016	15,976
Less: Exemptions	(28,253,176)	(27,546,710)	(1,459,890)	(453,525)
Total	<u>\$ 555,935,682</u>	<u>\$ 394,610,553</u>	<u>\$ 174,123,262</u>	<u>\$ 48,310,869</u>
<u>Tax Rates Per \$100</u>				
<u>Valuations</u>				
Debt service	\$ 0.720	\$	\$	\$
General operations	0.270	1.150	1.250	1.250
Total Tax Rate per				
\$100 Valuation	<u>\$ 0.990</u>	<u>\$ 1.150</u>	<u>\$ 1.250</u>	<u>\$ 1.250</u>
Adjusted Tax Levy	<u>\$ 5,503,764</u>	<u>\$ 4,538,023</u>	<u>\$ 2,176,541</u>	<u>\$ 603,886</u>
Percent of Taxes Collected				
to Taxes Levied	95.6%	100.0%	100.0%	100.0%

Maximum Tax Rate Approved by Voters: \$ 1.25 on 11/7/2006

Harris-Montgomery Counties Municipal Utility District No. 386

TSI-5

LONG-TERM DEBT SERVICE REQUIREMENTS - BY YEARS

March 31, 2011

Due During Fiscal Year End March 31	All Series			Unlimited Tax Bonds Series 2009		
	Principal	Interest	Total	Principal	Interest	Total
2012	\$	\$ 2,496,125	\$ 2,496,125	\$	\$ 1,099,156	\$ 1,099,156
2013	1,145,000	2,465,762	3,610,762	450,000	1,087,906	1,537,906
2014	1,215,000	2,403,187	3,618,187	480,000	1,064,656	1,544,656
2015	1,275,000	2,337,175	3,612,175	505,000	1,040,031	1,545,031
2016	1,355,000	2,267,462	3,622,462	540,000	1,013,906	1,553,906
2017	1,425,000	2,193,787	3,618,787	570,000	986,156	1,556,156
2018	1,505,000	2,116,150	3,621,150	605,000	956,781	1,561,781
2019	1,585,000	2,035,469	3,620,469	640,000	925,656	1,565,656
2020	1,675,000	1,960,737	3,635,737	680,000	895,631	1,575,631
2021	1,770,000	1,890,062	3,660,062	720,000	865,856	1,585,856
2022	1,870,000	1,814,000	3,684,000	765,000	832,894	1,597,894
2023	1,970,000	1,732,756	3,702,756	810,000	796,950	1,606,950
2024	2,085,000	1,645,134	3,730,134	860,000	757,793	1,617,793
2025	2,195,000	1,550,525	3,745,525	910,000	715,756	1,625,756
2026	2,320,000	1,448,688	3,768,688	965,000	670,019	1,635,019
2027	2,445,000	1,339,097	3,784,097	1,020,000	620,394	1,640,394
2028	2,585,000	1,220,194	3,805,194	1,085,000	566,413	1,651,413
2029	2,725,000	1,092,356	3,817,356	1,145,000	507,875	1,652,875
2030	2,880,000	954,834	3,834,834	1,215,000	444,406	1,659,406
2031	3,040,000	805,882	3,845,882	1,290,000	375,519	1,665,519
2032	3,205,000	646,753	3,851,753	1,365,000	301,653	1,666,653
2033	3,390,000	477,806	3,867,806	1,450,000	222,481	1,672,481
2034	3,575,000	295,819	3,870,819	1,535,000	137,569	1,672,569
2035	3,770,000	100,346	3,870,346	1,625,000	46,721	1,671,721
	<u>\$ 51,005,000</u>	<u>\$ 37,290,106</u>	<u>\$ 88,295,106</u>	<u>\$ 21,230,000</u>	<u>\$ 16,932,178</u>	<u>\$ 38,162,178</u>

