OFFICIAL STATEMENT DATED MAY 8, 2013

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

The Bonds have been designated "Qualified Tax Exempt Obligations" for financial institutions. See "TAX MATTERS—Qualified Tax-Exempt Obligations."

NEW ISSUE – Book Entry Only

Rating – Standard & Poor's: "AA" (stable outlook)
See "MUNICIPAL BOND RATING" and
"MUNICIPAL BOND INSURANCE" herein.

$6,935,000

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 372
(A political subdivision of the State of Texas located within Harris County)

UNLIMITED TAX REFUNDING BONDS SERIES 2013

The bonds described above (the "Bonds") are obligations solely of Harris County Municipal Utility District No. 372 (the "District") and are not obligations of the State of Texas, Harris County, the City of Houston or any entity other than the District.

Interest accrues from: June 1, 2013 — Due: September 1, as shown below

Principal of the Bonds is payable at maturity or prior redemption at the principal payment office of the paying agent/registrar, initially The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Paying Agent/Registrar") upon surrender of the Bonds for payment. Interest on the Bonds accrues from June 1, 2013, and is payable each September 1 and March 1, commencing September 1, 2013, until maturity or prior redemption. The Bonds will be issued only in fully registered form in denominations of $5,000 each or integral multiples thereof. The Bonds are subject to redemption prior to their maturity, as shown below.

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

BAM BUILD AMERICA MUTUAL

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

MATURITY SCHEDULE

Principal Amount	Maturity (September 1)	CUSIP Number(b)	Interest Rate	Initial Reoffering Yield(a)	Principal Amount	Maturity (September 1)	CUSIP Number(b)	Interest Rate	Initial Reoffering Yield(a)
$ 555,000	2014	41421P EB1	2.000 %	0.550 %	$ 635,000	2020	41421P EH8	3.000 %	1.600 %
565,000	2015	41421P EC9	2.000	0.740	660,000	2021 (c)	41421P EJ4	3.000	1.800
580,000	2016	41421P ED7	2.000	0.920	680,000	2022 (c)	41421P EK1	3.000	2.000
595,000	2017	41421P EE5	2.000	1.050	705,000	2023 (c)	41421P EL9	3.000	2.120
605,000	2018	41421P EF2	2.000	1.250	735,000	2024 (c)	41421P EM7	3.500	2.220
620,000	2019	41421P EG0	2.000	1.400					

(a) Initial yield represents the initial offering yield to the public which has been established by the Underwriter (as herein defined) for offers to the public and which may be subsequently changed by the Underwriter and is the sole responsibility of the Underwriter. The initial yields indicated above represent the lower of the yields resulting when priced to maturity or to the first call date. Accrued interest from June 1, 2013 to the date fixed for delivery is to be added to the price.

(b) CUSIP numbers have been assigned to the Bonds by CUSIP Service Bureau and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Underwriter shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

(c) Bonds maturing on or after September 1, 2021, are subject to redemption prior to maturity at the option of the District, in whole or from time-to-time in part, on September 1, 2020, or on any date thereafter, at a price equal to the par value thereof plus accrued interest from the most recent Interest Payment Date to the date fixed for redemption. See "THE BONDS—Redemption Provisions."

The Bonds, when issued, will constitute valid and legally binding obligations of the District. THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS DESCRIBED HEREIN. Bond purchasers are encouraged to read this OFFICIAL STATEMENT prior to making an investment decision. The proceeds of the Bonds will be applied, together with lawfully available funds of the District, to refund certain outstanding bonds of the District and to pay certain costs in connection with the issuance of the Bonds in order to achieve gross and net present values savings. See "PLAN OF FINANCING."

The Bonds are offered by the Underwriter subject to prior sale, when, as and if issued by the District and accepted by the Underwriter, subject, among other things, to the approval of the initial Bonds by the Attorney General of Texas and the approval of certain legal matters by Allen Boone Humphries Robinson LLP, Bond Counsel. Certain other legal matters will be passed upon, on behalf of the Underwriter, by Fulbright & Jaworski L.L.P., Houston, Texas. Delivery of the Bonds is expected on or about June 6, 2013.

