

HARRIS COUNTY MUNICIPAL
UTILITY DISTRICT NO. 399
(Harris County, Texas)

PRELIMINARY OFFICIAL STATEMENT
DATED: OCTOBER 6, 2014

\$1,940,000
UNLIMITED TAX BONDS
SERIES 2014

SELLING: 11:00 A.M., HOUSTON TIME
TUESDAY, OCTOBER 21, 2014
HOUSTON, TEXAS



This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

PRELIMINARY OFFICIAL STATEMENT DATED OCTOBER 6, 2014

IN THE OPINION OF BOND COUNSEL, THE BONDS ARE VALID OBLIGATIONS OF HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 399, AND 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 been designated as "qualified tax-exempt obligations" for financial institutions. See "LEGAL MATTERS - Qualified Tax-Exempt Obligations."

NEW ISSUE - Book Entry Only

\$1,940,000
HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 399
(A Political Subdivision of the State of Texas located within
Harris County, Texas)
UNLIMITED TAX BONDS, SERIES 2014

Dated: November 1, 2014

Due: September 1

Principal of the above bonds (the "Bonds") is payable to the registered owners thereof (the "Registered Owners") by the paying agent/registrant, initially, Wells Fargo Bank, N.A., in Minneapolis, Minnesota, or any successor paying agent/registrant (the "Paying Agent," "Registrar" or "Paying Agent/Registrar"). Interest on the Bonds accrues from November 1, 2014, and is payable on September 1, 2015 (ten-month interest payment), and on each March 1 and September 1 thereafter until the earlier of maturity or redemption. The Bonds are issued in denominations of \$5,000 or any integral multiple thereof in fully registered form only. The Bonds maturing on and after September 1, 2022, are subject to redemption, in whole or in part, prior to their scheduled maturities on September 1, 2021, or on any date thereafter, at the option of Harris County Municipal Utility District No. 399 (the "District"). Upon redemption, the Bonds will be payable at a price equal to the principal amount of the Bonds or the portions thereof so called for redemption, plus accrued interest to the date of redemption. If fewer than all of the Bonds are redeemed at any time, the particular maturities and amounts of the Bonds to be redeemed shall be selected by the District in integral multiples of \$5,000 within any one maturity. If fewer than all of the Bonds of any given maturity are to be redeemed at any time, the particular Bonds to be redeemed shall be selected by such method of random selection as determined by the Registrar (or by DTC, as defined below, in accordance with its procedures while the Bonds are in book-entry-only form). The Registered Owner of any Bond, all or a portion of which has been called for redemption, shall be required to present same to the Registrar for payment of the redemption price on the portion of the Bond so called for redemption and issuance of a new Bond in the principal amount equal to the portion of such Bond not redeemed.

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 (the "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. In reading this Official Statement, it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to Registered Owners should be read to include the person for which the Direct or Indirect Participant (as defined under "BOOK-ENTRY-ONLY SYSTEM") acquires an interest in the Bonds, but (i) all rights or ownership must be exercised through DTC and the Book-Entry Only System, and, (ii) except as described herein, notices that are to be given to Registered Owners under the Bond Order (defined herein) will be given only to DTC. See "BOOK-ENTRY-ONLY SYSTEM."

MATURITY SCHEDULE

<u>Principal Amount</u>	<u>Maturity (Due September 1)</u>	<u>Interest Rate</u>	<u>Initial Reoffering Yield (a)</u>	<u>Principal Amount</u>	<u>Maturity (Due September 1)</u>	<u>Interest Rate</u>	<u>Initial Reoffering Yield (a)</u>
\$ 15,000	2017	%	%	\$ 25,000	2029(b)	%	%
25,000	2018			25,000	2030(b)		
25,000	2019			25,000	2031(b)		
25,000	2020			25,000	2032(b)		
25,000	2021			25,000	2033(b)		
25,000	2022(b)			25,000	2034(b)		
25,000	2023(b)			25,000	2035(b)		
25,000	2024(b)			25,000	2036(b)		
25,000	2025(b)			325,000	2037(b)		
25,000	2026(b)			350,000	2038(b)		
25,000	2027(b)			375,000	2039(b)		
25,000	2028(b)			400,000	2040(b)		

- (a) Information with respect to the initial reoffering yields of the Bonds is the responsibility of the Underwriter (as defined herein). Initial reoffering yields represent the initial offering price to the public which as been established by the Underwriter for public offerings, and which subsequently may be changed.
- (b) Subject to optional redemption as described above.

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. See "THE BONDS – Source of Payment." The Bonds are obligations solely of the District and are not obligations of the State of Texas, Harris County, the City of Houston, or any entity other than the District. Investment in the Bonds is subject to special risk factors as described herein. See "RISK FACTORS."

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., Houston, Texas, Bond Counsel. Certain legal matters will be passed upon for the District by McCall, Parkhurst & Horton L.L.P., Dallas, Texas, as Disclosure Counsel. Delivery of the Bonds in book-entry form through DTC is expected on or about November 20, 2014.

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USE OF INFORMATION IN OFFICIAL STATEMENT

No dealer, broker, salesman or other person has been authorized by the District or the Underwriter (defined below) 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 Underwriter.

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 Underwriter and thereafter only as described under "GENERAL CONSIDERATIONS - Updating of Official Statement."

Neither the District nor the Underwriter make any representations as to the accuracy, completeness, or adequacy of the information supplied by The Depository Trust Company for use in this Official Statement.

This Official Statement contains "forward-looking" statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, which generally can be identified with words or phrases such as "anticipates," "believes," "could," "estimates," "expects," "foresees," "may," "predict," "should," "will" or other words or phrases of similar import. All statements included in this Official Statement that any person expects or anticipates will, should or may occur in the future are forward-looking statements. These statements are based on assumptions and analyses made in light of experience and perceptions of historical trends, current conditions and expected future developments as well as other factors the District believes are appropriate in the circumstances. However, whether actual results and developments conform with expectations and predictions is subject to a number of risks and uncertainties, including, without limitation, the information discussed under "RISK FACTORS" in this Official Statement, as well as additional factors beyond the District's control. The important risk factors and assumptions described under that caption and elsewhere herein could cause actual results to differ materially from those expressed in any forward-looking statement. All of the forward-looking statements made in this Official Statement are qualified by these cautionary statements.

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 bid, which was tendered by _____ (the "Underwriter"), to purchase the Bonds bearing the interest rates shown under "PRINCIPAL AMOUNTS, MATURITIES, 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, as amended.

Prices and Marketability

The delivery of the Bonds is conditioned upon the receipt by the District of a certificate executed and delivered by the Underwriter 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 underwriter or wholesaler. Otherwise, the District has no understanding with the Underwriter regarding the reoffering yields or prices of the Bonds and has no control over trading of the Bonds after a bona fide offering of the Bonds is made by the Underwriter at the yields specified on the cover page. Information concerning reoffering yields or prices is the responsibility of the Underwriter.

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

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET 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.

Securities Laws

No registration statement relating to the Bonds has been filed with the United States Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein, nor have the Bonds been registered or qualified under the securities laws of any other jurisdiction. The District assumes no responsibility for registration 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 Rating

The District has made no application for a municipal bond rating of the Bonds, nor is it expected that the District would have been successful in receiving an investment grade rating had such an application been made.

OFFICIAL STATEMENT SUMMARY

The following summary of certain information contained herein is qualified in its entirety by the 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 County Municipal Utility District No. 399 (the "District"), is a political subdivision of the State of Texas located within Harris County, Texas. See "THE DISTRICT - General."
Description	\$1,940,000 Unlimited Tax Bonds, Series 2014 are dated November 1, 2014, and mature on September 1 in the years and principal amounts shown on the cover page of this Official Statement under the heading "MATURITY SCHEDULE." Interest on the Bonds accrues from November 1, 2014, and is payable on September 1, 2015 (ten-month interest payment), and on each March 1 and September 1 thereafter (each, an "Interest Payment Date") 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 scheduled to mature on and after September 1, 2022, are subject to redemption, in whole or in part, prior to their scheduled maturities, on September 1, 2021, 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 System	The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC, pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar (as defined herein) to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the Beneficial Owners of the Bonds (see "BOOK-ENTRY-ONLY SYSTEM").
Source and Security for 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 upon all taxable property located within the District. See "THE BONDS - Source and Security for Payment," "RISK FACTORS - Maximum Impact on District Tax Rates" and "TAX DATA - Tax Rate Calculations."

Use of Proceeds	The proceeds of the sale of the Bonds will be used by the District to (i) finance (a) widening (phase 2) of Harris County Flood Control District (“HCFCD”) unit no. P145-03-00 drainage channel to serve Eagle Landing; and (b) remaining costs of excavation (phase 2) of HCFCD unit no. P545-01-00 detention pond to serve Eagle Landing, including (c) engineering costs for both items, (ii) purchase wastewater treatment plant capacity, and (iii) pay for issuance costs, legal fees, fiscal agent’s fees, fees to the Texas Commission on Environmental Quality (the “TCEQ” or “Commission”) and the Attorney General of Texas, and certain financing costs related to the issuance of the Bonds. See “USE AND DISTRIBUTION OF BOND PROCEEDS.”
Payment Record	The Bonds are the third series of Bonds issued by the District. The District has previously issued \$2,300,000 Unlimited Tax Bonds, Series 2007 (the “Series 2007 Bonds”) and \$2,540,000 Unlimited Tax Bonds, Series 2010 (the “Series 2010 Bonds”), collectively, the “Outstanding Bonds,” \$4,400,000 of which are currently outstanding. In addition to the components of the System that the District has financed with the proceeds of the sale of the Outstanding Bonds and is financing with portions of the proceeds of the sale of the Bonds (see “THE BONDS - Use and Distribution of Bond Proceeds” and “THE SYSTEM”), the District will finance the construction or acquisition of additional components of the System with the proceeds of the sale of bonds, if any, that the District expects to issue in the future. See “THE BONDS - Issuance of Additional Debt,” “RISK FACTORS - Future Debt.”
Authorized But Unissued Bonds	After issuance of the Bonds, unlimited tax bonds in the amount of \$36,470,000 for waterworks, wastewater, and drainage facilities, \$44,625,000 for refunding purposes, and \$1,375,000 for recreational facilities will remain authorized but unissued. See “THE BONDS - Issuance of Additional Debt.”
Municipal Bond Rating	The District has made no application for a municipal bond rating of the Bonds, nor it is expected that the District would have been successful in receiving an investment grade rating had such an application been made. See “SALE AND DISTRIBUTION OF THE BONDS - Municipal Bond Rating.”
Bond Counsel	Schwartz, Page & Harding, L.L.P., Houston, Texas. See “LEGAL MATTERS.”
Disclosure Counsel	McCall, Parkhurst & Horton L.L.P., Dallas, Texas.
Engineer	Edminster Hinshaw Russ & Associates, Inc., Houston, Texas.
Financial Advisor	Rathmann & Associates, L.P., Houston, Texas.

Qualified Tax-Exempt Obligations The District has designated the Bonds as “qualified tax - exempt obligations” pursuant to Section 265(b) of the Internal Revenue Code of 1986, as amended. See “LEGAL MATTERS - Qualified Tax-Exempt Obligations.”

THE DISTRICT

Description The District is a political subdivision of the State of Texas, created by Order of the TCEQ on June 4, 2004. The District contains approximately 238.52 acres of land. The District is located entirely within Harris County, Texas, and entirely within the extraterritorial jurisdiction of the City of Houston, Texas (the “City”). The District is located entirely within the Spring Independent School District. The District is located approximately 15 miles north of the central business district of the City. The District lies approximately 0.75 miles west of U.S. Highway 45. A portion of the District is bounded on the southwest by Kuykendahl Road and a portion of the District is bounded on the southeast by Ella Drive. Access to the District is afforded from U.S. Highway 45 by Richey Road and Airtex Boulevard. See “THE DISTRICT - General” and - “Description,” and “APPENDIX A - LOCATION MAP.”

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.”

Development and Home Construction As of September 15, 2014, the District contained 507 single-family homes, including 18 homes under construction. According to the District’s Engineer, the development of a total of 629 single-family residential lots (approximately 145.99 total acres) within the District, consisting of the subdivisions platted as Eagle Landing, Sections 1 through 3 and 6 through 8 is complete with the provision of water supply and distribution, wastewater collection and treatment and storm drainage facilities (the “System”) and street paving. See “Developer and Other Principal Landowners” below.

The District financed the cost of acquiring or constructing certain components of the System, including underground water distribution, wastewater collection and storm drainage facilities that serve Eagle Landing, Section 1, a storm water quality pond that serves Eagle Landing, the purchase of wastewater treatment capacity, a 16-inch water line along Kuykendahl Road, widening a HCFCD drainage channel to serve Eagle Landing, excavation of a HCFCD detention pond to serve Eagle Landing, repairs/upgrades to a shared wastewater treatment plant, and other items with portions of the proceeds of the sale of the Outstanding Bonds. The

District is financing its cost of acquiring or constructing additional components of the System with portions of the proceeds of the sale of the Bonds, including Phase 2 of the widening of a HCFCD drainage channel to serve Eagle Landing, Phase 2 of the excavation of a HCFCD detention pond to serve Eagle Landing, and other items as is described in this Official Statement under the captions “USE AND DISTRIBUTION OF BOND PROCEEDS” and “THE SYSTEM.” The District anticipates financing its cost of acquiring or constructing additional components of the System, including water distribution, wastewater collection and storm drainage facilities to serve Eagle’s Landing, Sections 2, 3, 6 through 8, and other facilities, with the proceeds of the sale of bonds, if any, to be issued by the District in the future. See “THE BONDS - Issuance of Additional Debt” and “RISK FACTORS - Future Debt.”

In addition to the total of 629 single-family residential lots on approximately 145.99 acres located within the District that have been developed to date, approximately 76.40 acres of land located in the District that are available for future development have not been developed. It is anticipated that approximately 56.59 of such approximately 76.40 currently undeveloped acres will be developed as future sections of Eagle Landing, and that the remaining approximately 19.81 of such acres will be utilized for future commercial development. However, the owners of such acres that are currently available for future development, which are described below under the caption “Developer and Other Principal Landowners,” are under no legal commitment to the District to develop any of such acres available for future development according to any specific plan, timetable, or at all. Therefore, the District cannot predict when, or whether, any of such currently undeveloped acres located within the District might be developed. The balance of the land that is located within the District is contained within easements, rights-of-way, or is otherwise not available for future development. See “RISK FACTORS - Factors Affecting Taxable Values and Tax Payments,” “TAX DATA - Principal 2014 Taxpayers,” “DEVELOPER AND OTHER PRINCIPAL LANDOWNERS” and “FUTURE DEVELOPMENT.”

Developer and Other Principal Landowners

The developer of the 378 fully developed single-family residential lots located within the District that have been developed as Eagle Landing, Sections 1 through 3 was Pulte Homes of Texas, L.P. (“Pulte”). In March 2007, Long Lake, Ltd. (“Long Lake”) purchased 25 vacant fully developed Eagle Landing, Section 2 single-family residential lots from Pulte and 74 vacant fully developed Eagle Landing, Section 3 single-family residential lots from another party, and Pulte conveyed approximately 119.72 undeveloped acres to an affiliate of Long Lake, Woodmere Development Co., Ltd. (“Woodmere” or the “Developer”). Woodmere has developed the 251 single-family

residential lots located within the District which have been subdivided as Eagle Landing, Sections 6 through 8 (a total of approximately 56.34 acres). Long Lake has constructed and is constructing homes on such lots under the trade names "Foxwood Homes" and "Postwood Homes" (together, the "Builders") as is described below under the caption "Builders." It is anticipated that approximately 56.59 acres of land located within the District owned by Long Lake that are available for future development will be developed as future sections of Eagle Landing. However, the District cannot represent that any development will be undertaken on such approximately 56.59 acres of currently undeveloped land.

Approximately 19.81 acres of currently undeveloped land located within the District that are expected to be utilized for future commercial development are owned by Hannover Estates, Ltd. However, the District cannot represent that any development will be undertaken on such approximately 19.81 acres of currently undeveloped land.

Builders

Foxwood Homes is currently constructing homes in Eagle Landing, Section 6 in the District which range from approximately 1,514 to 3,164 square feet in size of living area and in sales price from approximately \$137,990 to \$167,990. Postwood Homes is currently constructing homes in Eagle Landing, Sections 7 and 8 in the District which range from approximately 1,937 to 4,065 square feet in size of living area and in sales price from approximately \$158,990 to \$210,990. The Builders may change the size(s) and the type(s) of homes which they elect to build, and the sales prices thereof, or may suspend building activity altogether, at their sole discretion.

RISK FACTORS

THE BONDS ARE SUBJECT TO SPECIAL RISK FACTORS 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 "RISK FACTORS."

SELECTED FINANCIAL INFORMATION
(Unaudited)

2014 Assessed Valuation		\$60,276,369(a)
(As of January 1, 2014)		
See "TAX DATA" and "TAX PROCEDURES"		
Estimated Valuation at September 1, 2014		\$64,921,959(b)
(As of September 1, 2014)		
See "TAX DATA" and "TAX PROCEDURES"		
Direct Debt: The Outstanding Bonds	\$ 4,400,000	
The Bonds	<u>1,940,000(c)</u>	
Total	\$ 6,340,000	
Estimated Overlapping Debt		<u>\$ 4,559,316(c)</u>
Direct and Estimated Overlapping Debt		<u>\$ 10,899,316(c)</u>
Direct Debt Ratios		
: as a percentage of 2014 Assessed Valuation		10.52%
: as a percentage of Estimated Valuation at September 1, 2014		9.77%
Direct and Estimated Overlapping Debt Ratios		
: as a percentage of 2014 Assessed Valuation		18.08%
: as a percentage of Estimated Valuation at September 1, 2014		16.79%
Bond Fund Balance (As of September 16, 2014)		\$ 733,909(d)
General Fund Balance (As of September 16, 2014)		\$ 1,691,957
2013 Tax Rate Per \$100 of Assessed Valuation		
Debt Service Tax	\$0.55	
Maintenance Tax	<u>0.79</u>	
Total		\$1.34(e)
Anticipated 2014 Tax Rate Per \$100 of Assessed Valuation		
Debt Service Tax	\$0.55	
Maintenance Tax	<u>0.66</u>	
Total		\$1.21(e)
Average Percentage of Total Tax Collections 2004-2013		99.78%
Percentage of Tax Collections 2013 Levy		
As of August 31, 2014. (In process of collection)		98.65%
Average Annual Debt Service Requirements of the Bonds		
and the Outstanding Bonds (2015-2040)		\$ 446,626
Maximum Annual Debt Service Requirement of the Bonds		
and the Outstanding Bonds (2036)		\$ 462,819

Tax Rate per \$100 of Assessed Valuation Required to Pay Average Annual Debt	
Service Requirements of the Bonds and the Outstanding Bonds	
(2015-2040) at 95% Tax Collections	
Based Upon 2014 Assessed Valuation	\$0.78(e)
Based Upon Estimated Valuation at September 1, 2014	\$0.73(e)

Tax Rate per \$100 of Assessed Valuation Required to Pay Maximum Annual Debt	
Service Requirement of the Bonds and the Outstanding Bonds	
(2036) at 95% Tax Collections	
Based Upon 2014 Assessed Valuation	\$0.81(e)
Based Upon Estimated Valuation at September 1, 2014	\$0.76(e)

Number of Single Family Residences (including 18 residences under construction)	
as of September 15, 2014	507