Unlimited Tax Bonds Series 2010		
Principal	Interest	Total
2012	\$ 1,396,969	\$ 1,396,969
2013	695,000	1,377,856
2014	735,000	1,338,531
2015	770,000	1,297,144
2016	815,000	1,253,556
2017	855,000	1,207,631
2018	900,000	1,159,369
2019	945,000	1,109,813
2020	995,000	1,065,106
2021	1,050,000	1,024,206
2022	1,105,000	981,106
2023	1,160,000	935,806
2024	1,225,000	887,341
2025	1,285,000	834,769
2026	1,355,000	778,669
2027	1,425,000	718,703
2028	1,500,000	653,781
2029	1,580,000	584,481
2030	1,665,000	510,428
2031	1,750,000	430,363
2032	1,840,000	345,100
2033	1,940,000	255,325
2034	2,040,000	158,250
2035	2,145,000	53,625
	<u>\$ 29,775,000</u>	<u>\$ 20,357,928</u>

Harris-Montgomery Counties Municipal Utility District No. 386

TSI-6

CHANGE IN GENERAL LONG-TERM BONDED DEBT

March 31, 2011

	<u>Unlimited Tax Bonds</u>		<u>Total</u>
	<u>Series 2009</u>	<u>Series 2010</u>	
Interest rate	4.125 - 5.750%	4.0 - 5.50%	
Dates interest payable	3/1;9/1	3/1;9/1	
Maturity dates	9/1/12 - 9/1/34	9/1/12 - 9/1/34	
Beginning bonds outstanding	\$ 21,230,000	\$	\$ 21,230,000
Bonds sold during the year		29,775,000	29,775,000
Bonds retired during the year			
Principal retirements			
Ending bonds outstanding	<u>\$ 21,230,000</u>	<u>\$ 29,775,000</u>	<u>\$ 51,005,000</u>
Interest paid during the fiscal year	<u>\$ 1,099,156</u>	<u>\$ 349,242</u>	<u>\$ 1,448,398</u>
<u>Paying agent's name and city</u>	<u>The Bank of New York Mellon Trust Co., N.A.</u>		<u>Dallas, TX</u>

	<u>Tax Bonds*</u>	<u>Other Bonds</u>	<u>Refunding Bonds</u>
Bond Authority:			
Amount authorized by voters*	\$ 293,500,000	\$	\$ 293,500,000
Amount issued	\$ 51,005,000	\$	\$
Remaining to be issued**	\$ 242,495,000	\$	\$ 293,500,000

* Includes all bonds secured with tax revenues. Includes \$282,000,000 of bonds for water, sanitary sewer and storm drainage purposes (of which \$51,005,000 have been issued) and \$11,500,000 of bonds for recreational facilities (none of which have been issued).

** Includes \$230,995,000 of bonds for water, sanitary sewer and storm drainage purposes and \$11,500,000 of bonds for recreational facilities.

Debt Service Fund cash and temporary investments balances at the end of the fiscal year:	<u>\$ 5,277,488</u>
Average annual debt service payment (principal and interest) for remaining term of all debt:	<u>\$ 3,732,757</u>

(This Page Intentionally Left Blank)