BOSC, Inc.
A Subsidiary of BOK Financial Corporation

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

TABLE OF CONTENTS

USE OF INFORMATION IN OFFICIAL STATEMENT

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

This OFFICIAL STATEMENT is not to be used in 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, orders, contracts, audited financial statements, 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 Allen Boone Humphries Robinson LLP, 3200 Southwest Freeway, Suite 2600, Houston, Texas, 77027-7528 upon payment of the costs of duplication therefor.

This OFFICIAL STATEMENT contains, in part, estimates, assumptions and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions or matters of opinion, or as to the likelihood that they will be realized. Any information and expressions of opinion herein contained are subject to change without notice and neither the delivery of this OFFICIAL STATEMENT nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or 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 (as herein defined) and thereafter only as specified in "PREPARATION OF THE OFFICIAL STATEMENT—Updating the Official Statement" and "CONTINUING DISCLOSURE OF INFORMATION."

The Underwriter has reviewed the information in this official statement pursuant to its responsibilities to investors under the federal securities laws, but the Underwriter does not guarantee the accuracy or completeness of such information.

SALE AND DISTRIBUTION OF THE BONDS

The Underwriter

The Bonds are being purchased by BOSC, Inc. (the "Underwriter") pursuant to a bond purchase agreement with the District (the "Bond Purchase Agreement") at a price of $7,243,154.35 (representing the par amount of the Bonds of $6,935,000.00, plus a net premium on the Bonds of $377,504.35, less an Underwriter's discount of $69,350.00) plus accrued interest. The Underwriter's obligation is to purchase all of the Bonds, if any are purchased. See "PLAN OF FINANCING—Sources and Uses of Funds."

The Underwriter is BOSC, Inc., which is not a bank, and the Bonds are not deposits of any bank and are not insured by the Federal Deposit Insurance Corporation.

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 has been sold to the public. For this purpose, the term "public" shall not include any person who is a bond house, broker or similar person acting in the capacity of underwriter or wholesaler. Otherwise, the District has no understanding with the Underwriter regarding the reoffering yields or prices of the Bonds. Information concerning reoffering yields or prices is the responsibility of the Underwriter.

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

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

Securities Laws

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

OFFICIAL STATEMENT SUMMARY

The following is a brief summary of certain information contained herein which is qualified in its entirety by the detailed information and financial statements appearing elsewhere in this OFFICIAL STATEMENT. The summary should not be detached and should be used in conjunction with more complete information contained herein. A full review should be made of the entire Official Statement and of the documents summarized or described therein.

THE DISTRICT

Description... The District is a political subdivision of the State of Texas, created by order of the Texas Natural Resource Conservation Commission, predecessor to the Texas Commission on Environmental Quality ("TCEQ"), on November 5, 1999, and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. The District consists of approximately 492 acres of land. See "THE DISTRICT."

Location... The District is located approximately 16 miles west of the central downtown business district of the City of Houston and lies wholly within the corporate limits of the City of Houston and within the boundaries of the Alief Independent School District. The District is located north of Alief-Clodine Road, south of Westheimer Road, approximately one mile west of Sam Houston Tollway and approximately five miles east of Texas State Highway 6. Richmond Boulevard bisects the District east to west. See "THE DISTRICT—Description and Location."

Development... The District has been developed as Royal Oaks Country Club ("Royal Oaks"), a private, gated, luxury single-family residential project around an 18-hole, championship, Fred Couples signature golf course (7,007 yards, par 72) and a 40,000 square foot club-house. Development consists of 875 single-family residential lots on approximately 286 acres. The golf course is part of a private, members-only club, which also includes an 11,000 square foot sports clubhouse, a swimming pool, a fitness center, tennis courts and a stadium court. Royal Oaks has a homeowners' association which owns, operates and maintains the streets, community recreation areas and landscaped common areas, as well as three private automobile and golf cart bridges over major thoroughfares. In addition to the single-family residential and recreational development, there are approximately 7 acres of commercial reserves within the District boundaries. There are no undeveloped acres within the District.

As of March 2, 2013, 875 single-family residential lots have been constructed and paved, a total of 827 homes were complete (817 occupied), 2 custom homes were under construction, and 46 lots were available for construction. Homes within the District range in market value from approximately $350,000 to in excess of $2,900,000. See "THE DISTRICT—Land Use—Status of Development."