- (a) As of January 1, 2014. All property located in the District is valued on the appraisal rolls by the Harris County Appraisal District (the "Appraisal District") at 100% of appraised value as of January 1 of each year. The District's appraisal roll is certified by the Harris County Appraisal Review Board (the "Appraisal Review Board"). Such sum includes certain values which have not been certified by the Appraisal Review Board, including the value of certain properties which has been proposed by the Appraisal District but protested by the owners thereof to the Appraisal District and the value of certain properties not under protest but not yet certified. The Appraisal District's "Estimated Final Taxable Value with Hearing Loss" of such properties is \$8,504,180, which total is included in the amount of \$60,276,369. The Appraisal District has proposed the valuation of such protested properties to be \$8,661,401. The Appraisal District's estimate of the total taxable value of taxable property not under protest and not yet included on the certified appraisal roll is \$1,678,009, which total is also included in the amount of \$60,276,369. The District is unable to predict the amount of the District's final 2014 Assessed Valuation. Such final 2014 Assessed Valuation will not be determined until the valuation of all taxable property located within the District is certified by the Appraisal Review Board for 2014. See "RISK FACTORS - Factors Affecting Taxable Values and Tax Payments" and "TAX PROCEDURES."
- (b) Provided by the Appraisal District for informational purposes only, this amount is an estimate of the value of all taxable property located within the District as of September 1, 2014, and includes an estimate of values resulting from the construction of taxable improvements from January 1, 2014, through August 31, 2014. The ultimate Assessed Valuation of any improvements added from January 1, 2014, through August 31, 2014, will not be included on the District's 2014 tax roll but will be placed on the District's 2015 tax roll, and may vary significantly from such estimate once the Appraisal Review Board certifies the value thereof in 2015.
- (c) See "DISTRICT DEBT." In addition to the components of the System that the District has financed with the proceeds of the sale of the Outstanding Bonds and is financing with portions of the proceeds of the sale of the Bonds (see "THE BONDS - Use and Distribution of Bond Proceeds" and "THE SYSTEM"), the District will finance the construction or acquisition of additional components of the System with the proceeds of the sale of bonds, if any, that the District expects to issue in the future. See "THE BONDS - Issuance of Additional Debt," "RISK FACTORS - Future Debt."
- (d) Neither Texas law nor the Bond Order requires that the District maintain any particular sum in such Fund. Such fund balance reflects the timely payment by the District of the entirety of its debt service payments that were due for 2014 on the Outstanding Bonds. The District's initial debt service payment on the Bonds, consisting of a ten-month interest payment thereon, is due on September 1, 2015.
- (e) The District levied a debt service tax in the amount of \$0.55 per \$100 of Assessed Valuation, and a maintenance tax of \$0.79 per \$100 of Assessed Valuation in 2013. Therefore, the District's combined total tax for 2013 is \$1.34 per \$100 of Assessed Valuation. The District anticipates levying debt service and maintenance taxes of approximately \$0.55 and \$0.66 per \$100 of Assessed Valuation, respectively, for 2014. As is enumerated in this Official Statement under the caption "TAX DATA - Estimated Overlapping Taxes," the total of the 2013 tax levies of all overlapping taxing units which levy taxes upon property located in the District, plus the District's 2013 rate, is \$3.809838. The District's total 2013 tax rate of \$1.34 per \$100 of Assessed Valuation and such total

rates of \$3.809838 per \$100 of Assessed Valuation are higher than the individual and total tax levies of many municipal utility districts in the Houston metropolitan area, including the area of the District, but are within the range of the individual and total levies of some municipal utility districts in the Houston metropolitan area and the area of the District which are in stages of development comparable with the District. See “RISK FACTORS - Factors Affecting Taxable Values and Tax Payments” and “TAX PROCEDURES.”

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 399
UNLIMITED TAX BONDS
SERIES 2014**

INTRODUCTION

This Official Statement provides certain information with respect to the issuance by Harris County Municipal Utility District No. 399 (the “District”) of its Unlimited Tax Bonds, Series 2014 (the “Bonds”).

There follow 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 upon request and payment of the costs of duplication thereof.

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 order authorizing the issuance of the Bonds (the “Bond Order”), a copy of which is available from Bond Counsel upon payment of the costs of duplication thereof. 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 November 1, 2014, with interest payable on September 1, 2015 (ten-month interest payment), and on each March 1 and September 1 thereafter (each, an “Interest Payment Date”) until the earlier of maturity or redemption. Interest on the Bonds initially accrues from November 1, 2014, and thereafter, from the most recent Interest Payment Date. The Bonds mature on September 1 of the years and in the amounts shown under “PRINCIPAL AMOUNTS, MATURITIES, 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. 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 an election held within the District on September 11, 2004, voters of the District authorized a total of \$43,250,000 in unlimited tax 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. The District has previously issued \$2,300,000 Unlimited Tax Bonds, Series 2007 (the “Series 2007 Bonds”) and \$2,540,000 Unlimited Tax Bonds, Series 2010 (the “Series 2010 Bonds”), collectively, the “Outstanding Bonds,” \$4,400,000 of which are currently outstanding. After the issuance of the Bonds, a total of \$36,470,000 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 Texas Commission on Environmental Quality (the “TCEQ” or “Commission”). At the election held within the District on November 2, 2004, voters in the District also authorized a total of \$1,375,000 in unlimited tax bonds for the purpose of acquiring or constructing recreational facilities. No bonds have been issued from said authorization. See “Financing Recreational Facilities” below.

Source and Security for Payment

The Bonds, together with the Outstanding Bonds 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 "TAX 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 "RISK FACTORS." The Bonds are obligations solely of the District and are not obligations of the City of Houston, Harris County, the State of Texas, or any 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 or confirmed pursuant to the orders of the District authorizing the issuance of the Outstanding Bonds. Accrued interest on the Bonds will be deposited from the proceeds of 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/Registrar (hereinafter defined), 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 and after September 1, 2022, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000, on September 1, 2021, 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."

As provided in the Bond Order, notice of each exercise of the reserved right of optional redemption shall be given by the District, or at the District's request, by the Paying Agent/Registrar, 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/Registrar for payment of the principal of the Bonds (including any Term Bonds) or portions thereof to be redeemed, plus accrued interest to the date fixed for redemption. When Bonds have been called for redemption in whole or in part and due provision has been made to redeem the same as herein provided, the Bonds or portions thereof so redeemed shall no longer be regarded as outstanding except for the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the Registered Owners to collect interest which would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

Method of Payment of Principal and Interest

The Board of Directors of the District (the “Board”) has appointed Wells Fargo Bank, N.A., having its principal corporate trust office and its principal payment office in Minneapolis, Minnesota, as the initial paying agent/registrars for the Bonds (the “Paying Agent,” “Registrar,” or “Paying Agent/Registrar”). The principal of and interest on the Bonds shall be paid to DTC, which will make distribution of the amounts so paid to the Beneficial Owners of the Bonds. 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/Registrar

Provision is made in the Bond Order for replacement of the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, the new paying agent/registrars shall be required to accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. 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 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 \$43,250,000 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 \$36,470,000 of unlimited tax bonds authorized but unissued for said improvements and facilities. The District's voters have also authorized a total of \$44,625,000 unlimited tax refunding bonds for the purpose of refunding outstanding bonds of the District and could authorize additional amounts. The District currently has all of such \$44,625,000 unlimited tax refunding bonds authorized but unissued. The District's voters have also authorized issuance of a total of \$1,375,000 unlimited tax bonds for the purpose of acquiring or constructing recreational facilities and could authorize additional amounts. 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.

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.

Financing Recreational Facilities

Pursuant to provisions of the Texas Constitution, 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 10 cents 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 2, 2004, voters of the District authorized a total of \$1,375,000 unlimited tax bonds for financing and constructing recreational facilities and authorized a maintenance tax not to exceed \$0.10 per each \$100 of assessed valuation for maintenance of the recreational facilities.

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

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston, the District may be annexed for full purposes by the City of Houston without the District's consent, subject to compliance by the City of Houston with various requirements of Chapter 43 of the Texas Local Government Code, as amended. If the District is annexed, the City of Houston must assume the District's assets and obligations (including the Bonds and the Outstanding Bonds) and abolish the District within ninety (90) days of the date of annexation. Annexation of territory by the City of Houston is a policy-making matter within the discretion of the Mayor and City Council of the City of Houston, and, therefore, the District makes no representation that the City of Houston will ever annex the District and assume its debt. Moreover, no representation is made concerning the ability of the City of Houston to make debt service payments should annexation occur.

Consolidation

The District has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its water and wastewater systems with the water and wastewater systems of the district or districts with which it is consolidating, subject to voter approval. In their consolidation agreement, the consolidating districts may agree to assume each other's bonds, notes and other obligations. If each district assumes the other's bonds, notes and other obligations, taxes may be levied uniformly on all taxable property within the consolidated district in payment of same. If the districts do not assume each other's bonds, notes and other obligations, each district's taxes are levied on property in each of the original districts to pay said debts created by the respective original district as if no consolidation had taken place. No representation is made concerning whether the District will consolidate with any other district, 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 observance 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 "RISK FACTORS - Registered Owners' Remedies and Bankruptcy."

Defeasance

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

county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The foregoing obligations may be in book entry form and shall mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds. If any of such Bonds are to be redeemed prior to their respective dates of maturity, provision must have been made for giving notice of redemption as provided in the Bond Order.

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

There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Bond Order does not contractually limit such investments, Registered Owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under Texas law.

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Bonds is to be transferred and how the principal of and interest on the Bonds are to be paid to and credited by The Depository Trust Company, New York, New York, (“DTC”) while the Bonds are registered in its nominee 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 and the Financial Advisor believe the source of such information to be reliable, but neither of the District or the Financial Advisor takes any 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. 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 Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct

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

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within 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.

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

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

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

USE AND DISTRIBUTION OF BOND PROCEEDS

The proceeds of the sale of the Bonds will be used by the District to (i) finance (a) widening (phase 2) of Harris County Flood Control District (“HCFCF”) unit no. P145-03-00 drainage channel to serve Eagle Landing; and (b) remaining costs of excavation (phase 2) of HCFCF unit no. P545-01-00 detention pond to serve Eagle Landing, including (c) engineering costs for both items, (ii) purchase wastewater treatment plant capacity, and (iii) pay for issuance costs, legal fees, fiscal agent’s fees, fees to the TCEQ and the Attorney General of Texas, and certain financing costs related to the issuance of the Bonds.

	<u>District's Share</u>
<u>Construction Costs</u>	
A. Developer Contribution Items (a)	
None	
B. District Items	
1. Detention Pond Excavation Phase 2 in HCFCF Unit No. P545-01-00	\$ 626,424
2. Drainage Channel Widening Phase 2 in HCFCF Unit No. P145-03-00	350,603
3. Engineering for Items 1 and 2	156,099
4. Wastewater Treatment Plant Capacity Purchase	<u>204,143</u>
Total District Items	\$1,337,269
TOTAL CONSTRUCTION COSTS	\$1,337,269

Non-Construction Costs

1. Legal Fees	\$ 58,500
2. Fiscal Agent Fees	38,800
3. Developer Interest	350,073
4. Bond Discount	58,200
5. Bond Issuance Expenses	50,368
6. Bond Application Report Costs	40,000

7.	Attorney General Fee	1,940
8.	TCEQ Bond Issuance Fee	4,850
9.	Contingency (b)	<u>0</u>
	TOTAL NON-CONSTRUCTION COSTS	\$ 602,731
	TOTAL BOND ISSUE REQUIREMENT	<u>\$1,940,000</u>

- (a) In general, developers are required to pay up to thirty percent (30%) of the cost of emplacing certain of the water, wastewater and drainage facilities in a municipal utility district pursuant to the rules of the TCEQ. However, pursuant to certain exceptions under TCEQ rules, the District is permitted to finance one hundred percent (100%) of the cost of the facilities being financed with the proceeds of the sale of the Bonds.
- (b) Represents funds which may be used by the District only in accordance with the rules of the TCEQ as further discussed below.

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.

RISK FACTORS

General

The Bonds, which are obligations solely of the District and not of the State of Texas, Harris County, Texas, the City of Houston, Texas, or any political subdivision or agency other than the District, are secured by an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property located within the District. See “THE BONDS - Source and Security for Payment.” 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 upon 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 representations that over the life of the Bonds the property within the District will maintain a value sufficient to justify continued payment of taxes by the 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 “Mandamus and Limitations on Registered Owners' Remedies” below and “THE BONDS - Source and Security for Payment” and - “Remedies in Event of Default.”

Factors Affecting Taxable Values and Tax Payments

Economic Factors: A substantial percentage of the assessed valuation of the property located within the District is attributable to the current market value of single-family residences that have been constructed within the District, of the single-family residential lots that have been developed by the Developer of the District and of the developed lots which have been sold by the Developer to the Builders for the construction of primary residences. The market value of such homes and lots is related to general economic conditions affecting the demand for residences. Demand for lots of this type and the construction of residential dwellings thereon can be significantly affected by factors such as interest rates, credit availability, construction costs, energy availability and costs and the prosperity and demographic characteristics of the urban center toward which the marketing of lots is directed. Decreased levels of construction activity would tend to restrict the growth of property values in the District or

could adversely impact such values. Were the District to experience a significant number of residential foreclosures, the value of all homes within the District could be adversely affected. Although, as described in this Official Statement under the captions “DEVELOPMENT AND HOME CONSTRUCTION,” “DEVELOPER AND OTHER PRINCIPAL LANDOWNERS” and “BUILDERS,” the development of 629 single-family residential lots is complete within the District, and, as of September 15, 2014, the District contained 507 single-family homes (including 18 homes under construction), the District cannot predict the pace or magnitude of any future development or home construction in the District other than that which has occurred to date.

National Economy: There has been a downturn in new housing construction in the United States, resulting in a decline in national housing market values. Although, as is described in this Official Statement under the captions “DEVELOPMENT AND HOME CONSTRUCTION,” “DEVELOPER AND OTHER PRINCIPAL LANDOWNERS” and “BUILDERS,” the development of 629 single-family residential lots is complete within the District, and, as of September 15, 2014, the District contained 507 single-family homes (including 18 homes under construction), the District cannot predict the pace or magnitude of any future development or home construction in the District other than that which has occurred to date. The District cannot predict what impact, if any, a downturn in the local housing market and a continued downturn in the national housing and financing markets may have on the Houston market generally and the District specifically, or the maintenance of assessed values in the District.

Credit Markets and Liquidity in the Financial Markets: Interest rates and the availability of mortgages and development funding have a direct impact on development and homebuilding activity, particularly short-term interest rates at which developers are able to obtain financing for development costs and at which homebuilders are able to finance the construction of new homes for sale. Interest rate levels may affect the ability of a developer with undeveloped property to undertake and complete development activities within the District and of homebuilders to initiate the construction of new homes for sale. Because of the numerous and changing factors affecting the availability of funds, particularly liquidity in the national credit markets, the District is unable to assess the future availability of such funds for continued development and/or home construction within the District. In addition, since the District is located approximately 15 miles north of the central downtown business district of the City of Houston, the success of development within the District and growth of District taxable property values are, to a great extent, a function of the Houston metropolitan and regional economies and national credit and financial markets. A downturn in the economic conditions of Houston and further decline in real estate and financial markets in the United States could adversely affect development and homebuilding plans in the District and restrain the growth of the District’s property tax base.

Developer/Builder/Landowner Obligation to the District: The ability of Woodmere or Woodmere’s affiliate, Long Lake, currently constructing homes within the District under the trade names “Foxwood Homes” and “Postwood Homes” (defined in this Official Statement under the caption “DEVELOPER AND OTHER PRINCIPAL LANDOWNERS” and “BUILDERS”), and any other principal taxpayer (see “TAX DATA - Principal 2014 Taxpayers”) within the District to make full and timely payments of taxes levied against their property by the District and similar taxing authorities will directly affect the District’s ability to meet its debt service obligations. There is no commitment by or legal requirement of Woodmere or any other party to the District to proceed at any particular rate or according to any specific plan with the development of land in the District, or of any home building company, including Foxwood Homes and Postwood Homes, to proceed at any particular pace with the construction of homes in the District, and there is no restriction on any land owner’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 home construction activity in the District. See “DEVELOPMENT AND HOME CONSTRUCTION” and “FUTURE DEVELOPMENT.”

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 2014 Assessed Valuation of property located within the District is \$60,276,369. After issuance of the Bonds, the Maximum Annual Debt Service Requirement on the Bonds and the Outstanding Bonds will be \$462,819 (2036) and the

Average Annual Debt Service Requirements on the Bonds and the Outstanding Bonds will be \$446,626 (2015 through 2040, inclusive). Assuming no increase to or decrease from the 2014 Assessed Valuation, no use of other District funds on hand, and the issuance of no additional bonds by the District, tax rates of \$0.81 and \$0.78 per \$100 of Assessed Valuation at a 95% tax collection rate would be necessary to pay the Maximum Annual Debt Service Requirement and the Average Annual Debt Service Requirements, respectively. The Estimated Valuation at September 1, 2014, of property located within the District supplied by the Appraisal District is \$64,921,959. Assuming no increase to or decrease from the Estimated Valuation at September 1, 2014, no use of other District funds on hand, and the issuance of no additional bonds by the District, tax rates of \$0.76 and \$0.73 per \$100 of Assessed Valuation at a 95% tax collection rate would be necessary to pay the Maximum Annual Debt Service Requirement and the Average Annual Debt Service Requirements, respectively.

The District levied a debt service tax in the amount of \$0.55 per \$100 of Assessed Valuation, and a maintenance tax of \$0.79 per \$100 of Assessed Valuation in 2013. Therefore, the District's combined total tax for 2013 is \$1.34 per \$100 of Assessed Valuation. The District anticipates levying debt service and maintenance taxes of approximately \$0.55 and \$0.66 per \$100 of Assessed Valuation, respectively, for 2014. As is enumerated above, the anticipated 2014 debt service rate will not be sufficient to pay debt service on the Bonds and the Outstanding Bonds assuming taxable values in the District at the level of the Estimated Valuation at September 1, 2014, of \$64,921,959, or greater, a tax collection rate of 95%, no use of funds on hand, and the issuance of no additional bonds by the District. Taxable values within the District would have to reach \$85,478,660 within approximately three to four years in order for a debt service tax rate of \$0.55 per \$100 of Assessed Valuation to be sufficient to pay the Average Annual Debt Service Requirements on the Outstanding Bonds and the Bonds, assuming a tax collection rate of 95%, no use of funds on hand, and the issuance of no additional bonds by the District. However, as is illustrated above under the caption "Historical Values and Tax Collection History," the District has collected an average of 99.78% of its 2004 through 2013 tax levies, and its 2013 levy is 98.65% collected as of August 31, 2014. Moreover, the District's Debt Service Fund balance is \$733,909 as of September 16, 2014. Although neither Texas law nor the Bond Order requires that any specific amount be retained in the Debt Service Fund at any time, the District has in the past applied earnings from the investment of monies held in the Debt Service Fund to meet the debt service requirements of the Outstanding Bonds (see "APPENDIX B - ANNUAL FINANCIAL"). Therefore, the District anticipates that it will be able to meet debt service requirements on the Bonds and the Outstanding Bonds without increasing the tax rate for debt service above the debt service rate which the District anticipates levying for 2014 - \$0.55 per \$100 of Assessed Valuation. However, the District can make no representation that the taxable property values in the District will increase in the future or will maintain a value sufficient to support the aforementioned tax rate or to justify continued payment of taxes by property owners. See "TAX PROCEDURES." Increases in the District's tax rate to higher levels than the total \$1.21 per \$100 of Assessed Valuation rate which the District anticipates levying in 2014 may have an adverse impact upon future development of the District, and the ability of the District to collect, and the willingness of owners of property located within the District to pay, ad valorem taxes levied by the District.

As is enumerated in this Official Statement under the caption "TAX DATA - Estimated Overlapping Taxes," the total of the 2013 tax levies of all overlapping taxing units which levy taxes upon property located in the District, plus the District's total 2013 rate of \$1.34 per \$100 of Assessed Valuation, is \$3.809838. The District's total 2013 rate of \$1.34 per \$100 of Assessed Valuation and such total rates of \$3.809838 per \$100 of Assessed Valuation are higher than the individual and total tax levies of many municipal utility districts in the Houston metropolitan area, including the area of the District, but are within the range of the individual and total levies of some municipal utility districts in the Houston metropolitan area and the area of the District which are in stages of development comparable with the District.

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 of foreclosure and all other property within six (6) months of foreclosure. See "TAX PROCEDURES."