Harris-Montgomery Counties Municipal Utility District No. 386

COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES - GENERAL FUND

Last Five Fiscal Years

	Amounts				
	2011	2010	2009	2008	2007
<u>General Fund Revenues</u>					
Water and sewer service	\$ 876,810	\$ 518,103	\$ 388,793	\$ 134,934	\$ 26,363
Property taxes	1,719,162	4,478,081	2,088,746	534,344	333,490
Penalties and interest	11,337	40,257	32,087	14,674	4,172
Tap connection fees	705,653	789,841	420,134	371,305	43,910
Interest and other	836,278	647,209	259,979	96,203	24,593
Total Revenues	<u>4,149,240</u>	<u>6,473,491</u>	<u>3,189,739</u>	<u>1,151,460</u>	<u>432,528</u>
<u>General Fund Expenditures</u>					
Current	2,625,748	2,368,612	1,421,778	929,473	500,199
Capital outlay		2,155,911			
Total Expenditures	<u>2,625,748</u>	<u>4,524,523</u>	<u>1,421,778</u>	<u>929,473</u>	<u>500,199</u>
Excess (Deficiency) of Revenues					
Over (Under) Expenditures	<u>\$ 1,523,492</u>	<u>\$ 1,948,968</u>	<u>\$ 1,767,961</u>	<u>\$ 221,987</u>	<u>\$ (67,671)</u>
<u>Debt Service Fund Revenues</u>					
Property taxes	\$ 3,827,871	\$	\$	\$	\$
Penalties and interest	81,734				
Interest and other	122,150	545			
Total Revenues	<u>4,031,755</u>	<u>545</u>			
<u>Debt Service Fund Expenditures</u>					
Current	90,137	30			
Debt service	1,448,398	274,789			
Total Expenditures	<u>1,538,535</u>	<u>274,819</u>			
Excess (Deficiency) of Revenues					
Over (Under) Expenditures	<u>\$ 2,493,220</u>	<u>\$ (274,274)</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Total Active Retail					
Water Connections	<u>2,019</u>	<u>1,467</u>	<u>569</u>	<u>405</u>	<u>31</u>
Total Active Retail					
Wastewater Connections	<u>1,965</u>	<u>1,413</u>	<u>564</u>	<u>366</u>	<u>31</u>

Percent of Fund Total Revenues				
2011	2010	2009	2008	2007
21.1 %	8.0 %	12.2 %	11.7 %	6.1 %
41.4	69.2	65.5	46.4	77.1
0.3	0.6	1.0	1.3	1.0
17.0	12.2	13.2	32.2	10.2
20.2	10.0	8.1	8.4	5.6
100.0	100.0	100.0	100.0	100.0
63.3	36.6	44.6	80.7	115.6
	33.3			
63.3	69.9	44.6	80.7	115.6
36.7 %	30.1 %	55.4 %	19.3 %	(15.6) %
94.9 %	%	%	%	%
2.0				
3.1	100.0			
100.0	100.0			
2.2	5.5			
35.9	50,420.0			
38.1	50,425.5			
61.9 %	(50,325.5) %	%	%	%

Harris-Montgomery Counties Municipal Utility District No. 386

TSI-8

BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS

March 31, 2011

Complete District Mailing Address: 1300 Post Oak Blvd., Suite 1400
 District Business Telephone Number: (713) 623-4531
 Submission date of most recent District Registration Form
 (TWC Sections 36.054 and 49.054): 5/26/2010
 Limit on Fees of Office that a Director may receive during a fiscal year
 (Set by Board Resolution - TWC Section 49.6000): \$ 7,200

Names:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid * 03/31/11	Expense Reimburse- ments 03/31/11	Title at Year End
<u>Board Members:</u>				
Jerry Perciful	(Elected) 5/08 - 5/12	\$ 2,100	\$	President
Armando Wood	(Elected) 5/08 - 5/12	600		Vice-President
Lucile Landis	Appointed 5/08-5/14	2,250		Secretary/Treasurer
Craig Brast	(Elected) 5/10- 5/14	2,100		Assistant Vice President
Edward A. Fritsche	Appointed 12/08-5/12	1,950		Assistant Secretary/ Treasurer
<u>Consultants:</u>				
Schwartz, Page & Harding L.L.P.	6/26/2003	\$ 76,894		Attorney
Municipal Accounts & Consulting, L.P.	6/26/2003	25,435		Bookkeeper
Harris County Appraisal District	Legislative	40,769		Central Appraisal District
Pate Engineers, Inc.	6/26/2003	1,255		Engineer
Sandersen Knox & Co., L.L.P.	6/1/2007	12,500		Independent Auditor
Municipal District Services, LLC	2/1/2009	788,138		Operator
Bill Spencer - Ad Valorem Appraisals	6/21/2005	28,489		Tax Assessor/Collector
RBC Capital Markets, LLC	5/13/2004			Financial Advisor

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