Payment Record... The District has previously issued three series of unlimited tax bonds and two series of unlimited tax refunding bonds, of which $11,690,000 in principal amount of bonds remains outstanding (the "Outstanding Bonds").

THE BONDS

Description...	$6,935,000 Unlimited Tax Refunding Bonds, Series 2013 (the "Bonds") mature serially on September 1 in the years 2014 through 2024, both inclusive, in the principal amounts set forth on the cover page hereof. Interest accrues from June 1, 2013, at the rates per annum set forth on the cover page hereof, and is payable September 1, 2013, and each March 1 and September 1 thereafter, until stated maturity or prior redemption. The Bonds will be issued pursuant to a resolution authorizing the issuance of the Bonds adopted by the Board (the "Bond Resolution"), in fully registered form only, in denominations of $5,000 or any integral multiple of $5,000. See "THE BONDS—Description."
Book-Entry-Only System…	The Depository Trust Company (defined as "DTC"), New York, New York, 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 and will be deposited with DTC. See "BOOK-ENTRY-ONLY SYSTEM."
Redemption...	Bonds maturing on or after September 1, 2021 are subject to redemption at the option of the District prior to their maturity dates on September 1, 2020, or on any date thereafter at a price of par plus unpaid accrued interest from the most recent Interest Payment Date to the date fixed for redemption. See "THE BONDS—Redemption Provisions."
Use of Proceeds...	Proceeds from the sale of the Bonds, together with available debt service funds, will be used to pay certain costs incurred in connection with the issuance of the Bonds and to currently refund $7,000,000 of the Outstanding Bonds in order to achieve net savings in the District's annual debt service expense. The bonds to be refunded and discharged with Bond proceeds are referred to herein as the "Refunded Bonds." After the issuance of the Bonds, $4,690,000 principal amount of the Outstanding Bonds will remain outstanding (the "Remaining Outstanding Bonds"). See "PLAN OF FINANCING."
Authority for Issuance...	The Bonds are the third series of bonds issued out of an aggregate of $24,000,000 principal amount of unlimited tax bonds authorized by the District's voters for the purpose of refunding outstanding bonds of the District. The Bonds are issued by the District pursuant to the terms and conditions of the Bond Resolution, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, Chapter 1207 of the Texas Government Code, City of Houston Ordinance No. 97-416, an election held within the District and general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas. See "THE BONDS—Authority for Issuance" "—Issuance of Additional Debt" and "INVESTMENT CONSIDERATIONS—Future Debt."
Source of Payment...	Principal of and interest on the Bonds are payable from the proceeds of a continuing, direct, annual ad valorem tax, without legal limitation as to rate or amount, levied against taxable property within the District. The Bonds are obligations of the District and are not obligations of the City of Houston, Harris County, the State of Texas or any entity other than the District. See "THE BONDS—Source of Payment."
Municipal Bond Rating and Municipal Bond Insurance...	Standard & Poor's Rating Services, a Standard & Poor's Financial Services LLC business ("S&P"), is expected to assign its municipal bond rating of "AA" (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by BUILD AMERICA MUTUAL ASSURANCE COMPANY ("BAM" or the "Insurer"). S&P has also assigned an underlying credit rating of "A+" (stable outlook) to the Bonds. See "INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance," "MUNICIPAL BOND INSURANCE," "MUNICIPAL BOND RATING," and "APPENDIX B."
Qualified Tax-Exempt Obligations...	The District will designate the Bonds as "qualified tax-exempt obligations" pursuant to Section 265(b) of the Internal Revenue Code of 1986, as amended, and will represent that the total amount of tax-exempt bonds (including the Bonds) issued by it during calendar year 2013 is not expected to exceed $10,000,000 and that it will not designate more than $10,000,000 of qualified tax-exempt obligations during calendar year 2013. See "TAX MATTERS—Qualified Tax-Exempt Obligations."

Bond Counsel...	Allen Boone Humphries Robinson LLP, Houston, Texas. See "MANAGEMENT OF THE DISTRICT," "LEGAL MATTERS" and "TAX MATTERS."
Financial Advisor...	First Southwest Company, Houston, Texas. See "MANAGEMENT OF THE DISTRICT."
Underwriter's Counsel...	Fulbright & Jaworski L.L.P., Houston, Texas.
Paying Agent/Registrar...	The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. See "THE BONDS—Method of Payment of Principal and Interest."
Verification Agent...	Grant Thornton LLP, Minneapolis Minnesota. See "VERIFICATION OF MATHEMATICAL CALCULATIONS."