Mandamus and Limitations on Registered Owners' Remedies

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. There is no provision for 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. Based on recent Texas court decisions, it is unclear whether §49.066, Texas Water Code, effectively waives governmental immunity of a municipal utility district for suits for money damages. Even if a judgment against the District for money damages could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the district or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Even if the Registered Owners could obtain a judgment against the District, such a judgment could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District in order to pay the principal of and interest on the Bonds. 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 Registered Owners may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. Subject to the requirements of Texas law discussed below, a political subdivision such as the District may voluntarily file a petition for relief from creditors under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. Sections 901-946. The filing of such petition would automatically stay the enforcement of Registered Owner's remedies, including mandamus and the foreclosure of tax liens upon property within the District discussed above. The automatic stay would remain in effect until the federal bankruptcy judge hearing the case dismisses the petition, enters an order granting relief from the stay or otherwise allows creditors to proceed against the petitioning political subdivision. A political subdivision such as the District may qualify as a debtor eligible to proceed in a Chapter 9 case only if it is (1) generally authorized to file for federal bankruptcy protection by applicable state law, (2) is insolvent or unable to meet its debts as they mature, (3) desires to effect a plan to adjust such debts, and (4) has either obtained the agreement of or negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiation is impracticable. Under Texas law, special districts such as the District must obtain the approval of the Commission as a condition to seeking relief under the Federal Bankruptcy Code. The Commission is required to investigate the financial condition of a financially troubled district and authorize such district to proceed under federal bankruptcy law only if such district has fully exercised its rights and powers under Texas law and remains unable to meet its debt and other obligations as they mature.

The District cannot be placed into bankruptcy involuntarily.

Future Debt

The District reserved in the Bond Order the right to issue the remaining \$36,470,000 in unlimited tax bonds authorized but unissued for waterworks, sanitary sewer and drainage facilities, \$44,625,000 for refunding purposes, and \$1,375,000 for recreational facilities and such additional bonds as may hereafter be approved by the voters 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, 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 \$36,470,000 in bonds for waterworks, wastewater and drainage facilities is also subject to TCEQ authorization.

The District's Engineer currently estimates that the aforementioned \$36,470,000 authorized bonds which remain unissued will be adequate to finance the construction of all water, wastewater, and drainage facilities (not financed with the Bonds or the Outstanding Bonds) to provide service to all of the District. If additional bonds are issued in the future and property values have not increased proportionately, such issuance might increase gross debt/property valuation ratios and thereby adversely affect the investment quality or security of the Bonds and the Outstanding Bonds. See "THE BONDS - Issuance of Additional Debt," "DISTRICT DEBT," and "TAX DATA - Tax Rate Calculations."

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

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

Under FIRREA, real property held by the FDIC is still subject to ad valorem taxation, but such act states (i) that no real property of the FDIC shall be subject to foreclosure or sale without the consent of the FDIC and no involuntary liens shall attach to such property, (ii) the FDIC shall not be liable for any penalties, 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.

Competitive Nature of Houston Residential Housing Market

The housing industry in the Houston area is very competitive, and the District can give no assurance that the building programs which are planned by the Builders, or any future home builder(s), will be continued or completed. The respective competitive positions of Woodmere, the Builders, or any developer(s) or home builder(s) which might attempt future development or home building projects in the District in the development and sale of developed lots or in the construction and sale of single-family residential units are affected by most of the factors discussed in this section, and such competitive positions are directly related to tax revenues received by the District and the growth and maintenance of taxable values in the District.

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 Underwriter 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.”

Environmental Regulation

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

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

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

Air Quality/Greenhouse Gas Issues

Air quality control measures required by the United States Environmental Protection Agency (the “EPA”) and the Texas Commission on Environmental Quality (“TCEQ”) may impact new industrial, commercial and residential development in the Houston area. Under the Clean Air Act (“CAA”) Amendments of 1990, the eight-county Houston Galveston area (“HGB area”)—Harris, Galveston, Brazoria, Chambers, Fort Bend, Waller, Montgomery and Liberty counties—was designated by the EPA in 2007 as a severe ozone nonattainment area. Such areas are required to demonstrate progress in reducing ozone concentrations each year until the EPA “8-hour” ozone standards are met. The EPA granted the governor’s request to voluntarily reclassify the HGB ozone nonattainment area from a moderate to a severe nonattainment area for the 1997 eight-hour ozone standard, effective October 31, 2008. The HGB area’s new attainment deadline for the 1997 eight-hour ozone standard must be attained as expeditiously as practicable, but no later than June 15, 2019. If the HGB area fails to demonstrate progress in reducing ozone concentration or fails to meet EPA’s standards, EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects, as well as severe emissions offset requirements on new major sources of air emissions for which construction has not already commenced.

Water Supply & Discharge Issues

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

Pursuant to the Safe Drinking Water Act (“SDWA”), potable (drinking) water provided by a district to more than twenty-five (25) people or fifteen (15) service connections will be subject to extensive federal and state regulation as a public water supply system, which include, among other requirements, frequent sampling and analyses. Additional or more stringent regulations or requirements pertaining to these and other drinking water contaminants in the future could require installation of more costly treatment facilities.

Texas Pollutant Discharge Elimination System (“TPDES”) permits set limits on the type and quantity of discharge, in accordance with state and federal laws and regulations. Moreover, the Clean Water Act (“CWA”) and Texas Water Code require municipal wastewater treatment plants to meet secondary treatment effluent limitations and must establish the total maximum allowable daily load (“TMDL”) of certain pollutants into the water bodies. The TMDLs that utility districts may discharge may have an impact on the utility district’s ability to obtain and maintain TPDES permits.

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

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

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

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. 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.

AERIAL PHOTOGRAPH OF THE DISTRICT
(taken October 2014)



PHOTOGRAPHS TAKEN WITHIN THE DISTRICT
(taken October 2014)



PHOTOGRAPHS TAKEN WITHIN THE DISTRICT
(taken October 2014)



DISTRICT DEBT

General

The following tables and calculations relate to the Bonds and the Outstanding 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.

2014 Assessed Valuation		\$60,276,369(a)
(As of January 1, 2014)		
See "TAX DATA" and "TAX PROCEDURES"		
Estimated Valuation at September 1, 2014		\$64,921,959(b)
(As of September 1, 2014)		
See "TAX DATA" and "TAX PROCEDURES"		
Direct Debt: The Outstanding Bonds	\$	4,400,000
The Bonds		<u>1,940,000(c)</u>
Total	\$	<u>6,340,000</u>
Estimated Overlapping Debt		<u>\$ 4,559,316(c)</u>
Direct and Estimated Overlapping Debt		<u>\$ 10,899,316(c)</u>
Direct Debt Ratios		
: as a percentage of 2014 Assessed Valuation		10.52%
: as a percentage of Estimated Valuation at September 1, 2014		9.77%
Direct and Estimated Overlapping Debt Ratios		
: as a percentage of 2014 Assessed Valuation		18.08%
: as a percentage of Estimated Valuation at September 1, 2014		16.79%
Bond Fund Balance (As of September 16, 2014)	\$	733,909(d)
General Fund Balance (As of September 16, 2014)		\$ 1,691,957
2013 Tax Rate Per \$100 of Assessed Valuation		
Debt Service Tax	\$0.55	
Maintenance Tax	<u>0.79</u>	
Total		\$1.34(e)
Anticipated 2014 Tax Rate Per \$100 of Assessed Valuation		
Debt Service Tax	\$0.55	
Maintenance Tax	<u>0.66</u>	
Total		\$1.21(e)

(a) As of January 1, 2014. All property located in the District is valued on the appraisal rolls by the Harris County Appraisal District (the "Appraisal District") at 100% of appraised value as of January 1 of each year. The District's appraisal roll is certified by the Harris County Appraisal Review Board (the "Appraisal Review Board"). Such sum includes certain values which have not been certified by the Appraisal Review Board, including the value of certain properties which has been proposed by the Appraisal District but protested by the owners thereof to the Appraisal District and the value of certain properties not under protest but not yet certified. The Appraisal

District's "Estimated Final Taxable Value with Hearing Loss" of such properties is \$8,504,180, which total is included in the amount of \$60,276,369. The Appraisal District has proposed the valuation of such protested properties to be \$8,661,401. The Appraisal District's estimate of the total taxable value of taxable property not under protest and not yet included on the certified appraisal roll is \$1,678,009, which total is also included in the amount of \$60,276,369. The District is unable to predict the amount of the District's final 2014 Assessed Valuation. Such final 2014 Assessed Valuation will not be determined until the valuation of all taxable property located within the District is certified by the Appraisal Review Board for 2014. See "RISK FACTORS - Factors Affecting Taxable Values and Tax Payments" and "TAX PROCEDURES."

- (b) Provided by the Appraisal District for informational purposes only, this amount is an estimate of the value of all taxable property located within the District as of September 1, 2014, and includes an estimate of values resulting from the construction of taxable improvements from January 1, 2014, through August 31, 2014. The ultimate Assessed Valuation of any improvements added from January 1, 2014, through August 31, 2014, will not be included on the District's 2014 tax roll but will be placed on the District's 2015 tax roll, and may vary significantly from such estimate once the Appraisal Review Board certifies the value thereof in 2015.
- (c) In addition to the components of the System that the District has financed with the proceeds of the sale of the Outstanding Bonds and is financing with portions of the proceeds of the sale of the Bonds (see "THE BONDS - Use and Distribution of Bond Proceeds" and "THE SYSTEM"), the District will finance the construction or acquisition of additional components of the System with the proceeds of the sale of bonds, if any, that the District expects to issue in the future. See "THE BONDS - Issuance of Additional Debt," "RISK FACTORS - Future Debt."
- (d) Neither Texas law nor the Bond Order requires that the District maintain any particular sum in such Fund. Such fund balance reflects the timely payment by the District of the entirety of its debt service payments that were due for 2014 on the Outstanding Bonds. The District's initial debt service payment on the Bonds, consisting of a ten-month interest payment thereon, is due on September 1, 2015.
- (e) The District levied a debt service tax in the amount of \$0.55 per \$100 of Assessed Valuation, and a maintenance tax of \$0.79 per \$100 of Assessed Valuation in 2013. Therefore, the District's combined total tax for 2013 is \$1.34 per \$100 of Assessed Valuation. The District anticipates levying debt service and maintenance taxes of approximately \$0.55 and \$0.66 per \$100 of Assessed Valuation, respectively, for 2014. As is enumerated in this Official Statement under the caption "TAX DATA - Estimated Overlapping Taxes," the total of the 2013 tax levies of all overlapping taxing units which levy taxes upon property located in the District, plus the District's 2013 rate, is \$3.809838. The District's total 2013 tax rate of \$1.34 per \$100 of Assessed Valuation and such total rates of \$3.809838 per \$100 of Assessed Valuation are higher than the individual and total tax levies of many municipal utility districts in the Houston metropolitan area, including the area of the District, but are within the range of the individual and total levies of some municipal utility districts in the Houston metropolitan area and the area of the District which are in stages of development comparable with the District. See "RISK FACTORS - Factors Affecting Taxable Values and Tax Payments" and "TAX PROCEDURES."

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.

<u>Taxing Jurisdiction</u>	<u>Outstanding Debt as of September 15, 2014</u>	<u>Percent</u>	<u>Overlapping Amount</u>
Harris County *	\$2,060,587,860	0.01726%	\$ 355,702
Harris County Flood Control District	89,990,000	0.01726	15,534
Harris County Department of Education	7,410,000	0.01726	1,279
Port of Houston Authority	702,379,496	0.01726	121,246
Spring Independent School District	572,765,000	0.66467	3,807,021
Lone Star College System	470,225,000	0.05498	<u>258,534</u>
TOTAL ESTIMATED OVERLAPPING DEBT			\$ 4,559,316
TOTAL DIRECT DEBT (the District)			<u>6,340,000</u>
TOTAL DIRECT AND ESTIMATED OVERLAPPING DEBT			\$10,899,316

* The Harris County Toll Road Authority bonds are considered to be self-supporting, and are not included in this schedule.

Debt Ratios

	<u>% of 2014 Assessed Valuation</u>	<u>% of Estimated Valuation at September 1, 2014</u>
Direct Debt	10.52%	9.77%
Direct and Estimated Overlapping Debt	18.08%	16.79%

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 general operation and maintenance purposes and for operation of recreational facilities, and such taxes have been authorized by the duly qualified voters of the District in amounts not to exceed \$1.50 and \$0.10 per \$100 of Assessed Valuation, respectively. The District levied a debt service tax of \$0.55 per \$100 of Assessed Valuation for 2013, plus a general maintenance tax of \$0.79 per \$100 of Assessed Valuation. The District anticipates levying debt service and maintenance taxes of approximately \$0.55 and \$0.66 per \$100 of Assessed Valuation, respectively, for 2014. See "TAX DATA - Maintenance Tax."

Debt Service Requirements

The following schedule sets forth the debt service requirements of the Outstanding Bonds and the principal and estimated interest requirements of the Bonds.

Year Ending December 31	Current Total Debt Service	Plus: -- The Bonds --		Total New Debt Service
		Principal	Interest *	
2015	\$ 314,430		\$ 92,958	\$ 407,388
2016	313,955		111,550	425,505
2017	318,180	\$ 15,000	111,550	444,730
2018	317,486	25,000	110,688	453,174
2019	321,441	25,000	109,250	455,691
2020	319,884	25,000	107,813	452,696
2021	323,836	25,000	106,375	455,211
2022	327,286	25,000	104,938	457,224
2023	325,224	25,000	103,500	453,724
2024	327,874	25,000	102,063	454,936
2025	329,996	25,000	100,625	455,621
2026	331,581	25,000	99,188	455,769
2027	332,619	25,000	97,750	455,369
2028	333,194	25,000	96,313	454,506
2029	338,306	25,000	94,875	458,181
2030	337,706	25,000	93,438	456,144
2031	341,544	25,000	92,000	458,544
2032	339,656	25,000	90,563	455,219
2033	342,194	25,000	89,125	456,319
2034	343,994	25,000	87,688	456,681
2035	349,938	25,000	86,250	461,188
2036	353,006	25,000	84,813	462,819
2037		325,000	83,375	408,375
2038		350,000	64,688	414,688
2039		375,000	44,563	419,563
2040		400,000	23,000	423,000
	<u>\$7,283,330</u>	<u>\$1,940,000</u>	<u>\$2,388,939</u>	<u>\$11,612,265</u>

* Interest is estimated at 5.75% per annum.

Average Annual Requirements - (2015-2040)	\$ 446,626
Maximum Annual Requirement - (2036)	\$ 462,819

See "RISK FACTORS - Maximum Impact on District Tax Rates" and "TAX DATA - Tax Rate Calculations" for a discussion of the District's projected tax rates and the effect of the Bonds thereon.

TAX DATA

Debt Service Tax

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, the Outstanding 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 when billed, 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. The District levied a debt service tax of \$0.55 per \$100 of Assessed Valuation for 2013. The District anticipates levying a debt service tax of approximately \$0.55 per \$100 of Assessed Valuation for 2014.

Maintenance Tax

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for administrative expenses and maintenance of the District's water, sewer and drainage improvements, and for maintenance of recreational facilities, if such maintenance taxes are authorized by a vote of the District's electorate. On September 11, 2004, the District voters authorized the levy of a maintenance tax for administrative expenses and maintenance of water, sewer and drainage improvements in the maximum amount of \$1.50 per \$100 of Assessed Valuation. On November 2, 2004, the District voters authorized the levy of a maintenance tax for recreational facilities in the maximum amount of \$0.10 per \$100 of Assessed Valuation. Each of said taxes may be levied in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds, the Outstanding Bonds and any parity bonds which may be issued in the future. The District levied a maintenance tax of \$0.79 per \$100 of Assessed Valuation in 2009 for administrative expenses and maintenance of water, sewer and drainage improvements. The District anticipates levying a maintenance tax of approximately \$0.66 per \$100 of Assessed Valuation for 2014.

Historical Values and Tax Collection History

The following statement of tax collections sets forth in condensed form the historical Assessed Valuation and tax collections of the District. Such summary has been prepared for inclusion herein based upon information obtained from District records. Reference is made to such records, including the District's annual audited financial statements, for more complete information.

<u>Tax Year</u>	<u>Assessed Valuation</u>	<u>Tax Rate (a)</u>	<u>Adjusted Levy</u>	<u>% Collections</u>	
				<u>Current & Prior Years (b)</u>	<u>Tax Year Ending</u>
2004	\$2,423,060	\$1.34	\$ 32,469	100.00%	2005
2005	5,235,021	1.34	70,149	100.00	2006
2006	23,721,036	1.34	317,931	100.00	2007
2007	39,777,802	1.34	532,969	100.00	2008
2008	44,047,900	1.34	590,242	100.00	2009
2009	45,699,882	1.34	612,403	100.00	2010
2010	45,325,661	1.34	607,388	100.00	2011
2011	47,205,751	1.34	632,587	99.57	2012
2012	48,350,528	1.34	648,166	99.58	2013
2013	51,550,562	1.34	690,875	98.65(c)	2014
2014	60,276,369(d)	1.21(e)	729,344(e)	(e)	2015

(a) Per \$100 of Assessed Valuation.

(b) Such percentages reflect cumulative total collections for each year from the time each respective annual tax was levied through August 31, 2014. The amount of tax collected for each levy on a current basis (by September 30 of the year following each respective levy) is not reflected in this statement.

(c) As of August 31, 2014. In process of collection.

(d) Such sum includes certain values which have not been certified by the Appraisal Review Board, including the value of certain properties which has been proposed by the Appraisal District but protested by the owners thereof to the Appraisal District and the value of certain properties not under protest but not yet certified. The Appraisal District's "Estimated Final Taxable Value with Hearing Loss" of such properties is \$8,504,180, which total is included in the amount of \$60,276,369. The Appraisal District has proposed the valuation of such protested properties to be \$8,661,401. The Appraisal District's estimate of the total taxable value of taxable property not under protest and not yet included on the certified appraisal roll is \$1,678,009, which total is also included in the amount of \$60,276,369. The District is unable to predict the amount of the District's final 2014 Assessed Valuation. Such final 2014 Assessed Valuation will not be determined until the valuation of all taxable property located within the District is certified by the Appraisal Review Board for 2014.

(e) The District has not yet levied a tax rate for 2014. The District anticipates levying debt service and maintenance taxes of approximately \$0.55 and \$0.66 per \$100 of Assessed Valuation, respectively, for 2014.

Tax Rate Distribution

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Debt Service	\$0.55	\$0.55	\$0.55	\$0.60	\$0.67
Maintenance	<u>0.66</u>	<u>0.79</u>	<u>0.79</u>	<u>0.74</u>	<u>0.67</u>
Total	\$1.21*	\$1.34	\$1.34	\$1.34	\$1.34

* Anticipated 2014 tax rate.

Analysis of Tax Base

The following table illustrates the composition of property located within the District for the last five years.

<u>Type of Property</u>	2014		2013		2012	
	<u>Assessed Valuation</u>	<u>%</u>	<u>Assessed Valuation</u>	<u>%</u>	<u>Assessed Valuation</u>	<u>%</u>
Land	\$12,184,817	20.21%	\$14,941,522	28.98%	\$14,040,001	29.04%
Improvements	38,488,286	63.85	37,202,817	72.17	34,384,391	71.11
Personal Property	1,122,797	1.86	1,056,811	2.05	939,077	1.94
Uncertified	10,182,189	16.89	0	0.00	0	0.00
Exemptions	<u>(1,701,720)</u>	<u>(2.81)</u>	<u>(1,650,588)</u>	<u>(3.20)</u>	<u>(1,012,941)</u>	<u>(2.09)</u>
	\$60,276,369*	100.00%	\$51,550,562	100.00%	\$48,350,528	100.00%

<u>Type of Property</u>	2011		2010	
	<u>Assessed Valuation</u>	<u>%</u>	<u>Assessed Valuation</u>	<u>%</u>
Land	\$14,128,622	29.93%	\$13,743,968	30.32%
Improvements	33,195,430	70.32	31,640,532	69.81
Personal Property	990,759	2.10	989,606	2.18
Exemptions	<u>(1,109,060)</u>	<u>(2.35)</u>	<u>(1,048,445)</u>	<u>(2.31)</u>
	\$47,205,751	100.00%	\$45,325,661	100.00%

* Such sum includes certain values which have not been certified by the Appraisal Review Board, including the value of certain properties which has been proposed by the Appraisal District but protested by the owners thereof to the Appraisal District and the value of certain properties not under protest but not yet certified. The Appraisal District's "Estimated Final Taxable Value with Hearing Loss" of such properties is \$8,504,180, which total is included in the amount of \$60,276,369. The Appraisal District has proposed the valuation of such protested properties to be \$8,661,401. The Appraisal District's estimate of the total taxable value of taxable property not under protest and not yet included on the certified appraisal roll is \$1,678,009, which total is also included in the amount of \$60,276,369. The District is unable to predict the amount of the District's final 2014 Assessed Valuation. Such final 2014 Assessed Valuation will not be determined until the valuation of all taxable property located within the District is certified by the Appraisal Review Board for 2014.

Principal 2014 Taxpayers

Based upon information supplied by the District's Tax Assessor/Collector, the following table lists principal District taxpayers, type of property owned by such taxpayers, and the assessed valuation of such property as of January 1, 2014. The information reflects the composition of record property ownership as of January 1, 2014. See "DEVELOPER AND OTHER PRINCIPAL LANDOWNERS."

<u>Property Owner</u>	<u>Property Description</u>	<u>2014 Property Value</u>	<u>% of 2014 Tax Roll</u>
Long Lake, Ltd.*	Lots and Personal Property	\$1,216,371	2.02%
Woodmere Development Co., Ltd.*	Lots and Acreage	940,347	1.56
Transcontinental Gas Pipeline	Pipelines	466,390	0.77
Centerpoint Energy Houston	Utilities	294,740	0.49
Raymond He	Homes	228,454	0.38
Ricardo M. & Barbara B. Uresti	Homes	224,186	0.37
Miguel Castillo	Homes	219,291	0.36
Clifton J. Guidry Jr.	Homes	213,694	0.35
Ashley D. Garza	Homes	212,271	0.35
Sergio U. Chinas	Homes	209,000	0.35
		<u>\$4,224,744</u>	<u>7.00%</u>

* Related parties.

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 if no growth in the District occurs beyond the 2014 Assessed Valuation or the Estimated Valuation at September 1, 2014. 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 other than the Outstanding Bonds and the Bonds.

Average Annual Debt Service Requirements (2015-2040)	\$446,626
Tax Rate of \$0.78 on the 2014 Assessed Valuation (\$60,276,369) produces	\$446,648
Tax Rate of \$0.73 on the Estimated Valuation at September 1, 2014 (\$64,921,959) produces	\$450,234
Maximum Annual Debt Service Requirement (2036)	\$462,819
Tax Rate of \$0.81 on the 2014 Assessed Valuation (\$60,276,369) produces	\$463,827
Tax Rate of \$0.76 on the Estimated Valuation at September 1, 2014(\$64,921,959) produces	\$468,737

The District levied a debt service tax in the amount of \$0.55 per \$100 of Assessed Valuation, and a maintenance tax of \$0.79 per \$100 of Assessed Valuation in 2013. Therefore, the District's combined total tax for 2013 is \$1.34 per \$100 of Assessed Valuation. The District anticipates levying debt service and maintenance taxes of approximately \$0.55 and \$0.66 per \$100 of Assessed Valuation, respectively, for 2014. As the above table indicates, the anticipated 2014 debt service rate will not be sufficient to pay debt service on the Bonds and the Outstanding Bonds assuming taxable values in the District at the level of the Estimated Valuation at September 1, 2014, of \$64,921,959, or greater, a tax collection rate of 95%, no use of funds on hand, and the issuance of no additional bonds by the District. Taxable values within the

District would have to reach \$85,478,660 within approximately three to four years in order for a debt service tax rate of \$0.55 per \$100 of Assessed Valuation to be sufficient to pay the Average Annual Debt Service Requirements on the Outstanding Bonds and the Bonds, assuming a tax collection rate of 95%, no use of funds on hand, and the issuance of no additional bonds by the District. However, as is illustrated above under the caption “Historical Values and Tax Collection History,” the District has collected an average of 99.78% of its 2004 through 2013 tax levies, and its 2013 levy is 98.65% collected as of August 31, 2014. Moreover, the District's Debt Service Fund balance is \$733,909 as of September 16, 2014. Although neither Texas law nor the Bond Order requires that any specific amount be retained in the Debt Service Fund at any time, the District has in the past applied earnings from the investment of monies held in the Debt Service Fund to meet the debt service requirements of the Outstanding Bonds (see “APPENDIX B - ANNUAL FINANCIAL REPORT”). Therefore, the District anticipates that it will be able to meet debt service requirements on the Bonds and the Outstanding Bonds without increasing the tax rate for debt service above the debt service rate which the District anticipates levying for 2014 - \$0.55 per \$100 of Assessed Valuation. However, the District can make no representation that the taxable property values in the District will increase in the future or will maintain a value sufficient to support the aforementioned tax rate or to justify continued payment of taxes by property owners. See “RISK FACTORS - Factors Affecting Taxable Values and Tax Payments,” - “Future Debt” and “TAX PROCEDURES.

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 2013 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 Jurisdiction</u>	<u>2013 Tax Rate</u>
The District	\$1.340000*
Harris County	0.414550
Harris County Education Department	0.006358
Harris County Hospital District	0.170000
Harris County Flood Control District	0.028270
Port of Houston Authority	0.017160
Spring Independent School District	1.570000
Lone Star College System	0.116000
Harris County Emergency Service District No. 11	0.047500
Harris County Emergency District No. 17	<u>0.100000</u>
2013 Total Tax Rate	<u>\$3.809838</u>

* The District levied a debt service tax in the amount of \$0.55 per \$100 of Assessed Valuation, and a maintenance tax of \$0.79 per \$100 of Assessed Valuation, for a combined total tax for 2013 of \$1.34 per \$100 of Assessed Valuation. The District anticipates levying debt service and maintenance taxes of approximately \$0.55 and \$0.66 per \$100 of Assessed Valuation, respectively, for 2014.

TAX PROCEDURES

Property Tax Code and County-Wide Appraisal District

The Texas Property 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 Harris County Appraisal District (the "Appraisal District") has the responsibility for appraising property for all taxing units wholly within Harris County, including the District. Such appraisal values are subject to review and change by the Harris County Appraisal Review Board (the "Appraisal Review Board"). Under certain circumstances, taxpayers and taxing units (such as the District) may appeal the orders of the Appraisal Review Board 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 District and approved by the Appraisal Review Board, 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, to participate in the nomination of and vote for a member of the Board of Directors of the Appraisal District.

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 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 2014 tax year, the District has granted an exemption of \$10,000 of assessed valuation for persons 65 years of age and older and to individuals 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, of between \$5,000 and \$12,000 of assessed valuation depending upon the disability rating of the veteran, if such rating is less than 100%. A veteran who receives a disability rating of 100% is entitled to an exemption for the full value of the veteran's residence homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. Effective January 1, 2014, a partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. Also effective January 1, 2014, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

A "Freeport Exemption" applies to goods, wares, merchandise, other tangible personal property and ores, other than oil, natural gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining oil 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, 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. 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. 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. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit personal property. A taxing unit must exercise its option to tax goods-in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law. 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 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 appraised 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 2014 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, Timberland and Inventory 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, 2014, no land within the District was designated for agricultural use, open space, inventory deferment, or timberland.

Tax Abatement

The City of Houston and Harris County may designate all or part of the District as a reinvestment zone, and the District, Harris County, Spring Independent School District and (if it were to annex 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 thirty (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 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. A delinquent tax also 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, as an alternative to the penalty described in the foregoing sentence, an additional penalty on personal property taxes 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 prior to July 1. The District's

contract with its delinquent tax collection attorney currently specifies a twenty percent (20%) additional penalty. The District may waive penalties and interest on delinquent taxes only if (i) an error or omission of a representative of the District, including the Appraisal District, caused the failure of the taxpayer to pay taxes, (ii) the delinquent taxes are paid on or before the one-hundred and eightieth (180th) day after the taxpayer received proper notice of such delinquency and the delinquent taxes relate to a property for which the appraisal roll lists one or more certain specified inaccuracies, or (iii) the taxpayer submits evidence sufficient to show that the tax payment was delivered before the delinquency date to the United States Postal Service or other delivery service, but an act or omission of the postal or delivery service resulted in the tax payment being considered delinquent. 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. The owner of a residential homestead property who is a person sixty-five (65) years of age or older or under a disability for purpose of payment of disability insurance benefits under the Federal Old Age Survivors and Disability Insurance Act is also 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. Additionally, a person who is delinquent on taxes for a residential homestead is entitled to an agreement with the District to pay such taxes in equal installments over a period of between 12 and 36 months (as determined by the District) when such person has not entered into another installment agreement with respect to delinquent taxes with the District in the preceding 24 months.

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.

Except with respect to (i) owners of residential homestead property who are (i) sixty-five (65) years of age or older or under a disability as described above and who have filed an affidavit as required by law and (ii) owners of residential homesteads who have entered into an installment agreement with the District for payment of delinquent taxes as described above and who are not in default under said agreement, 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 "RISK FACTORS - Tax Collection Limitations" and - "The Effect of the Financial Institutions Act of 1989 on Tax Collections of the District."

THE DISTRICT

General

The District is a municipal utility district created by an order of the TCEQ, dated June 4, 2004, under Article XVI, Section 59 of the Texas Constitution, and operates under the provisions of Chapter 49 and Chapter 54 of the Texas Water Code, as amended, and other general statutes of Texas 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 TCEQ.

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 TCEQ 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, drainage, recreational, road and firefighting 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. 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

The District contains approximately 238.52 acres of land. The District is located entirely within Harris County, Texas, and entirely within the extraterritorial jurisdiction of the City of Houston, Texas. The District is located entirely within the Spring Independent School District. The District is located approximately 15 miles north of the central business district of the City of Houston. The District lies approximately 0.75 miles west of U.S. Highway 45. A portion of the District is bounded on the southwest by Kuykendahl Road and a portion of the District is bounded on the southeast by Ella Drive. Access to the District is afforded from U.S. Highway 45 by Richey Road and Airtex Boulevard. See “APPENDIX A - LOCATION MAP.”

Management of the District

The District is governed by the Board, consisting of five directors. The Board has control over and management supervision of all affairs of the District. Directors serve four-year staggered terms, and elections are held within the District in May in even numbered years. The current members and officers of the Board, along with their respective terms of office, are listed below. None of the directors reside within the District. All of the directors own land which is subject to taxation.

<u>Name</u>	<u>Position</u>	<u>Term Expires in May</u>
Alan L’Roy	President	2016
Jesse J. Vela	Vice President	2016
Kenneth M. Richardson	Secretary/Records Management Officer	2016
Darrell Kelsoe	Assistant Secretary	2018
Paul Hernandez	Assistant Secretary	2018

The District does not have a general manager or any other employee, but has contracted for services, as follows.

Tax Assessor/Collector - The District has engaged Thomas W. Lee of Assessments of the Southwest, Inc., Friendswood, Texas, as the District's Tax Assessor/Collector. According to Mr. Lee, he presently serves approximately 135 taxing units as tax assessor/collector. The Tax Assessor/Collector applies the District's tax rate to appraisal rolls prepared by the Harris County Appraisal District and bills and collects such tax.

Utility System Operator - Municipal Operations & Consulting, Inc. is employed by the District as the general operator of the District's System. According to Municipal Operations & Consulting, Inc., it serves as operator of the systems of approximately 92 districts.

Consulting Engineers - The District has employed the firm of Edminster Hinshaw Russ & Associates, Inc. (the "Engineer"), Houston, Texas, as Consulting Engineer in connection with the overall planning activities and the design of the System.

Bookkeeper - The District has engaged Municipal Accounts & Consulting, L.P., as the District's Bookkeeper. According to Municipal Accounts & Consulting, L.P., it currently serves approximately 300 districts as bookkeeper.

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. The District's auditor for the 2014 fiscal year is McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountants, Houston, Texas. A copy of the District's audit for the fiscal year ended May 31, 2014, is included as "APPENDIX B" to this Official Statement.

Bond Counsel and General Counsel - Schwartz, Page & Harding, L.L.P. ("Bond Counsel") serves as Bond Counsel to the District. The fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. In addition, Schwartz, Page & Harding, L.L.P. serves as general counsel to the District on matters other than the issuance of bonds.

Disclosure Counsel - McCall, Parkhurst & Horton L.L.P., Dallas, Texas, serves as Disclosure Counsel to the District. The fees to be paid Disclosure Counsel for services rendered in connection with the issuance of the Bonds are contingent on the issuance, sale and delivery of the Bonds.

Financial Advisor - The District has engaged Rathmann & Associates, L.P., as financial advisor (the "Financial Advisor") to the District. The fees paid 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. Rathmann & Associates, L.P. is an independent municipal advisor registered with the United States Securities and Exchange Commission (the "SEC") and the Municipal Securities Rulemaking Board (the "MSRB"). Rathmann & Associates, L.P.'s SEC registration number is 867-00217 and its MSRB registration number is K0161. Rathmann & Associates, L.P.'s SEC registration Forms MA and MA-1's, which constitute Rathmann & Associates, L.P.'s registration filings, may be accessed through <http://www.sec.gov/edgar/searchedgar/companysearch.html>.

DEVELOPMENT AND HOME CONSTRUCTION

As of September 15, 2014, the District contained 507 single-family homes, including 18 homes under construction. According to the District's Engineer, the development of a total of 629 single-family residential lots (approximately 145.99 total acres) within the District, consisting of the subdivisions platted as Eagle Landing, Sections 1 through 3 and 6 through 8 is complete with the provision of water supply and distribution, wastewater collection and treatment and storm drainage facilities (the "System") and street paving. See "DEVELOPER AND OTHER PRINCIPAL LANDOWNERS" below.

The District financed the cost of acquiring or constructing certain components of the System, including underground water distribution, wastewater collection and storm drainage facilities that serve Eagle Landing, Section 1, a storm water quality pond that serves Eagle Landing, the purchase of wastewater treatment capacity, a 16-inch water line along Kuykendahl Road, widening a HCFCD drainage channel to serve Eagle Landing, excavation of a HCFCD detention pond

to serve Eagle Landing, repairs/upgrades to a shared wastewater treatment plant, and other items with portions of the proceeds of the sale of the Outstanding Bonds. The District is financing its cost of acquiring or constructing additional components of the System with portions of the proceeds of the sale of the Bonds, including Phase 2 of the widening of a HCFCD drainage channel to serve Eagle Landing, Phase 2 of the excavation of a HCFCD detention pond to serve Eagle Landing, and other items as is described in this Official Statement under the captions “USE AND DISTRIBUTION OF BOND PROCEEDS” and “THE SYSTEM.” The District anticipates financing its cost of acquiring or constructing additional components of the System, including water distribution, wastewater collection and storm drainage facilities to serve Eagle’s Landing, Sections 2, 3, 6 through 8, and other facilities, with the proceeds of the sale of bonds, if any, to be issued by the District in the future. See “THE BONDS - Issuance of Additional Debt” and “RISK FACTORS - Future Debt.”

In addition to the total of 629 single-family residential lots on approximately 145.99 acres located within the District that have been developed to date, approximately 76.40 acres of land located in the District that are available for future development have not been developed. It is anticipated that approximately 56.59 of such approximately 76.40 currently undeveloped acres will be developed as future sections of Eagle Landing, and that the remaining approximately 19.81 of such acres will be utilized for future commercial development. However, the owners of such acres that are currently available for future development, which are described below under the caption “DEVELOPER AND OTHER PRINCIPAL LANDOWNERS,” are under no legal commitment to the District to develop any of such acres available for future development according to any specific plan, timetable, or at all. Therefore, the District cannot predict when, or whether, any of such currently undeveloped acres located within the District might be developed. The balance of the land that is located within the District is contained within easements, rights-of-way, or is otherwise not available for future development. See “RISK FACTORS - Factors Affecting Taxable Values and Tax Payments,” “TAX DATA - Principal 2014 Taxpayers,” “DEVELOPER AND OTHER PRINCIPAL LANDOWNERS” and “FUTURE DEVELOPMENT.”

As of September 15, 2014, the status of lot development and home construction in the District was as follows:

<u>Subdivision</u>	<u>Lots</u>				<u>Homes</u>				<u>Model</u>	<u>Totals</u>
	<u>Developed</u>	<u>Acres</u>	<u>Under Development</u>	<u>Acres</u>	<u>Under Construction</u>		<u>Completed</u>			
					<u>Sold*</u>	<u>Unsold</u>	<u>Sold*</u>	<u>Unsold</u>		
Eagle Landing										
Section 1	135	30.96			0	0	135	0	0	135
Section 2	127	31.29			2	0	124	1	0	127
Section 3	116	27.40			0	2	114	0	0	116
Section 6	97	18.05			6	3	55	0	0	64
Section 7	65	13.98			0	0	58	0	1	59
Section 8	<u>89</u>	<u>24.31</u>	<u>—</u>	<u>—</u>	<u>3</u>	<u>2</u>	<u>0</u>	<u>0</u>	<u>1</u>	<u>6</u>
Totals	629	145.99	0	0	11	7	486	1	2	507

* Includes homes sold and contracted for sale. Homes under contract for sale are, in some instances, subject to conditions of appraisal, loan application, approval and inspection. See “BUILDERS.”

DEVELOPER AND OTHER PRINCIPAL LANDOWNERS

The developer of the 378 fully developed single-family residential lots located within the District that have been developed as Eagle Landing, Sections 1 through 3 was Pulte Homes of Texas, L.P. ("Pulte"). In March 2007, Long Lake, Ltd. ("Long Lake") purchased 25 vacant fully developed Eagle Landing, Section 2 single-family residential lots from Pulte and 74 vacant fully developed Eagle Landing, Section 3 single-family residential lots from another party, and Pulte conveyed approximately 119.72 undeveloped acres to an affiliate of Long Lake, Woodmere Development Co., Ltd. ("Woodmere" or the "Developer"). Woodmere has developed the 251 single-family residential lots located within the District which have been subdivided as Eagle Landing, Sections 6 through 8 (a total of approximately 56.34 acres). Long Lake has constructed and is constructing homes on such lots under the trade names "Foxwood Homes" and "Postwood Homes" (together, the "Builders") as is described below under the caption "BUILDERS." It is anticipated that approximately 56.59 acres of land located within the District owned by Long Lake that are available for future development will be developed as future sections of Eagle Landing. However, the District cannot represent that any development will be undertaken on such approximately 56.59 acres of currently undeveloped land.

Approximately 19.81 acres of currently undeveloped land located within the District that are expected to be utilized for future commercial development are owned by Hannover Estates, Ltd. However, the District cannot represent that any development will be undertaken on such approximately 19.81 acres of currently undeveloped land.

BUILDERS

Foxwood Homes is currently constructing homes in Eagle Landing, Section 6 in the District which range from approximately 1,514 to 3,164 square feet in size of living area and in sales price from approximately \$137,990 to \$167,990. Postwood Homes is currently constructing homes in Eagle Landing, Sections 7 and 8 in the District which range from approximately 1,937 to 4,065 square feet in size of living area and in sales price from approximately \$158,990 to \$210,990. The Builders may change the size(s) and the type(s) of homes which they elect to build, and the sales prices thereof, or may suspend building activity altogether, at their sole discretion.