INVESTMENT CONSIDERATIONS

The purchase and ownership of the Bonds are subject to special investment considerations and all prospective purchasers are urged to examine carefully this entire Official Statement with respect to the investment security of the Bonds, including particularly the section captioned "INVESTMENT CONSIDERATIONS."

SELECTED FINANCIAL INFORMATION (UNAUDITED)

2012 Taxable Assessed Valuation	$683,269,501	(a)
Gross Direct Debt Outstanding	$11,625,000	(b)
Estimated Overlapping Debt	35,948,017	(c)
Gross Direct Debt and Estimated Overlapping Debt	$47,573,017	
Ratios of Gross Direct Debt to:		
2012 Taxable Assessed Valuation	1.70%	
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:		
2012 Taxable Assessed Valuation	6.96%	
Debt Service Fund Balance as of March 25, 2013	$1,857,417	(d)
Operating Funds Balance as of March 25, 2013	$2,767,822	
2012 Debt Service Tax Rate	$0.18	
2012 Maintenance Tax Rate	0.01	
Total 2012 Total Tax Rate	$0.19	
Average Annual Debt Service Requirement (2014-2024)	$1,159,391	(e)
Maximum Annual Debt Service Requirement (2014)	$1,222,055	(e)
Tax Rates Required to Pay Average Annual Debt Service (2014-2024) at a 95% Collection Rate		
Based upon 2012 Taxable Assessed Valuation	$0.18	
Tax Rates Required to Pay Maximum Annual Debt Service (2014) at a 95% Collection Rate		
Based upon 2012 Taxable Assessed Valuation	$0.19	
Status of Development as of March 2, 2013 (f):		
Homes Completed (817 occupied)	827	
Homes Under Construction	2	
Vacant Developed Lots	46	
Estimated Population	2,859	(g)

(a) As certified by the Harris County Appraisal District (the "Appraisal District"). See "TAXING PROCEDURES."

(b) After the issuance of the Bonds. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements."

(c) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt—Overlapping Taxes."

(d) The District will contribute $100,000 from the Debt Service Fund toward the purpose for which the Bonds are being sold. See "PLAN OF FINANCING—Sources and Uses of Funds."

(e) See "PLAN OF FINANCING—Debt Service Requirements."

(f) See "THE DISTRICT—Status of Development."

(g) Based upon 3.5 persons per occupied single-family residence.

OFFICIAL STATEMENT

$6,935,000

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 372
(A political subdivision of the State of Texas located within Harris County)

UNLIMITED TAX REFUNDING BONDS
SERIES 2013

This Official Statement provides certain information in connection with the issuance by Harris County Municipal Utility District No. 372 (the “District”) of its $6,935,000 Unlimited Tax Refunding Bonds, Series 2013 (the “Bonds”).

The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, Chapter 1207 of the Texas Government Code, as amended, City of Houston Ordinance No. 97-416, the general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas, an election held within the District and a resolution authorizing the issuance of the Bonds (the "Bond Resolution") adopted by the Board of Directors of the District (the "Board").

This Official Statement includes descriptions, among others, of the Bonds and the Bond Resolution, and certain other information about the District and development activity in the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of documents may be obtained from Allen Boone Humphries Robinson LLP, Bond Counsel, 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027.

PLAN OF FINANCING

Purpose

At an election held on January 15, 2000, voters of the District authorized the issuance of $40,000,000 principal amount of unlimited tax bonds for the purpose of purchasing and constructing water supply and distribution, wastewater collection and treatment and storm drainage systems in the District, and $24,000,000 principal amount of unlimited tax refunding bonds for the purpose of refunding outstanding bonds of the District. See “THE BONDS—Issuance of Additional Debt.” The District has previously issued $17,715,000 principal amount of unlimited tax bonds for the purpose of purchasing and constructing water supply and distribution, wastewater collection and treatment, and storm drainage facilities in the District and $12,800,000 principal amount of unlimited tax refunding bonds. The District currently has $11,690,000 principal amount of its bonds outstanding (the “Outstanding Bonds”).