FUTURE DEVELOPMENT

629 single-family residential lots have been developed on an aggregate of approximately 145.99 acres located within the District to date. An aggregate of approximately 76.40 acres of land located in the District that are available for future development have not been developed. It is anticipated that approximately 56.59 of such currently undeveloped acres will be developed as future sections of Eagle Landing, and that the remaining approximately 19.81 of such acres will be developed in the future primarily for commercial development. See "DEVELOPMENT AND HOME CONSTRUCTION." The owners of such approximately 56.59 acres and approximately 19.81 acres that are currently available for future development are described above under the caption "DEVELOPER AND OTHER PRINCIPAL LANDOWNERS." Since there is no legal commitment on the part of the owners of any of such currently undeveloped acres located within the District that are available for future development to the District to develop such currently undeveloped acres according to any specific plan, timetable, or at all, the District cannot predict when, or whether, any of such currently undeveloped acres located within the District might be developed. The balance of the land that is located within the District is contained within easements, rights-of-way, or is otherwise not available for future development. If any undeveloped portion of the District is eventually developed, additions to the District's water, sanitary sewer and drainage systems required to service such undeveloped acreage may be financed by future issues of the District's bonds. The District's Engineer currently estimates that the \$36,470,000 authorized bonds which are currently unissued (see "THE BONDS - Issuance of Additional Debt" and "RISK FACTORS - Future Debt") are adequate to finance the construction of such facilities to provide service to all of the undeveloped portions of the District and to increase the District's water supply and wastewater treatment facilities as described below under the caption "THE SYSTEM."

THE SYSTEM

Regulation

According to the District's Engineer, the System has been designed in conformance with accepted engineering practices and the requirements of certain governmental agencies having regulatory or supervisory jurisdiction over the construction and operation of such facilities, including, among others, the TCEQ, the City of Houston, Harris County, and the Harris County Flood Control District.

Operation of the System is subject to regulation by, among others, the United States Environmental Protection Agency and the TCEQ. The total number of equivalent single-family connections ("ESFCs") estimated at this time for the District upon the full development of its approximately 238.52 acres is 1,000 with a total estimated population of 3,500 people. The following descriptions are based upon an estimate of 3 people/connection supplied by the District's Engineer.

Description

The System presently serves the total of 629 single-family residential lots that have been developed within the District that are described above under the caption "DEVELOPMENT AND HOME CONSTRUCTION." The District financed the cost of acquiring or constructing certain components of the System, including underground water distribution, wastewater collection and storm drainage facilities that serve Eagle Landing, Section 1, a storm water quality pond that serves Eagle Landing, a 16-inch water line along Kuykendahl Road, widening a HCFCD drainage channel to serve Eagle Landing, excavation of a HCFCD detention pond to serve Eagle Landing, repairs/upgrades to a shared wastewater treatment plant, the purchase of wastewater treatment capacity, and other items with portions of the proceeds of the sale of the Outstanding Bonds. The District is financing its cost of acquiring or constructing additional components of the System with portions of the proceeds of the sale of the Bonds, including Phase 2 widening of a HCFCD drainage channel to serve Eagle Landing, Phase 2 of the excavation of a HCFCD detention pond to serve Eagle Landing, the purchase of wastewater treatment capacity, and other items is described in this Official Statement under the captions "USE AND DISTRIBUTION OF BOND PROCEEDS." The District anticipates financing its cost of acquiring or constructing additional components of the System, including water distribution, wastewater collection and storm drainage facilities to serve Eagle's Landing, Sections 2, 3, 6 through 8, and other facilities, with the proceeds of the sale of bonds, if any, to be issued by the District in the future. See "THE BONDS - Issuance of Additional Debt" and "RISK FACTORS - Future Debt."

Water Supply

The District's source of water is groundwater from Harris County Municipal Utility District No. 200 which receives surface water from the Central Harris County Regional Water Authority. The District receives water pursuant to the "Permanent Water Supply Agreement" dated May 20, 2003, as assigned to the District on August 17, 2004. In accordance with the agreement, Harris County Municipal Utility District No. 200 provides the District up to 483,000 gallons-per-day ("gpd") of capacity, which is sufficient to serve 1,150 ESFCs at 420 gpd/ESFC. Additionally, the agreement specifies that District water rates include operation, maintenance, debt service, capital improvement, and miscellaneous fee components paid to Harris County Municipal Utility District No. 200. Harris County Municipal Utility District No. 200 has two emergency interconnects with Harris County Municipal Utility District No. 215 and the City of Houston. Harris County Municipal Utility District No. 200 is providing water, via open interconnects, to Rankin Road West Municipal Utility District, Harris County Municipal Utility District No. 205, and the District. The District, via Harris County Municipal Utility District No. 200, is currently participating with the Central Harris County Regional Water Authority to meet the groundwater reduction plan requirements of the Harris-Galveston Subsidence District.

Wastewater Treatment

Wastewater treatment for the District is provided by Harris County Municipal Utility District No. 189 from a shared 990,000 gpd wastewater treatment plant, pursuant to the “Waste Disposal Agreement” dated January 12, 2004, as assigned to the District on August 17, 2004, and amended by the “First Supplement to Waste Disposal Agreement” dated August 15, 2006, the “Second Amendment to Waste Disposal Agreement” dated April 1, 2013, and the “Third Amendment to Waste Disposal Agreement” dated July 1, 2013. The District has purchased 142,678 gpd of capacity, which is sufficient to serve 528 ESFCs at 270 ESFCs gpd/ESFC. The District is financing the purchase of wastewater treatment plant capacity with a portion of the proceeds of the sale of the Bonds.

100-Year Flood Plain

The 100-year flood plain is a hypothetical engineering and meteorological concept that defines a geographical area that would supposedly be flooded by a rain storm in intensity statistically expected to occur no more frequently than once every 100 years. Generally speaking, homes must be built above the 100-year flood plain in order to meet local regulatory requirements and to be eligible for federal flood insurance subsidies. An engineering or regulatory determination that an area is above the 100-year flood plain is no assurance that homes built in such area will not be flooded. If substantial or frequent flooding of homes were to occur in the District, the maintenance of or the future growth of property values in the District could be adversely affected.

In June 2007, the Federal Emergency Management Agency (“FEMA”) released new Flood Insurance Rate Maps (“FIRM”) for Harris County. According to the District’s Engineer, approximately 51 acres of land located within the District are designated as lying within the 100-year flood plain as determined by FEMA. The District is located on FIRM Numbers 48101C0455L and 48201C0460L, effective June 18, 2007.

Of the approximately 51 acres, approximately 14.71 acres are located within the drainage channel or floodplain mitigation basin. The remaining approximately 36.29 acres consist of land that is located within Eagle Landing, Sections 2, 3, 5 and 6. Most of these areas have been removed from the 100-year flood plain designation by several Letters of Map Revision, all of which were reviewed by Harris County and approved by FEMA. The areas that are still located within the 100-year flood plain designation are contained within the area of 4 lots located in Eagle Landing, Section 2 and 28 lots located in Eagle Landing, Section 3.

According to the District’s Engineer, no action has been undertaken by the District to remove such 32 lots from the 100-year flood plain designation, and the District cannot represent whether any action will or will not be undertaken in the future to remove such 32 lots from the 100-year flood plain designation.

LEGAL MATTERS

Legal Opinions

The District will furnish to the Underwriter a transcript of certain certified proceedings incident to the issuance and authorization of the Bonds, including a certified copy of the approving legal 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 McCall, Parkhurst & Horton, L.L.P., Dallas, 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,” and - “Management of the District,” “TAX 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 decisions existing on the date thereof (“Existing Law”), (1) interest on the Bonds for federal income tax purposes will be excludable from the “gross income” of the holders thereof, and (2) the Bonds will not be treated as “specified 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 issued in connection with the Bonds, and (b) 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 become 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 to 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.

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 has designated the Bonds as “qualified tax-exempt obligations” within the meaning of Section 265(b) of the Code. In furtherance of that designation, the District will covenant to take such action that would assure, or to refrain from such action that would adversely affect, the treatment of the Bonds as “qualified tax-exempt obligations.” **Potential purchasers should be aware that if the issue price to the public exceeds \$10,000,000, there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of \$10,000,000 is disregarded; however, the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the aforementioned dollar limitation and the Bonds would not be “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, owners of interests in a FASIT, 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, certain S corporations with accumulated earnings and profits and excess passive investment income, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit, and individuals otherwise allowed an earned income credit. **THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. 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 be included as an adjustment for “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 owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner. 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 properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Bond.

The federal income tax consequences of the purchase, ownership, 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.

NO-LITIGATION CERTIFICATE

The District will furnish to the Underwriters a certificate, dated as of the date of delivery of the Bonds, executed by both the President or Vice President and Secretary or Assistant Secretary of the Board, to the effect that no litigation of any nature has been filed or is then pending or to the knowledge of the District's certifying officers, threatened, either in state or federal courts, contesting or attacking the Bonds; restraining or enjoining the issuance, execution or delivery of the Bonds; affecting the provisions made for the payment of or security for the Bonds; in any manner questioning the authority or proceedings for the issuance, execution, or delivery of the Bonds; or affecting the validity of the Bonds, the corporate existence or boundaries of the District or the title of the then present officers and directors of the Board.

NO MATERIAL ADVERSE CHANGE

The obligations of the Underwriter to take up and pay for the Bonds, and of the District to deliver the Bonds, are subject to the condition that, up to the time of delivery of and receipt of payment for the Bonds, there shall have been no material adverse change in the financial condition of the District subsequent to the date of sale from that set forth in the Preliminary Official Statement, as it may have been finalized, supplemented or amended through the date of sale.

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 Appraisal District, the Engineer, and other sources believed to be reliable; however, no representation is made as to the accuracy or completeness of the information obtained from sources other than the District. 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 District's financial statements for the fiscal year ended May 31, 2014, were audited by McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountants, Houston, Texas, and have been included herein as "APPENDIX B." McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountants has agreed to the publication of such financial statements in this Official Statement. A copy of the Management Letter from the District's auditor to the District's Board of Directors relating to the District's financial reporting under Statement of Auditing Standards No. 115, including the District's response thereto, is included in "APPENDIX B."

Experts

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," "DEVELOPMENT AND HOME CONSTRUCTION," "FUTURE DEVELOPMENT," and "THE SYSTEM," has been provided by Edminster Hinshaw Russ & Associates, Inc., Houston, Texas. Such information has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

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 "DISTRICT DEBT" and "TAX DATA" been provided by the Appraisal District and Thomas W. Lee. The District has included certain information herein in reliance upon Mr. Lee'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 District's authority as an expert in the field of tax assessing and real property appraisal.

GENERAL CONSIDERATIONS

Updating of Official Statement

If, subsequent to the date of the Official Statement, to and including the date the Underwriters are no longer required to provide an Official Statement to customers who request same pursuant to Rule 15c2-12 of the United States Securities and Exchange Commission (the "SEC"), the District learns, or is notified by the Underwriters, of any adverse event which causes the Official Statement to be materially misleading, and unless the Underwriters elect to terminate its obligation to purchase the Bonds, the District will promptly prepare and supply to the Underwriters an appropriate amendment or supplement to the Official Statement satisfactory to the Underwriters; provided, however, that the obligation of the District to so amend or supplement the Official Statement will terminate upon the earlier of (i) 90 days after the "end of the underwriting period" as defined in SEC Rule 15c2-12 or (ii) the date the Official Statement is filed with the MSRB, but in no case less than 25 days after the "end of the underwriting period."

Certification of Official Statement

At the time of payment for and delivery of the Bonds, the District will furnish the Underwriters a certificate, executed by the President or Vice President and Secretary or Assistant Secretary of the Board, acting in their official capacities, to the effect that to the best of their knowledge and belief: (a) the information, 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 and their activities are concerned, such statements and data have been obtained from sources which the District believes to be reliable and that the District has no reason to believe that they are untrue in any material respect or omit to state any material fact necessary to make the statements herein, in the light of the circumstances under which they were made, not misleading; however, the District has made no independent investigation as to the accuracy or completeness of the information derived from sources other than the District. This Official Statement is duly approved by the Board of Directors of the District as of the date specified on the first page hereof.

Official Statement “Deemed Final”

For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission (the “SEC”), 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 “deemed final” by the District as of the date hereof (or of any such supplement or correction) except for the omission of certain information referred to in the succeeding paragraph.

The Official Statement, when further supplemented by adding information specifying the 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 SEC Rule 15c2-12.

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 events, to the Municipal Securities Rulemaking Board (the “MSRB”) through its Electronic Municipal Market Access (“EMMA”) system.

Annual Reports

The District will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement under the headings “SELECTED FINANCIAL INFORMATION” and “TAX DATA” and in “APPENDIX B - AUDITOR’S REPORT AND FINANCIAL STATEMENTS.” The District will update and provide this information within six months after the end of each fiscal year ending in or after 2014.

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 the District's audit is completed by the required time. If audited financial statements are not available by the required time, the District will provide unaudited financial statements within the required time, and audited financial statements when the audit report becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in 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 fiscal year end is currently May 31. Accordingly, it must provide updated information by November 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.

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 determination 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 SEC Rule 15c2-12; (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated

person within the meaning of SEC Rule 15c2-12 or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of such 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

The District has agreed to provide the foregoing information only to the MSRB. Investors will be able to access, without charge from the MSRB, continuing disclosure information filed with the MSRB through its EMMA system at www.emma.msrb.org.

Limitations and Amendments

The District has agreed to update information and to provide notices of certain events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although Registered Owners 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 SEC Rule 15c2-12, taking into account any amendments or interpretations of SEC Rule 15c2-12 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 Registered Owners 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 so provided.

Compliance With Prior Undertakings

The District is in compliance with its continuing disclosure agreements made in the last 5 years in accordance with SEC Rule 15c2-12.

This Official Statement was approved by the Board of Directors of Harris County Municipal Utility District No. 399 as of the date shown on the first page hereof.

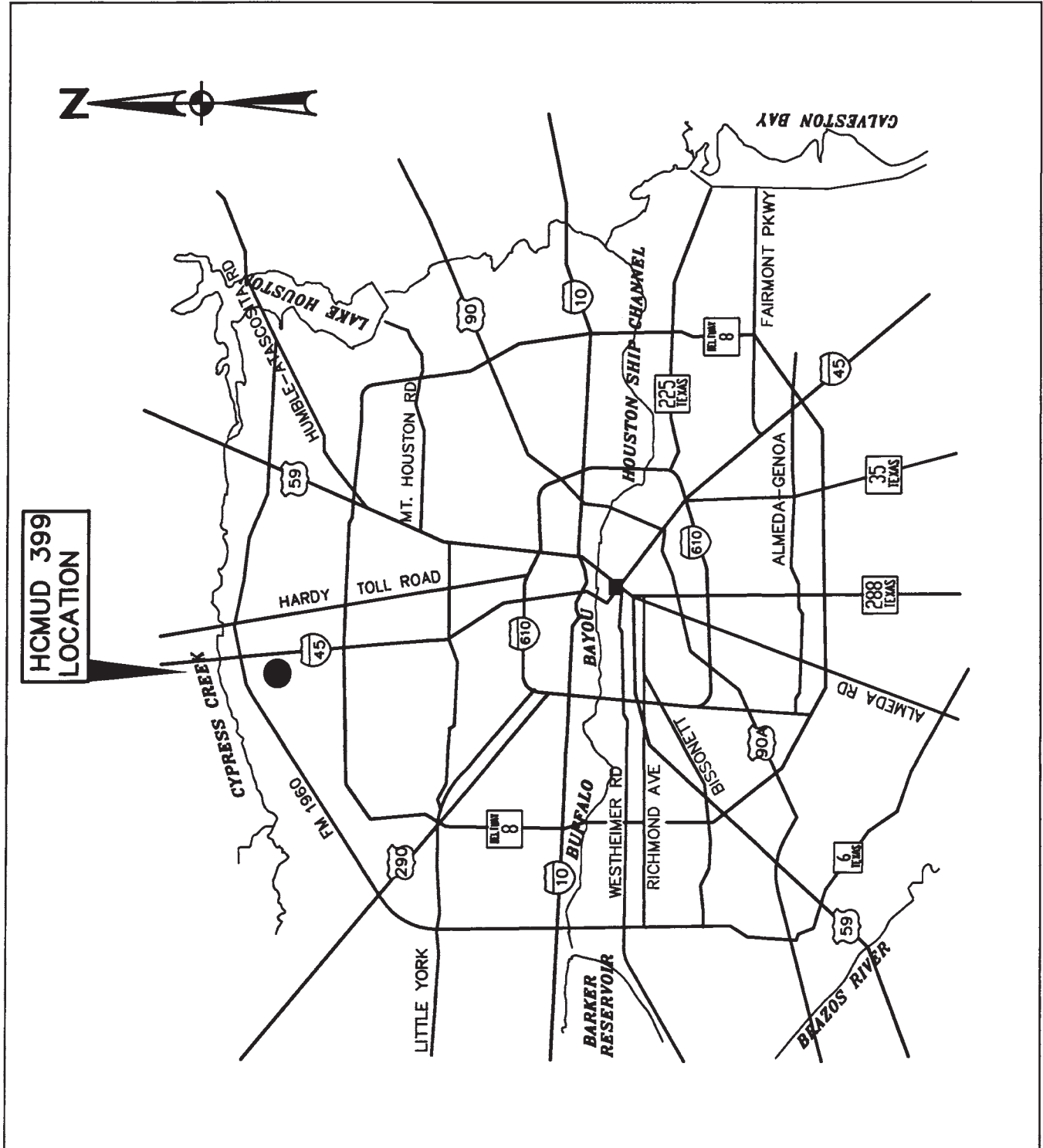
President, Board of Directors
Harris County Municipal
Utility District No. 399

ATTEST:

Secretary, Board of Directors
Harris County Municipal
Utility District No. 399

APPENDIX A

LOCATION MAP



LOCATION MAP

APPENDIX B

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 399

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

MAY 31, 2014

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 399

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

MAY 31, 2014

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 399

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

MAY 31, 2014

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Harris County Municipal
Utility District No. 399
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Harris County Municipal Utility District No. 399 (the "District"), as of and for the year ended May 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of May 31, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 through 7 and the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund on page 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The supplementary information, excluding that portion marked "Unaudited" on which we express no opinion or provide any assurance, has been subjected to the auditing procedures applied in the audit of the 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.



McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants

September 16, 2014

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 399
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MAY 31, 2014**

Management's discussion and analysis of the financial performance of Harris County Municipal Utility District No. 399 (the "District") provides an overview of the District's financial activities for the fiscal year ended May 31, 2014. Please read it in conjunction with the District's financial statements, which begin on page 8.

USING THIS ANNUAL REPORT

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

The first of the government-wide statements is the Statement of Net Position. This information is found in the Statement of Net Position column on pages 8 through 11. The Statement of Net Position is the District-wide statement of its financial position presenting information that includes all of the District's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

The government-wide portion of the Statement of Activities on pages 13 through 14 reports how the District's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.

FUND FINANCIAL STATEMENTS

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has three governmental fund types. The General Fund accounts for resources not accounted for in another fund, customer service revenues, costs and general expenditures. The Debt Service Fund accounts for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes. The Capital Projects Fund accounts for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 399
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MAY 31, 2014**

FUND FINANCIAL STATEMENTS (Continued)

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

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. The adjustments columns, the Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position on page 12 and the Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities on page 15 explain the differences between the two presentations and assist in understanding the differences between these two perspectives.

NOTES TO THE FINANCIAL STATEMENTS

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements can be found on pages 16 through 31 in this report.

OTHER INFORMATION

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, liabilities exceeded assets by \$4,022,053 as of May 31, 2014.

A portion of the District's net position reflects its net investment in capital assets (water, wastewater and drainage facilities less any debt used to acquire those assets that is still outstanding). The District uses these assets to provide water and wastewater services.

The following is a comparative analysis of government-wide changes in net position:

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 399
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MAY 31, 2014**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	<u>Summary of Changes in the Statement of Net Position</u>		
	<u>2014</u>	<u>2013</u>	<u>Change Positive (Negative)</u>
Current and Other Assets	\$ 2,838,293	\$ 2,879,418	\$ (41,125)
Capital Assets (Net of Accumulated Depreciation)	<u>4,012,637</u>	<u>3,343,653</u>	<u>668,984</u>
Total Assets	<u>\$ 6,850,930</u>	<u>\$ 6,223,071</u>	<u>\$ 627,859</u>
Due to Developer	\$ 6,296,085	\$ 5,737,406	\$ (558,679)
Long -Term Liabilities	4,284,803	4,379,317	94,514
Other Liabilities	<u>292,095</u>	<u>282,278</u>	<u>(9,817)</u>
Total Liabilities	<u>\$ 10,872,983</u>	<u>\$ 10,399,001</u>	<u>\$ (473,982)</u>
Net Position:			
Net Investment in Capital Assets	\$ (6,604,451)	\$ (6,799,270)	\$ 194,819
Restricted	917,490	947,587	(30,097)
Unrestricted	<u>1,664,908</u>	<u>1,675,753</u>	<u>(10,845)</u>
Total Net Position	<u>\$ (4,022,053)</u>	<u>\$ (4,175,930)</u>	<u>\$ 153,877</u>

The following table provides a summary of the District's operations for the years ended May 31, 2014, and May 31, 2013. The District's net position increased by \$153,877.

	<u>Summary of Changes in the Statement of Activities</u>		
	<u>2014</u>	<u>2013</u>	<u>Change Positive (Negative)</u>
Revenues:			
Property Taxes	\$ 691,621	\$ 648,810	\$ 42,811
Charges for Services	543,969	467,462	76,507
Other Revenues	<u>55,994</u>	<u>43,088</u>	<u>12,906</u>
Total Revenues	<u>\$ 1,291,584</u>	<u>\$ 1,159,360</u>	<u>\$ 132,224</u>
Expenses for Services	<u>1,137,707</u>	<u>1,441,440</u>	<u>303,733</u>
Change in Net Position	\$ 153,877	\$ (282,080)	\$ 435,957
Net Position, Beginning of Year	<u>(4,175,930)</u>	<u>(3,893,850)</u>	<u>(282,080)</u>
Net Position, End of Year	<u>\$ (4,022,053)</u>	<u>\$ (4,175,930)</u>	<u>\$ 153,877</u>

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 399
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MAY 31, 2014**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of May 31, 2014, were \$2,671,067, a decrease of \$41,750 from the prior year.

The General Fund fund balance decreased by \$10,818, primarily due to current year operation costs exceeding revenues.

The Debt Service Fund fund balance decreased by \$30,932, primarily due to the structure of the District's outstanding debt service.

The Capital Projects Fund fund balance was unchanged.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the budget during the current fiscal year. Actual revenue was \$100,601 more than budgeted revenue primarily due to higher than anticipated water and wastewater service revenue, penalty and interest revenue, property tax revenue and tap connection revenue. Expenditures were more than budgeted costs by \$225,251 primarily due to higher than expected professional fees and capital outlay. See the budget to actual comparison on page 33.

CAPITAL ASSETS

The District's capital assets as of May 31, 2014, amount to \$4,012,637 (net of accumulated depreciation). These capital assets include land, the District's capacity interest in the wastewater treatment plant as well as the water, wastewater and drainage systems. Capital asset events during the current fiscal year included the sanitary sewer extension along Richey Road, purchase of capacity in the wastewater treatment plant and facilities for Eagle Landing, Section 8.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 399
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MAY 31, 2014**

CAPITAL ASSETS (Continued)

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2014	2013	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 22,288	\$ 22,288	\$
Capital Assets, Net of Accumulated Depreciation:			
Water System	1,118,486	983,850	134,636
Wastewater System	1,629,732	1,442,279	187,453
Drainage System	498,379	337,356	161,023
Capacity Interest in Wastewater Treatment Plant	743,752	557,880	185,872
Total Net Capital Assets	\$ 4,012,637	\$ 3,343,653	\$ 668,984

Additional information on the District's capital assets can be found in Note 6.

LONG-TERM DEBT ACTIVITY

At the end of the current fiscal year, the District had total bond debt payable of \$4,500,000.

The changes in the debt position of the District during the fiscal year ended May 31, 2014, are summarized as follows:

Bond Debt Payable, June 1, 2013	\$ 4,590,000
Less: Bond Principal Paid	90,000
Bond Debt Payable, May 31, 2014	\$ 4,500,000

The District's Series 2007 and 2010 Bonds do not carry an underlying or insured rating.

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide a general overview of District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Harris County Municipal Utility District No. 399, c/o Schwartz, Page & Harding, L.L.P., 1300 Post Oak Blvd., Suite 1400, Houston, Texas 77056-3078.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 399
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
MAY 31, 2014

	General Fund	Debt Service Fund
ASSETS		
Cash, Note 5	\$ 202,492	\$ 332,235
Investments, Note 5	1,560,000	630,000
Receivables:		
Property Taxes	14,682	10,395
Penalty and Interest on Delinquent Taxes		3,671
Service Accounts (Net of Allowance for Doubtful Accounts of \$-0-)	76,114	
Accrued Interest	2,612	854
Other	5,238	
Due from Other Funds, Note 14	5,761	
Land, Note 6		
Capital Assets (Net of Accumulated Depreciation), Note 6		
TOTAL ASSETS	\$ 1,866,899	\$ 977,155

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

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$	\$ 534,727	\$	\$ 534,727
	2,190,000		2,190,000
	25,077		25,077
	3,671		3,671
	76,114		76,114
	3,466		3,466
	5,238		5,238
63,800	69,561	(69,561)	22,288
		22,288	
		<u>3,990,349</u>	<u>3,990,349</u>
<u>\$ 63,800</u>	<u>\$ 2,907,854</u>	<u>\$ 3,943,076</u>	<u>\$ 6,850,930</u>

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 399
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
MAY 31, 2014

	General Fund	Debt Service Fund
LIABILITIES		
Accounts Payable	\$ 77,141	\$
Accrued Interest Payable		
Due to Developers, Note 11		
Due to Other Funds, Note 14	63,800	5,761
Due to Taxpayers		287
Security Deposits	58,725	
Unearned Tap Revenues	2,325	
Long Term Liabilities:		
Due Within One Year, Note 3		
Due After One Year, Note 3		
TOTAL LIABILITIES	\$ 201,991	\$ 6,048
DEFERRED INFLOWS OF RESOURCES		
Property Taxes	\$ 14,682	\$ 10,395
Penalty and Interest on Delinquent Taxes		3,671
TOTAL DEFERRED INFLOWS OF RESOURCES	\$ 14,682	\$ 14,066
FUND BALANCES		
Restricted for Authorized Construction	\$	\$
Restricted for Debt Service		957,041
Unassigned	1,650,226	
TOTAL FUND BALANCES	\$ 1,650,226	\$ 957,041
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 1,866,899	\$ 977,155
NET POSITION		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
TOTAL NET POSITION		

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

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$	\$ 77,141	\$	\$ 77,141
		53,617	53,617
		6,296,085	6,296,085
	69,561	(69,561)	
	287		287
	58,725		58,725
	2,325		2,325
		100,000	100,000
		4,284,803	4,284,803
<u>\$ -0-</u>	<u>\$ 208,039</u>	<u>\$ 10,664,944</u>	<u>\$ 10,872,983</u>
\$	\$ 25,077	\$ (25,077)	\$
	3,671	(3,671)	
<u>\$ -0-</u>	<u>\$ 28,748</u>	<u>\$ (28,748)</u>	<u>\$ -0-</u>
\$ 63,800	\$ 63,800	\$ (63,800)	\$
	957,041	(957,041)	
	1,650,226	(1,650,226)	
<u>\$ 63,800</u>	<u>\$ 2,671,067</u>	<u>\$ (2,671,067)</u>	<u>\$ - 0 -</u>
<u>\$ 63,800</u>	<u>\$ 2,907,854</u>		
		\$ (6,604,451)	\$ (6,604,451)
		917,490	917,490
		1,664,908	1,664,908
		<u>\$ (4,022,053)</u>	<u>\$ (4,022,053)</u>

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 399
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
MAY 31, 2014**

Total Fund Balances - Governmental Funds \$ 2,671,067

Amounts reported for governmental activities in the Statement of Net Position are different because:

Land and capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds. 4,012,637

Deferred tax revenues and deferred penalty and interest revenues on delinquent taxes for the 2013 and prior tax levies became part of recognized revenue in the governmental activities of the District. 28,748

Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year end consist of:

Due to Developer	\$ (6,296,085)	
Accrued Interest Payable	(53,617)	
Bonds Payable Within One Year	(100,000)	
Bonds Payable After One Year	<u>(4,284,803)</u>	<u>(10,734,505)</u>

Total Net Position - Governmental Activities \$ (4,022,053)

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

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HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 399
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED MAY 31, 2014

	General Fund	Debt Service Fund
REVENUES		
Property Taxes	\$ 407,817	\$ 284,035
Water Service	196,993	
Wastewater Service	182,270	
Regional Water Authority Fees	84,943	
Penalty and Interest	18,903	8,033
Tap Connection and Inspection Fees	52,900	
Investment Revenues	5,625	3,029
Miscellaneous Revenues	16,923	8
TOTAL REVENUES	\$ 966,374	\$ 295,105
EXPENDITURES/EXPENSES		
Service Operations:		
Professional Fees	\$ 125,131	\$ 3,674
Contracted Services	283,841	13,969
Purchased Water Service, Note 8	97,713	
Purchased Wastewater Service, Note 9	68,646	
Regional Water Authority Assessment, Note 10	74,779	
Repairs and Maintenance	33,876	
Depreciation, Note 6		
Other	89,063	1,701
Capital Outlay	234,552	
Debt Service:		
Bond Principal		90,000
Bond Interest		216,693
TOTAL EXPENDITURES/EXPENSES	\$ 1,007,601	\$ 326,037
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES	\$ (41,227)	\$ (30,932)
OTHER FINANCING SOURCES (USES)		
Developer Contributions	\$ 30,409	\$ -0-
NET CHANGE IN FUND BALANCES	\$ (10,818)	\$ (30,932)
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION - JUNE 1, 2013	1,661,044	987,973
FUND BALANCES/NET POSITION - MAY 31, 2014	\$ 1,650,226	\$ 957,041

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 691,852	\$ (231)	\$ 691,621
	196,993		196,993
	182,270		182,270
	84,943		84,943
	26,936	(73)	26,863
	52,900		52,900
	8,654		8,654
	16,931	30,409	47,340
<u>\$ - 0 -</u>	<u>\$ 1,261,479</u>	<u>\$ 30,105</u>	<u>\$ 1,291,584</u>
\$	\$ 128,805	\$	\$ 128,805
	297,810		297,810
	97,713		97,713
	68,646		68,646
	74,779		74,779
	33,876		33,876
		124,247	124,247
	90,764		90,764
	234,552	(234,552)	
	90,000	(90,000)	
	216,693	4,374	221,067
<u>\$ -0-</u>	<u>\$ 1,333,638</u>	<u>\$ (195,931)</u>	<u>\$ 1,137,707</u>
<u>\$ -0-</u>	<u>\$ (72,159)</u>	<u>\$ 226,036</u>	<u>\$ 153,877</u>
<u>\$ -0-</u>	<u>\$ 30,409</u>	<u>\$ (30,409)</u>	<u>\$ -0-</u>
\$	\$ (41,750)	\$ 41,750	\$
		153,877	153,877
<u>63,800</u>	<u>2,712,817</u>	<u>(6,888,747)</u>	<u>(4,175,930)</u>
<u>\$ 63,800</u>	<u>\$ 2,671,067</u>	<u>\$ (6,693,120)</u>	<u>\$ (4,022,053)</u>

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 399
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MAY 31, 2014**

Net Change in Fund Balances - Governmental Funds	\$	(41,750)
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied.		(231)
Governmental funds report penalty and interest revenue on property taxes when collected. However, in the Statement of Activities, revenue is recorded when penalties and interest are assessed.		(73)
Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.		(124,247)
Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected.		234,552
Governmental funds report bond principal payments as expenditures. However, in the Statement of Net Position, bond principal payments are reported as decreases in long-term liabilities.		90,000
Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end.		(4,374)
Change in Net Position - Governmental Activities	\$	<u>153,877</u>

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 399
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2014

NOTE 1. CREATION OF DISTRICT

Harris County Municipal Utility District No. 399 (the “District”) was created effective June 4, 2004, by an Order of the Texas Commission on Environmental Quality, (the “Commission”). Pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code, 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, and to construct parks and recreational facilities for the residents of the District. The Board of Directors held its first meeting on July 12, 2004 and the first bonds were sold on April 17, 2007.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

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

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

The District participates financially in the operation of a wastewater treatment plant. Oversight responsibility for the plant is with Harris County Municipal Utility District No. 189. See Note 9.

Financial Statement Presentation

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 399
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2014

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

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

- Net Investment in Capital Assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- Restricted Net Position – This component of net position consists of external constraints placed on the use of assets imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – This component of net position consists of assets that do not meet the definition of Restricted or Net Investment in Capital Assets.

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

Government-Wide Financial Statements

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

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 399
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2014

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide Financial Statements (Continued)

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

Fund Financial Statements

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

Governmental Funds

The District has three governmental funds and considers each a major fund.

General Fund - To account for resources not required to be accounted for in another fund, customer service revenues, costs and general expenditures.

Debt Service Fund - To account for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes.

Capital Projects Fund - To account for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

Basis of Accounting

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 399
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2014

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

Property taxes considered available by the District and included in revenue include taxes collected during the year and taxes collected after year-end, which were considered available to defray the expenditures of the current year. Deferred tax revenues are those taxes which the District does not reasonably expect to be collected soon enough in the subsequent period to finance current expenditures.

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

Capital Assets

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

Assets are capitalized, including infrastructure assets, if they have an original cost greater than \$5,000 and a useful life over two years. Depreciation is calculated on each class of depreciable property using no salvage value and the straight-line method of depreciation. Estimated useful lives are as follows:

	Years
Buildings	40
Water System	10-45
Wastewater System	10-45
Drainage System	10-45
All Other Equipment	3-20

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 399
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2014

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (Continued)

Other capital assets of the District are those assets in which the District has acquired capacity interest in but does not own the asset itself. These assets typically include a shared interest in the capacity of a water treatment plant, a regional sewage treatment plant or lift station. These assets are typically amortized over the term of the contract from the date of funding.

Budgeting

In compliance with governmental accounting principles, the Board of Directors annually adopts an unappropriated budget for the General Fund. The budget was not amended during the current fiscal year.

Pensions

The District has not established a pension plan as the District does not have employees. The Internal Revenue Service has determined that fees of office received by Directors are considered to be wages subject to federal income tax withholding for payroll purposes only.

Measurement Focus

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

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

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 399
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2014

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

Restricted: amounts that can be spent only for specific purposes because of constitutional provisions, or enabling legislation, or because of constraints that are imposed externally.

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

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

Unassigned: all other spendable amounts in the General Fund.

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

Accounting Estimates

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 399
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2014

NOTE 3. LONG-TERM DEBT

	Series 2007	Series 2010
Amount Outstanding - May 31, 2014	\$ 2,075,000	\$ 2,425,000
Interest Rates	4.25% - 6.50%	3.25% - 5.375%
Maturity Dates – Serially Beginning/Ending	September 1, 2014/2034	September 1, 2014/2036
Interest Payment Dates	September 1/ March 1	September 1/ March 1
Callable Dates	September 1, 2014 (1)	September 1, 2017 (2)

(1) Or on any date thereafter, as a whole or in part, at par plus interest accrued to the date of redemption. Term bonds maturing September 1, 2019, 2022, 2025, 2028, 2031, and 2034, are subject to mandatory sinking fund redemption by the District by lot or other customary random method prior to scheduled maturity beginning on September 1, 2017, 2020, 2023, 2026, 2029, and 2032, respectively.

(2) Or on any date thereafter, as a whole or in part, at par plus interest accrued to the date of redemption. Term bonds maturing September 1, 2027, 2029, 2031, 2033, and 2036 are subject to mandatory sinking fund redemption by the District by lot or other customary random method prior to scheduled maturity beginning on September 1, 2026, 2028, 2030, 2032, and 2034, respectively.

The following is a summary of transactions regarding long-term liabilities for the year ended May 31, 2014:

	June 1, 2013	Additions	Retirements	May 31, 2014
Bonds Payable	\$ 4,590,000	\$	\$ 90,000	\$ 4,500,000
Unamortized Discounts	(120,683)		(5,486)	(115,197)
Bonds payable, net	\$ 4,469,317	\$ -0-	\$ 84,514	\$ 4,384,803
		Amount Due Within One Year		\$ 100,000
		Amount Due After One Year		4,284,803
		Bonds Payable, net		\$ 4,384,803

As of May 31, 2014, the District had authorized but unissued bonds in the amount of \$38,410,000 for water, sanitary sewer and drainage bonds, \$44,625,000 for refunding bonds and \$1,375,000 for recreational facility bonds.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 399
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2014

NOTE 3. LONG-TERM DEBT (Continued)

As of May 31, 2014, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2015	\$ 100,000	\$ 211,949	\$ 311,949
2016	105,000	206,692	311,692
2017	110,000	201,067	311,067
2018	120,000	195,333	315,333
2019	125,000	189,464	314,464
2020-2024	750,000	850,888	1,600,888
2025-2029	975,000	657,980	1,632,980
2030-2034	1,270,000	399,750	1,669,750
2035-2037	945,000	77,441	1,022,441
	<u>\$ 4,500,000</u>	<u>\$ 2,990,564</u>	<u>\$ 7,490,564</u>

The bonds are payable from the proceeds of an ad valorem tax levied upon all property subject to taxation within the District, without limitation as to rate or amount.

During the year ended May 31, 2014, the District levied an ad valorem debt service tax at the rate of \$0.55 per \$100 of assessed valuation, which resulted in a tax levy of \$284,424 on the adjusted taxable valuation of \$51,706,106 for the 2013 tax year. The bond order requires the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes, see Note 7 for maintenance tax levy.

The District's tax calendar is as follows:

- Levy Date - October 1, or as soon thereafter as practicable.
- Lien Date - January 1.
- Due Date - Not later than January 31.
- Delinquent Date - February 1, at which time the taxpayer is liable for penalty and interest.

NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS

- A. The bond orders state that any profit realized from or interest accruing on such investments shall belong to the fund from which the monies for such investments were taken; provided however, that at the discretion of the Board of Directors, the profits realized from and interest accruing on investments made from any fund may be transferred to the Debt Service Fund.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 399
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2014

NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS
(Continued)

- B. For the Series 2007 and 2010 bond issues the District has covenanted that it will take all necessary steps to comply with the requirement that rebatable arbitrage earnings on the investment of the gross proceeds of the Bonds, within the meaning of section 148(f) of the Internal Revenue Code, be rebated to the federal government. The minimum requirement for determination of the rebatable amount is on the five-year anniversary of the issue.
- C. The bond orders state that the District is required to provide to the state information depository continuing disclosure of annual financial information and operating data with respect to the District. The information is of the general type included in the annual audit report and must be filed within six months after the end of each fiscal year of the District.

NOTE 5. DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District's deposit policy for custodial credit risk requires compliance with the provisions of Texas statutes.

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District's deposits was \$2,724,727 and the bank balance was \$2,723,447. Of the bank balance, \$2,662,428 was covered by federal depository insurance and the balance was covered by collateral pledged in the name of the District and held in a third party depository.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at May 31, 2014, as listed below:

	Cash	Certificates of Deposit	Total
GENERAL FUND	\$ 202,492	\$ 1,560,000	\$ 1,762,492
DEBT SERVICE FUND	332,235	630,000	962,235
TOTAL DEPOSITS	\$ 534,727	\$ 2,190,000	\$ 2,724,727

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 399
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2014

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments

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

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. Authorized investments are summarized as follows: (1) obligations of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (5) certain A rated or higher obligations of states, agencies, counties, cities, and other political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) insured or collateralized certificates of deposit, (8) certain fully collateralized repurchase agreements secured by delivery, (9) certain bankers' acceptances with limitations, (10) commercial paper rated A-1 or P-1 or higher and a maturity of 270 days or less, (11) no-load money market mutual funds and no-load mutual funds with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools and (14) a qualified securities lending program.