The proceeds of the Bonds and lawfully available debt service funds are being used to currently refund and defease a portion of the District’s Unlimited Tax Refunding Bonds, Series 2005 totaling $7,000,000 (the “Refunded Bonds”) in order to achieve a net savings in the District’s debt service expense. The proceeds will also be used to pay the costs of issuance of the Bonds. See “Sources and Uses of Funds.” A total of $4,690,000 in principal amount of the Outstanding Bonds will remain outstanding after the issuance of the Bonds (the “Remaining Outstanding Bonds”).

Outstanding Bonds

The following table lists the original principal amount of Outstanding Bonds, and the current principal balance of the Outstanding Bonds, the Refunded Bonds and the Remaining Outstanding Bonds.

Series	Original Princpal Amount	Principal Currently Outstanding	Refunded Bonds	Remaining Outstanding Bonds
2000	$ 9,980,000	$ -	$ -	$ -
2001	4,360,000	200,000	-	200,000
2003	3,375,000	320,000	-	320,000
2005 (a)	9,110,000	7,480,000	7,000,000	480,000
2012 (a)	3,690,000	3,690,000	-	3,690,000
Total	$ 30,515,000	$ 11,690,000	$ 7,000,000	$ 4,690,000
The Bonds				6,935,000
The Bonds and Remaining Outstanding Bonds				$ 11,625,000

(a) Refunding Bonds.

Refunded Bonds

Proceeds of the Bonds will be applied to currently refund the Refunded Bonds in the principal amounts and with maturity dates set forth below and to pay certain costs of issuing the Bonds.

Maturity Date September 1	Series 2005
2014	$ 505,000
2015	525,000
2016	550,000
2017	575,000
2018	600,000
2019	630,000
2020	655,000
2021	690,000
2022	720,000
2023	755,000
2024	795,000
	$ 7,000,000

Redemption Date: September 1, 2013

Sources and Uses of Funds

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

Sources of Funds:	
Principal Amount of the Bonds	$6,935,000.00
Plus: Net Premium on the Bonds	377,504.35
Plus: Transfer from Debt Service Fund	100,000.00
Total Sources of Funds	$7,412,502.35
Uses of Funds:	
Deposit to Redemption Fund	$7,146,460.32
Issuance Expenses and Underwriter's Discount (a)	266,044.03
Total Uses of Funds	$7,412,504.35

(a) Includes municipal bond insurance premium.

Defeasance of Refunded Bonds

The Refunded Bonds, and the interest due thereon, are to be paid on each principal or Interest Payment Date and on the redemption date from funds to be deposited with The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, as escrow agent (the "Escrow Agent").

The Bond Resolution provides that the District and the Escrow Agent will enter into an escrow agreement (the "Escrow Agreement") to provide for the discharge and defeasance of the Refunded Bonds. The Bond Resolution further provides that from the proceeds of the sale of the Bonds, the District will deposit with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Refunded Bonds. Such funds will be held by the Escrow Agent in a segregated escrow account (the "Escrow Fund") and used to purchase United States Treasury Obligations (the "Escrowed Securities"). At the time of delivery of the Bonds, Grant Thornton, LLP, will verify to the District, the Escrow Agent and the Underwriter that the Escrowed Securities are sufficient in principal amount and are scheduled to mature at such times and to yield interest in such amounts, together with uninvested funds, if any, in the Escrow Fund, to pay, when due, the principal of and interest on the Refunded Bonds. Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Bonds and will not be available to pay principal of and interest on the Bonds. By the deposit of the Escrowed Securities and cash, if any, with the Escrow Agent pursuant to the Escrow Agreement, and the making of irrevocable arrangements for the giving of notice of redemption of the Refunded Bonds, the terms of the prior orders of the District securing payment of the Refunded Bonds shall have been satisfied and such Refunded Bonds will no longer be considered outstanding except for the payment out of amounts so deposited, and the amounts so deposited and invested in the Escrow Fund will constitute firm banking arrangements under Texas law for the discharge and final payment of the Refunded Bonds. See "VERIFICATION OF MATHEMATICAL CALCULATIONS."