As of May 31, 2014, the District had the following investments and maturities:

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 399
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2014

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Fund and Investment Type	Fair Value	Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
<u>GENERAL FUND</u>					
Certificates of Deposit	\$ 1,560,000	\$ 1,560,000	\$	\$	\$
<u>DEBT SERVICE FUND</u>					
Certificates of Deposit	630,000	630,000			
TOTAL INVESTMENTS	<u>\$ 2,190,000</u>	<u>\$ 2,190,000</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The District manages credit risk by investing in certificates of deposit with balances below FDIC coverage.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District manages interest rate risk by investing in certificates of deposits with maturities of less than one year.

Restrictions

All cash and investments of the Debt Service Fund are restricted for payment of debt service and cost of assessing and collecting taxes.

All cash and investments of the Capital Projects Fund are restricted for the purchase of capital assets.

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended May 31, 2014:

	June 1, 2013	Increases	Decreases	May 31, 2014
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 22,288			\$ 22,288
Construction in Progress		793,231	793,231	
Total Capital Assets Not Being Depreciated	<u>\$ 22,288</u>	<u>\$ 793,231</u>	<u>\$ 793,231</u>	<u>\$ 22,288</u>

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 399
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2014

NOTE 6. CAPITAL ASSETS (Continued)

	June 1, 2013	Increases	Decreases	May 31, 2014
Capital Assets Subject to Depreciation				
Water System	\$ 1,164,714	\$ 162,708	\$	\$ 1,327,422
Wastewater System	1,693,253	227,950		1,921,203
Drainage System	404,356	198,430		602,786
Capacity Interest in Wastewater Treatment Plant	<u>694,246</u>	<u>204,143</u>		<u>898,389</u>
Total Capital Assets Subject to Depreciation	<u>\$ 3,956,569</u>	<u>\$ 793,231</u>	<u>\$ - 0 -</u>	<u>\$ 4,749,800</u>
Accumulated Depreciation				
Water System	\$ 180,864	\$ 28,072	\$	\$ 208,936
Wastewater System	250,974	40,497		291,471
Drainage System	67,000	37,407		104,407
Capacity Interest in Wastewater Treatment Plant	<u>136,366</u>	<u>18,271</u>		<u>154,637</u>
Total Accumulated Depreciation	<u>\$ 635,204</u>	<u>\$ 124,247</u>	<u>\$ - 0 -</u>	<u>\$ 759,451</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 3,321,365</u>	<u>\$ 668,984</u>	<u>\$ - 0 -</u>	<u>\$ 3,990,349</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 3,343,653</u>	<u>\$ 1,462,215</u>	<u>\$ 793,231</u>	<u>\$ 4,012,637</u>

NOTE 7. MAINTENANCE TAX

On September 11, 2004, the voters of the District approved the levy and collection of a maintenance tax in an amount not to exceed \$1.50 per \$100 of assessed valuation of taxable property within the District. The maintenance tax is to be used by the General Fund to pay expenditures of operating the District's waterworks and wastewater system. During the year ended May 31, 2014, the District levied an ad valorem maintenance tax rate of \$0.79 per \$100 of assessed valuation, which resulted in a tax levy of \$408,536 on the taxable valuation of \$51,706,106 for the 2013 tax year.

NOTE 8. PERMANENT WATER SUPPLY CONTRACT

On May 20, 2003, Skymark Development Company, Inc. ("Skymark"), on behalf of the District, entered into a permanent water supply agreement with Harris County Municipal Utility District No. 200 ("No. 200"). On August 17, 2004, the District approved the assumption of this agreement. On August 17, 2010, the first amendment to this agreement was approved. No. 200

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 399
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2014

NOTE 8. PERMANENT WATER SUPPLY CONTRACT (Continued)

owns and operates water production and supply facilities. The acquisition and construction of the interconnect and distribution facilities was at the expense of the District. No. 200 provides water to the District in the maximum amount of 483,000 gallons per day (“gpd”), which is sufficient to serve 1,150 equivalent connections. The District paid \$97,713 for purchased water during the current fiscal year. The rate for purchased water was \$2.19 per 1,000 gallons as of May 31, 2014.

On May 17, 2011, the District sold No. 200 50% of the total transmission capacity in a supplemental water line for \$33,845 in accordance with the supplemental waterline capacity, purchase, sale, maintenance and joint use agreement.

NOTE 9. SEWAGE TREATMENT OPERATIONS AND MAINTENANCE CONTRACTS

On January 12, 2004, Skymark, on behalf of the District, entered into a waste disposal agreement with Harris County Municipal Utility District No. 189 (“No. 189”). On August 17, 2004, the District assumed the terms of this agreement. No. 189 has constructed a 1,612,500 gallons per day (“gpd”) wastewater treatment facility of which the current rated capacity is 990,000 gpd. The District has acquired and constructed at its sole cost and expense a sanitary sewer collection system as necessary to convey waste from the District to the points of entry into No. 189’s system. On June 30, 2005, the agreement was amended to outline the terms of the District’s purchase of capacity. A supplement to this agreement was entered into on August 15, 2006 to memorialize the District’s previous purchases of 110,692 gpd of capacity in the Plant. Effective April 1, 2013, the Second Amendment to the agreement was approved whereby the District agreed to purchase an additional 2,400 gpd of capacity in the Plant for \$16,560. On July 1, 2013, the Third Amendment to the agreement was approved whereby the District agreed to purchase an additional 29,586 gpd of capacity in the plant for \$204,143. This amount was paid to No. 189 during the current fiscal year. As of May 31, 2014, the District has purchased 142,678 gpd of capacity in the Plant in accordance with the terms of these agreements.

The participating districts and their respective pro rata share of capacity in the regional sewage treatment plant at May 31, 2014 are as follows:

Participants	Percentage
District No. 189	64.40%
District No. 205	21.19
The District	<u>14.41</u>
TOTAL	<u>100.00%</u>

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 399
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2014

NOTE 9. SEWAGE TREATMENT OPERATIONS AND MAINTENANCE
CONTRACTS (Continued)

As of May 31, 2014, the District has not funded a reserve for operation and maintenance of the regional sewage treatment plant. The District recorded a total of \$68,646 for its share of operating costs of the plant.

The following summary financial data on the regional sewage treatment plant is presented for the fiscal year ended June 30, 2013. A copy of the financial statements for the plant can be obtained by contacting Fulbright & Jaworski, L.L.P. at 1301 McKinney Avenue, Suite 5100, Houston, Texas 77010-3095.

Total Assets	\$ 148,271
Total Liabilities	<u>131,664</u>
Total Fund Balance	<u>\$ 16,607</u>
Total Revenues	\$ 381,934
Total Expenditures	<u>381,934</u>
Net Change in Fund Balance	\$ -0-
Fund Balance, Beginning of Year	<u>16,607</u>
Fund Balance, End of Year	<u>\$ 16,607</u>

NOTE 10. CENTRAL HARRIS COUNTY REGIONAL WATER AUTHORITY

On December 13, 2002, Fallbrook Utility District, Harris County Municipal Utility District No. 33 (“District No. 33”), Harris County Municipal Utility District No. 150, Harris County Municipal Utility District No. 200, Harris County Municipal Utility District No. 205, Harris County Municipal Utility District No. 215, Harris County Municipal Utility District No. 304, Harris County Utility District No. 16, and Rankin Road West Municipal Utility District entered into a water consortium agreement and formed the Central Harris County Water Users Consortium (the “Consortium”). In October, 2004, the agreement was amended to include the District.

Effective June 17, 2005, the Central Harris County Regional Water Authority (the “Authority”) was created to assume the duties of the Consortium. The Authority was created under Article 16, Section 59 of the Texas Constitution by House Bill 3181, as passed by the 79th Texas Legislature. The Authority encompasses essentially the same entities as the Consortium. The Consortium assigned its agreements and transferred its assets to the Authority. The purpose of the Authority is to assure that its participants comply with the Harris-Galveston Subsidence District (“HGSD”) pumpage requirements, which mandate that districts within HGSD boundaries, including the District, convert a percentage of their water use to surface water over a period of time.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 399
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2014

NOTE 10. CENTRAL HARRIS COUNTY REGIONAL WATER AUTHORITY
(Continued)

The Authority currently charges a fee, based on the amount of groundwater pumped from a well, to the owner of wells located within the boundaries of the Authority, unless exempted. This fee enables the Authority to fulfill its purpose and regulatory functions. The fee currently being charged is \$1.56 per 1,000 gallons of groundwater pumped from each well and is subject to change at any time by the Authority. Additionally, the Authority charges a fee of \$1.90 per 1,000 gallons of water for surface water received from the Authority. The District purchases water from No. 200, see Note 8. The District is billed \$3.86 per 1,000 gallons of water supplied by No. 200, which rate includes the District's pro rata share of the Authority's fees for groundwater and surface water, as well as No. 200's costs for production and distribution. The District recorded an expenditure of \$74,779 for fees assessed during the current fiscal year.

NOTE 11. UNREIMBURSED COSTS

The District has entered into development financing agreements with developers within the District. These developers have made expenditures on behalf of the District for various projects for which the District has not sold bonds. As of the balance sheet date, the District has recorded \$6,296,085 for completed projects paid for by developers related to construction and engineering of utilities within the District.

NOTE 12. RECREATION MAINTENANCE TAX

On November 2, 2004, the voters approved the levy and collection of a maintenance tax in an amount not to exceed \$0.10 per \$100 of assessed valuation of taxable property within the District for maintenance and operations of recreational facilities. As of May 31, 2014, a recreation maintenance tax has not been levied.

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. The District carries commercial insurance for its fidelity bonds and participates in the Texas Municipal League Intergovernmental Risk Pool ("TML") to provide general liability, auto liability, and errors and omission liability. The District, along with other participating entities, contributes annual amounts determined by TML's management. As claims arise they are submitted and paid by TML. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 399
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2014

NOTE 14. INTERFUND PAYABLES AND RECEIVABLES

As of May 31, 2014, the Debt Service Fund has recorded a payable of \$5,761 to the General Fund for maintenance tax collections. In addition, the General Fund has recorded a payable in the amount of \$63,800 to the Capital Projects Fund for an over transfer of surplus funds made in the prior fiscal year.

NOTE 15. SUBSEQUENT EVENT – BOND APPLICATION

On June 16, 2014, subsequent to year end, the District filed an application with the Commission to issue bonds in the amount of \$1,940,000. Proceeds from the bonds are to be used to reimburse a developer for construction and engineering costs of detention facilities and channel improvements to a Harris County Flood Control District Regional Facility and the purchase of additional capacity in the Wastewater Treatment Plant. Additional proceeds will be used to pay administration and issuance costs of the bonds. The application has not been approved as of the date of this report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 399

REQUIRED SUPPLEMENTARY INFORMATION

MAY 31, 2014

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 399
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED MAY 31, 2014

	<u>Original and Final Budget</u>	<u>Actual</u>	Variance Positive (Negative)
REVENUES			
Property Taxes	\$ 363,100	\$ 407,817	\$ 44,717
Water Service	182,000	196,993	14,993
Wastewater Service	175,000	182,270	7,270
Regional Water Authority Fee	80,000	84,943	4,943
Penalty and Interest	17,448	18,903	1,455
Tap Connection and Inspection Fees	23,125	52,900	29,775
Investment Revenues	6,500	5,625	(875)
Miscellaneous Revenues	<u>18,600</u>	<u>16,923</u>	<u>(1,677)</u>
TOTAL REVENUES	<u>\$ 865,773</u>	<u>\$ 966,374</u>	<u>\$ 100,601</u>
EXPENDITURES			
Services Operations:			
Professional Fees	\$ 70,000	\$ 125,131	\$ (55,131)
Contracted Services	359,390	283,841	75,549
Purchased Water Service	95,000	97,713	(2,713)
Purchased Wastewater Service	58,300	68,646	(10,346)
Regional Water Authority Assessment	80,000	74,779	5,221
Repairs and Maintenance	38,940	33,876	5,064
Other	80,720	89,063	(8,343)
Capital Outlay	<u> </u>	<u>234,552</u>	<u>(234,552)</u>
TOTAL EXPENDITURES	<u>\$ 782,350</u>	<u>\$ 1,007,601</u>	<u>\$ (225,251)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 83,423</u>	<u>\$ (41,227)</u>	<u>\$ (124,650)</u>
OTHER FINANCING SOURCES(USES)			
Developer Contributions	<u>\$ -0-</u>	<u>30,409</u>	<u>30,409</u>
NET CHANGE IN FUND BALANCE	<u>\$ 83,423</u>	<u>\$ (10,818)</u>	<u>\$ (94,241)</u>
FUND BALANCE - JUNE 1, 2013	<u>1,661,044</u>	<u>1,661,044</u>	<u> </u>
FUND BALANCE - MAY 31, 2014	<u>\$ 1,744,467</u>	<u>\$ 1,650,226</u>	<u>\$ (94,241)</u>

See accompanying independent auditor's report.

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HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 399

SUPPLEMENTARY INFORMATION – REQUIRED BY THE

WATER DISTRICT FINANCIAL MANAGEMENT GUIDE

MAY 31, 2014

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 399
SERVICES AND RATES
FOR THE YEAR ENDED MAY 31, 2014**

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

<u> X </u>	Retail Water	_____	Wholesale Water	<u> X </u>	Drainage
<u> X </u>	Retail Wastewater	_____	Wholesale Wastewater	_____	Irrigation
_____	Parks/Recreation	_____	Fire Protection	<u> X </u>	Security
<u> X </u>	Solid Waste/Garbage	_____	Flood Control	_____	Roads
_____	Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)				
<u> X </u>	Other (specify): _____				
_____	_____				

2. RETAIL SERVICE PROVIDERS

a. RETAIL RATES FOR A 5/8" METER (OR EQUIVALENT):

Based on the rate order effective April 15, 2014.

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate per 1,000 Gallons over Minimum Use	Usage Levels
WATER:	\$ 23.70	5,000	N	\$ 3.14 \$ 4.14	5,001 to 15,000 15,001 and up
WASTEWATER:	\$ 32.55		Y		
SURCHARGE:					
Solid Waste/Garbage Commission					
Regulatory Assessments					
Regional Water Authority Fees			N	\$ 1.90	per each 1,000
Other					

District employs winter averaging for wastewater usage? _____ X
Yes No

Total monthly charges per 10,000 gallons usage: Water: \$39.40 Wastewater: \$32.55 Surcharge: \$19.00 Total: \$90.95

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 399
SERVICES AND RATES
FOR THE YEAR ENDED MAY 31, 2014

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered			x 1.0	
≤¾"	506	496	x 1.0	496
1"	2	2	x 2.5	5
1½"			x 5.0	
2"	4	4	x 8.0	32
3"			x 15.0	
4"			x 25.0	
6"			x 50.0	
8"			x 80.0	
10"			x 115.0	
Total Water Connections	<u>512</u>	<u>502</u>		<u>533</u>
Total Wastewater Connections	<u>502</u>	<u>492</u>	x 1.0	<u>492</u>

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

Water Accountability Ratio: 98.9%
(Gallons billed and sold/Gallons pumped and purchased)

Gallons billed to customers: 44,143,000

Gallons purchased: 44,651,000

Harris County Municipal Utility District
No. 200

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 399
SERVICES AND RATES
FOR THE YEAR ENDED MAY 31, 2014

4. STANDBY FEES (authorized only under TWC Section 49.231):

Does the District have Debt Service standby fees? Yes No

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

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes No

County or Counties in which District is located:

Harris County, Texas

Is the District located within a city?

Entirely Partly Not at all

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, Texas.

Are Board Members appointed by an office outside the District?

Yes No

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 399
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED MAY 31, 2014

PROFESSIONAL FEES:	
Auditing	\$ 14,600
Engineering	50,735
Legal	<u>59,796</u>
TOTAL PROFESSIONAL FEES	<u>\$ 125,131</u>
PURCHASED SERVICES FOR RESALE:	
Purchased Water Service	\$ 97,713
Purchased Wastewater Service	<u>68,646</u>
TOTAL PURCHASED SERVICES FOR RESALE	<u>\$ 166,359</u>
CONTRACTED SERVICES:	
Bookkeeping	\$ 18,039
Operations and Billing	<u>37,049</u>
TOTAL CONTRACTED SERVICES	<u>\$ 55,088</u>
REPAIRS AND MAINTENANCE	<u>\$ 33,876</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 9,750
Insurance	2,810
Office Supplies and Postage	14,934
Payroll Taxes	746
Travel and Meetings	13,754
Regional Water Authority Assessment	74,779
Other	<u>10,668</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 127,441</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 399
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED MAY 31, 2014

CAPITAL OUTLAY:	
Capitalized Assets	\$ 234,552
Expenditures Not Capitalized	<u> </u>
TOTAL CAPITAL OUTLAY	<u>\$ 234,552</u>
TAP CONNECTIONS	<u>\$ 21,875</u>
SOLID WASTE DISPOSAL	<u>\$ 68,643</u>
SECURITY	<u>\$ 160,110</u>
OTHER EXPENDITURES:	
Laboratory Fees	\$ 6,800
Reconnection Fees	1,890
Inspection Fees	3,950
Regulatory Assessment	<u>1,886</u>
TOTAL OTHER EXPENDITURES	<u>\$ 14,526</u>
TOTAL EXPENDITURES	<u><u>\$ 1,007,601</u></u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 399
INVESTMENTS
MAY 31, 2014

Funds	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Accrued Interest Receivable at End of Year
<u>GENERAL FUND</u>					
Certificate of Deposit	XXXX9093	0.30%	12/29/14	\$ 120,000	\$ 115
Certificate of Deposit	XXXX9043	0.20%	12/30/14	120,000	57
Certificate of Deposit	XXXX8293	0.30%	12/31/14	120,000	149
Certificate of Deposit	XXXX5222	0.55%	07/06/14	240,000	853
Certificate of Deposit	XXXX1782	0.35%	03/03/15	100,000	52
Certificate of Deposit	XXXX1783	0.35%	03/31/15	100,000	25
Certificate of Deposit	XXXX8330	0.36%	06/22/14	100,000	245
Certificate of Deposit	XXXX9238	0.36%	08/04/14	100,000	201
Certificate of Deposit	XXXX0411	0.40%	09/05/14	100,000	189
Certificate of Deposit	XXXX1385	0.40%	10/05/14	100,000	190
Certificate of Deposit	XXXX0277	0.40%	11/25/14	120,000	200
Certificate of Deposit	XXXX7108	0.73%	02/21/15	120,000	238
Certificate of Deposit	XXXX0322	0.30%	01/15/15	120,000	98
TOTAL GENERAL FUND				<u>\$ 1,560,000</u>	<u>\$ 2,612</u>
<u>DEBT SERVICE FUND</u>					
Certificate of Deposit	XXXX3733	0.32%	08/18/14	\$ 200,000	\$ 177
Certificate of Deposit	XXXX1523	0.50%	02/24/15	190,000	250
Certificate of Deposit	XXXX2457	0.65%	02/20/15	240,000	427
TOTAL DEBT SERVICE FUND				<u>\$ 630,000</u>	<u>\$ 854</u>
TOTAL - ALL FUNDS				<u>\$ 2,190,000</u>	<u>\$ 3,466</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 399
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED MAY 31, 2014

	Maintenance Taxes		Debt Service Taxes	
TAXES RECEIVABLE -				
JUNE 1, 2013	\$	14,709	\$	10,599
Adjustments to Beginning				
Balance		<u>(746)</u>	\$	<u>10,006</u>
		\$	13,963	
Original 2013 Tax Levy	\$	310,285	\$	216,021
Adjustment to 2013 Tax Levy		<u>98,251</u>	<u>408,536</u>	<u>284,424</u>
TOTAL TO BE				
ACCOUNTED FOR		\$	422,499	\$
				294,430
TAX COLLECTIONS:				
Prior Years	\$	10,840	\$	7,659
Current Year		<u>396,977</u>	<u>407,817</u>	<u>284,035</u>
TAXES RECEIVABLE -				
MAY 31, 2014		<u>\$</u>	<u>14,682</u>	<u>\$</u>
				<u>10,395</u>
TAXES RECEIVABLE BY				
YEAR:				
2013	\$	11,559	\$	8,048
2012		1,612		1,122
2011		<u>1,511</u>		<u>1,225</u>
TOTAL		<u>\$</u>	<u>14,682</u>	<u>\$</u>
				<u>10,395</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 399
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED MAY 31, 2014

	2013	2012	2011	2010
PROPERTY VALUATIONS:				
Land	\$ 14,941,522	\$ 14,040,001	\$ 14,128,622	\$ 13,743,968
Improvements	37,202,817	34,455,567	33,207,693	31,653,977
Personal Property	1,055,736	937,634	984,445	984,910
Exemptions	(1,493,969)	(1,005,441)	(1,108,874)	(1,048,445)
TOTAL PROPERTY VALUATIONS	\$ 51,706,106	\$ 48,427,761	\$ 47,211,886	\$ 45,334,410
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.55	\$ 0.55	\$ 0.60	\$ 0.67
Maintenance	0.79	0.79	0.74	0.67
TOTAL TAX RATES PER \$100 VALUATION	\$ 1.34	\$ 1.34	\$ 1.34	\$ 1.34
ADJUSTED TAX LEVY*	\$ 692,960	\$ 648,983	\$ 632,667	\$ 607,506
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	97.17 %	99.58 %	99.57 %	100.00 %

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

Maximum Tax – Maximum tax rate of \$1.50 per \$100 of assessed valuation approved by voters on September 11, 2004.

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 399
LONG-TERM DEBT SERVICE REQUIREMENTS
MAY 31, 2014

S E R I E S - 2 0 0 7				
Due During Fiscal Years Ending May 31	Principal Due September 1	Interest Due September 1/ March 1	Total	
2015	\$ 55,000	\$ 92,644	\$	147,644
2016	60,000	88,906		148,906
2017	60,000	85,006		145,006
2018	65,000	81,309		146,309
2019	70,000	77,681		147,681
2020	70,000	73,919		143,919
2021	75,000	70,444		145,444
2022	80,000	67,150		147,150
2023	85,000	63,644		148,644
2024	90,000	59,925		149,925
2025	95,000	55,994		150,994
2026	100,000	51,850		151,850
2027	105,000	47,494		152,494
2028	110,000	42,925		152,925
2029	115,000	38,144		153,144
2030	120,000	33,150		153,150
2031	130,000	27,837		157,837
2032	135,000	22,207		157,207
2033	145,000	16,255		161,255
2034	150,000	9,988		159,988
2035	160,000	3,400		163,400
2036				
2037				
	\$ 2,075,000	\$ 1,109,872	\$	3,184,872

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 399
LONG-TERM DEBT SERVICE REQUIREMENTS
MAY 31, 2014

S E R I E S - 2 0 1 0				
Due During Fiscal Years Ending May 31	Principal Due September 1	Interest Due September 1/ March 1	Total	
2015	\$ 45,000	\$ 119,305	\$	164,305
2016	45,000	117,786		162,786
2017	50,000	116,061		166,061
2018	55,000	114,024		169,024
2019	55,000	111,783		166,783
2020	65,000	109,244		174,244
2021	65,000	106,416		171,416
2022	70,000	103,411		173,411
2023	75,000	100,111		175,111
2024	75,000	96,624		171,624
2025	80,000	92,941		172,941
2026	85,000	88,939		173,939
2027	90,000	84,606		174,606
2028	95,000	79,981		174,981
2029	100,000	75,106		175,106
2030	110,000	69,856		179,856
2031	110,000	64,288		174,288
2032	120,000	58,394		178,394
2033	120,000	52,169		172,169
2034	130,000	45,606		175,606
2035	135,000	38,566		173,566
2036	315,000	26,472		341,472
2037	335,000	9,003		344,003
	\$ 2,425,000	\$ 1,880,692	\$	4,305,692

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 399
LONG-TERM DEBT SERVICE REQUIREMENTS
MAY 31, 2014

ANNUAL REQUIREMENTS
FOR ALL SERIES

Due During Fiscal Years Ending May 31	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2015	\$ 100,000	\$ 211,949	\$ 311,949
2016	105,000	206,692	311,692
2017	110,000	201,067	311,067
2018	120,000	195,333	315,333
2019	125,000	189,464	314,464
2020	135,000	183,163	318,163
2021	140,000	176,860	316,860
2022	150,000	170,561	320,561
2023	160,000	163,755	323,755
2024	165,000	156,549	321,549
2025	175,000	148,935	323,935
2026	185,000	140,789	325,789
2027	195,000	132,100	327,100
2028	205,000	122,906	327,906
2029	215,000	113,250	328,250
2030	230,000	103,006	333,006
2031	240,000	92,125	332,125
2032	255,000	80,601	335,601
2033	265,000	68,424	333,424
2034	280,000	55,594	335,594
2035	295,000	41,966	336,966
2036	315,000	26,472	341,472
2037	335,000	9,003	344,003
	<u>\$ 4,500,000</u>	<u>\$ 2,990,564</u>	<u>\$ 7,490,564</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 399
CHANGE IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED MAY 31, 2014

Description	Original Bonds Issued	Bonds Outstanding June 1, 2013
Harris County Municipal Utility District No. 399 Unlimited Tax Bonds - Series 2007	\$ 2,300,000	\$ 2,125,000
Harris County Municipal Utility District No. 399 Unlimited Tax Bonds - Series 2010	<u>2,540,000</u>	<u>2,465,000</u>
TOTAL	<u><u>\$ 4,840,000</u></u>	<u><u>\$ 4,590,000</u></u>
 Bond Authority:	<u>Tax Bonds</u>	<u>Refunding Bonds</u>
Amount Authorized by Voters	\$ 44,625,000	\$ 44,625,000
Amount Issued	<u>4,840,000</u>	<u> </u>
Remaining to be Issued	<u><u>\$ 39,785,000</u></u>	<u><u>\$ 44,625,000</u></u>
	(1)	(1)
 Debt Service Fund cash and investment balances as of May 31, 2014:		<u><u>\$ 962,235</u></u>
 Average annual debt service payment (principal and interest) for remaining term of all debt:		<u><u>\$ 325,677</u></u>

See Note 3 for interest rate, interest payment dates and maturity dates.

* Includes all bonds secured with tax revenues. Bonds in this category may also be secured with other revenues in combination with taxes.

(1) Includes \$1,375,000 of voter authorized recreational facility bonds and \$1,375,000 of voter authorized recreational facility refunding bonds.

For interest rates, interest payment dates and maturity dates, see Note 3.

See accompanying independent auditor's report.

<u>Current Year Transactions</u>				
<u>Bonds Sold</u>	<u>Retirements</u>		<u>Bonds Outstanding May 31, 2014</u>	<u>Paying Agent</u>
	<u>Principal</u>	<u>Interest</u>		
\$	\$ 50,000	\$ 96,057	\$ 2,075,000	Wells Fargo Bank N.A. Houston, TX
	40,000	120,636	2,425,000	Wells Fargo Bank N.A. Houston, TX
<u>\$ - 0 -</u>	<u>\$ 90,000</u>	<u>\$ 216,693</u>	<u>\$ 4,500,000</u>	

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 399
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS

	Amounts		
	2014	2013	2012
REVENUES			
Property Taxes	\$ 407,817	\$ 371,346	\$ 349,115
Water Service	196,993	182,900	183,783
Wastewater Service	182,270	171,880	157,011
Regional Water Authority Fee	84,943	74,609	72,948
Penalty and Interest	18,903	17,189	16,838
Tap Connection and Inspection Fees	52,900	16,500	26,250
Investment Revenues	5,625	6,410	7,745
Miscellaneous Revenues	16,923	14,911	12,175
TOTAL REVENUES	\$ 966,374	\$ 855,745	\$ 825,865
EXPENDITURES			
Professional Fees	\$ 125,131	\$ 73,920	\$ 61,541
Contracted Services	283,841	338,005	273,437
Purchased Water Service	97,713	93,978	103,989
Purchased Wastewater Service	68,646	56,588	49,722
Regional Water Authority Assessment	74,779	68,038	73,360
Repairs and Maintenance	33,876	40,186	24,651
Other	89,063	68,678	71,803
Capital Outlay	234,552	23,468	
TOTAL EXPENDITURES	\$ 1,007,601	\$ 762,861	\$ 658,503
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (41,227)	\$ 92,884	\$ 167,362
OTHER FINANCING SOURCES (USES)			
Transfers In(Out)	\$	\$	\$
Developer Contributions	30,409	220,703	
TOTAL OTHER FINANCING SOURCES (USES)	\$ 30,409	\$ 220,703	\$ - 0 -
NET CHANGE IN FUND BALANCE	\$ (10,818)	\$ 313,587	\$ 167,362
BEGINNING FUND BALANCE	1,661,044	1,347,457	1,180,095
ENDING FUND BALANCE	\$ 1,650,226	\$ 1,661,044	\$ 1,347,457

See accompanying independent auditor's report.

		Percentage of Total Revenue				
2011	2010	2014	2013	2012	2011	2010
\$ 310,813	\$ 301,531	42.1 %	43.4 %	42.3 %	43.1 %	42.9 %
162,567	143,773	20.3	21.4	22.3	22.5	20.5
146,665	142,243	18.9	20.1	19.0	20.3	20.2
58,270	45,883	8.8	8.7	8.8	8.1	6.5
15,060	14,989	2.0	2.0	2.0	2.1	2.1
9,450	30,450	5.5	1.9	3.2	1.4	4.4
6,128	7,821	0.6	0.8	0.9	0.8	1.1
12,348	15,883	1.8	1.7	1.5	1.7	2.3
<u>\$ 721,301</u>	<u>\$ 702,573</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 75,147	\$ 84,886	12.9 %	8.6 %	7.5 %	10.4 %	12.1 %
173,541	78,908	29.4	39.5	33.1	24.1	11.2
86,875	67,693	10.1	11.0	12.6	12.0	9.6
108,987	52,275	7.1	6.6	6.0	15.1	7.4
59,551	43,284	7.7	8.0	8.9	8.3	6.2
10,341	38,746	3.5	4.7	3.0	1.4	5.5
65,658	84,931	9.2	8.0	8.7	9.0	12.1
	63,929	24.3	2.7			9.1
<u>\$ 580,100</u>	<u>\$ 514,652</u>	<u>104.2 %</u>	<u>89.1 %</u>	<u>79.8 %</u>	<u>80.3 %</u>	<u>73.2 %</u>
<u>\$ 141,201</u>	<u>\$ 187,921</u>	<u>(4.2) %</u>	<u>10.9 %</u>	<u>20.2 %</u>	<u>19.7 %</u>	<u>26.8 %</u>
\$ 214,405	\$					
<u>\$ 214,405</u>	<u>\$ - 0 -</u>					
\$ 355,606	\$ 187,921					
<u>824,489</u>	<u>636,568</u>					
<u>\$ 1,180,095</u>	<u>\$ 824,489</u>					

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 399
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FIVE YEARS

	Amounts		
	2014	2013	2012
REVENUES			
Property Taxes	\$ 284,035	\$ 258,840	\$ 283,475
Penalty and Interest	8,033	2,116	2,468
Interest on Investments	3,029	5,077	7,108
Miscellaneous Revenues	8	8	762
TOTAL REVENUES	\$ 295,105	\$ 266,041	\$ 293,813
EXPENDITURES			
Tax Collection Expenditures	\$ 18,344	\$ 14,569	\$ 15,339
Debt Service Principal	90,000	85,000	80,000
Debt Service Interest and Fees	217,693	221,980	226,530
TOTAL EXPENDITURES	\$ 326,037	\$ 321,549	\$ 321,869
NET CHANGE IN FUND BALANCE	\$ (30,932)	\$ (55,508)	\$ (28,056)
BEGINNING FUND BALANCE	987,973	1,043,481	1,071,537
ENDING FUND BALANCE	\$ 957,041	\$ 987,973	\$ 1,043,481
TOTAL ACTIVE RETAIL WATER CONNECTIONS	502	470	440
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	492	459	430

See accompanying independent auditor's report.

		Percentage of Total Revenue				
2011	2010	2014	2013	2012	2011	2010
\$ 311,587	\$ 332,806	96.3 %	97.3 %	96.5 %	94.0 %	92.9 %
6,533	13,647	2.7	0.8	0.8	2.0	3.8
9,086	11,952	1.0	1.9	2.4	2.7	3.3
4,314	20			0.3	1.3	
<u>\$ 331,520</u>	<u>\$ 358,425</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 18,855	\$ 20,049	6.2 %	5.5 %	5.2 %	5.7 %	5.6 %
45,000	40,000	30.5	31.9	27.2	13.6	11.2
<u>211,986</u>	<u>108,256</u>	<u>73.8</u>	<u>83.4</u>	<u>77.1</u>	<u>63.9</u>	<u>30.2</u>
<u>\$ 275,841</u>	<u>\$ 168,305</u>	<u>110.5 %</u>	<u>120.8 %</u>	<u>109.5 %</u>	<u>83.2 %</u>	<u>47.0 %</u>
\$ 55,679	\$ 190,120	<u>(10.5) %</u>	<u>(20.8) %</u>	<u>(9.5) %</u>	<u>16.8 %</u>	<u>53.0 %</u>
<u>1,015,858</u>	<u>825,738</u>					
<u>\$ 1,071,537</u>	<u>\$ 1,015,858</u>					
<u>407</u>	<u>396</u>					
<u>397</u>	<u>387</u>					

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 399
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
MAY 31, 2014

District Mailing Address - Harris County Municipal Utility District No. 399
c/o Schwartz, Page & Harding, L.L.P.
1300 Post Oak Blvd., Suite 1400
Houston, TX 77056-3078

District Telephone Number - (713) 623-4531

Board Members	Term of Office (Elected or <u>Appointed</u>)	Fees of Office for the year ended <u>May 31, 2014</u>	Expense Reimbursements for the year ended <u>May 31, 2014</u>	<u>Title</u>
Alan L’Roy	05/12 - 05/16 (Elected)	\$ 2,400	\$ 2,245	President
Jesse J. Vela	05/12 - 05/16 (Elected)	\$ -0-	\$ 2,595	Vice President
Kenneth M. Richardson	05/12 - 05/16 (Elected)	\$ 3,300	\$ 3,119	Secretary
Paul Hernandez	05/14 - 05/18 (Appointed)	\$ 150	\$ -0-	Assistant Secretary
Darrell Kelsoe	05/14 - 05/18 (Elected)	\$ 2,400	\$ 2,557	Assistant Secretary

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

The submission date of the most recent District Registration Form was (TWC Sections 36.054 and 49.054): May 20, 2014.

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by Board Resolution (TWC Section 49.060) on July 12, 2004. Fees of Office are the amounts actually paid to a Director during the District’s current fiscal year.

See accompanying independent auditor’s report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 399
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
MAY 31, 2014

Consultants:	<u>Date Hired</u>	<u>Fees for the year ended May 31, 2014</u>	<u>Title</u>
Schwartz, Page & Harding, L.L.P.	07/12/04	\$ 65,742	Attorney
McCall Gibson Swedlund Barfoot PLLC	06/20/06	\$ 14,600	Auditor
Municipal Accounts & Consulting, L.P.	03/15/11	\$ 22,355	Bookkeeper
Perdue, Brandon, Fielder, Collins & Mott, LLP	03/15/05	\$ 3,674	Delinquent Tax Attorney
Edminster, Hinshaw, Russ & Associates, Inc.	07/12/04	\$ 50,224	Engineer
Rathmann & Associates, L.P.	08/17/04	\$ -0-	Financial Advisor
Mark Burton	03/15/11	\$ -0-	Investment Officer
Municipal Operations & Consulting, Inc.	08/17/04	\$ 148,223	Operator
Assessments of the Southwest, Inc.	08/17/04	\$ 8,346	Tax Assessor/ Collector

See accompanying independent auditor's report.

McCALL GIBSON SWEDLUND BARFOOT PLLC

Certified Public Accountants

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E-Mail: mgsb@mgsbpllc.com

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September 16, 2014

Board of Directors
Harris County Municipal
Utility District No. 399
Harris County, Texas

In planning and performing our audit of the financial statements of Harris County Municipal Utility District No. 399 (the "District") as of and for the year ended May 31, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements of the District's financial statements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Last year, and again this year, we observed the following deficiencies in the District's internal control that we consider to be material weaknesses.

Material Weaknesses

The District's management consists of an elected Board of Directors (the "Directors"). In most cases the day-to-day operations are performed by private companies ("Consultants") under contract with the District. The Directors of the District supervise the performance of the Consultants; however, although the Consultants can be part of the District's system of internal control, the Consultants are not members of management. Ultimately, the Directors of the District are responsible for the design and implementation of the system of internal control.

As is common within the system of internal control of most small organizations, the accounting function of the District does not include preparation of the financial statements complete with footnotes in accordance with accounting principles generally accepted in the United States of America. Accordingly, the District has not established internal controls over the preparation of its financial statements. This condition is considered to be a material weakness of the District's system of internal control over financial reporting.

During the course of performing an audit, the auditor prepares various journal entries to present the financial statements on the government-wide basis of accounting. Management's reliance upon the auditor to detect and make these necessary adjustments is considered to be a material weakness in internal control. Auditing standards do not make exceptions for reporting deficiencies that are adequately mitigated with nonaudit services rendered by the auditor or deficiencies for which the remedy would be cost prohibitive.

We agree with the objective of auditing standards to inform an organization of all the conditions in its internal control that interfere with its ability to record financial data reliably and issue financial statements free of material misstatement. Communication of the material weaknesses above helps to emphasize that the responsibility for financial reporting rests entirely with the organization and not the auditor.

Management's Response

The District responds that the auditor's Management Letter, and the material weaknesses, significant deficiencies, and/or the control deficiencies identified therein, are prepared in response to Statement on Accounting Standards No. 115 ("SAS 115"), and are not prompted by any other circumstances identified during the course of the audit and disclosed to the District's Board of Directors ("Board").

Management's Response (Continued)

As you know, the Board has, since inception of the District, engaged the auditor to perform the District's audit and to prepare the financial statements and capital asset and depreciation schedules upon which the audit is based. It is our understanding that this is the usual and customary practice for smaller special districts in Texas, as it is more cost effective to engage consultants to perform such services than to employ persons (who would constitute district management) to perform same. It is also the Board's understanding that, under the requirements of SAS 115, the engagement of the auditor to perform these services resulted in the Management Letter because (1) the Board members are not able to prevent, detect, and correct a misstatement in the preparation of the District's financial statements, and (2) the Board has not implemented controls to prevent, detect, and correct a misstatement in the preparation of the District's financial statements, such as the hiring of an employee or the engagement of another consultant to prepare the District's financial statements and capital asset and depreciation schedules.

With respect to items (1) and (2) identified above, the Board responds that its members are appointed or elected in accordance with the requirements set forth in the Texas Water Code, and that such members do not necessarily have the ability to prevent, detect, and correct a misstatement in the preparation of the District's financial statements.

Further, the Board responds that it is a small government unit and that it engages the auditor based upon the auditor's professional qualifications, and in light of such qualifications, does not feel that the addition at this time of an employee or the engagement of a consultant to prepare the District's financial statements and capital asset and depreciation schedules (as a form of control) would be cost effective. Additionally, the Board adds that the District does not have any employees, but rather engages consultants who possess industry knowledge and expertise to provide financial services, including its bookkeeper, auditor, and financial advisor, as well as consultants that provide legal, engineering, and operation and maintenance services. In particular, the District's bookkeeper presents periodic financial information (unaudited) to the Board for review, which information generally reflects income, disbursements, adjustments, and the status of investments relative to the District's various accounts.

Conclusion

Management's written response to the material weaknesses identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, Board of Directors and the Texas Commission on Environmental Quality and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants



Financial Advisor to the District