Debt Service Requirements

The following sets forth the debt service requirements for the Outstanding Bonds, less the debt service on the Refunded Bonds ($7,000,000 principal amount), plus the debt service on the Bonds.

Year	Outstanding Bonds Debt Service Requirements	Less: Debt Service on the Refunded Bonds	Plus: Debt Service on the Bonds Principal	Interest	Total	Debt Service Requirements
2013	$ 1,073,650.00 (a)	$ 146,800.00		$ 44,131.25	$ 44,131.25	$ 970,981.25
2014	1,289,130.00	798,600.00	$ 555,000.00	176,525.00	731,525.00	1,222,055.00
2015	1,274,050.00	798,400.00	565,000.00	165,425.00	730,425.00	1,206,075.00
2016	1,265,750.00	802,400.00	580,000.00	154,125.00	734,125.00	1,197,475.00
2017	1,252,950.00	805,400.00	595,000.00	142,525.00	737,525.00	1,185,075.00
2018	1,239,300.00	807,400.00	605,000.00	130,625.00	735,625.00	1,167,525.00
2019	1,229,200.00	812,800.00	620,000.00	118,525.00	738,525.00	1,154,925.00
2020	1,215,665.00	811,340.00	635,000.00	106,125.00	741,125.00	1,145,450.00
2021	1,206,080.00	818,830.00	660,000.00	87,075.00	747,075.00	1,134,325.00
2022	1,194,510.00	819,160.00	680,000.00	67,275.00	747,275.00	1,122,625.00
2023	1,181,650.00	823,200.00	705,000.00	46,875.00	751,875.00	1,110,325.00
2024	1,176,705.00	829,980.00	735,000.00	25,725.00	760,725.00	1,107,450.00
Total	$ 14,598,640.00	$ 9,074,310.00	$ 6,935,000.00	$ 1,264,956.25	$ 8,199,956.25	$ 13,724,286.25

(a) Excludes the March 1, 2013 payment in the amount of $223,650.

Maximum Annual Debt Service Requirement (2014)....................$1,222,055
Average Annual Debt Service Requirements (2014-2024)....................$1,159,391

THE BONDS

Description

The Bonds will be dated and accrue interest from June 1, 2013, with interest payable each September 1 and March 1, beginning September 1, 2013 (the "Interest Payment Date"), and will mature on the dates and in the amounts and accrue interest at the rates shown on the cover page hereof. The Bonds are issued in fully registered form, in denominations of $5,000 or any integral multiple of $5,000. Interest calculations are based on a 360-day year comprised of twelve 30-day months.

Method of Payment of Principal and Interest

In the Bond Resolution, the Board has appointed The Bank of New York Mellon Trust Company, N.A., in Dallas, Texas as the initial Paying Agent/Registrar for the Bonds. The principal of the Bonds shall be payable, without exchange or collection charges, in any coin or currency of the United States of America, which, on the date of payment, is legal tender for the payment of debts due the United States of America. In the event the book-entry system is discontinued, principal of the Bonds shall be payable upon presentation and surrender of the Bonds as they respectively become due and payable, at the principal payment office of the Paying Agent/Registrar in Dallas, Texas and interest on each Bond shall be payable by check payable on each Interest Payment Date, mailed by the Paying Agent/Registrar on or before each Interest Payment Date to the Registered Owner of record as of the close of business on the February 15 or August 15 immediately preceding each Interest Payment Date (defined herein as the "Record Date"), to the address of such Registered Owner as shown on the Paying Agent/Registrar's records (the "Register") or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and the Registered Owners at the risk and expense of the Registered Owners.

If the date for payment of the principal of or interest on any Bond is not a business day, then the date for such payment shall be the next succeeding business day, as defined in the Bond Resolution.

Source of Payment

While the Bonds or any part of the principal thereof or interest thereon remain outstanding and unpaid, the District covenants to levy and annually assess and collect in due time, form and manner, and at the same time as other District taxes are appraised, levied and collected, in each year, a continuing direct annual ad valorem tax, without limit as to rate, upon all taxable property in the District sufficient to pay the interest on the Bonds as the same becomes due and to pay each installment of the principal of the Bonds as the same matures, with full allowance being made for delinquencies and costs of collection. In the Bond Resolution, the District covenants that said taxes are irrevocably pledged to the payment of the interest on and principal of the Bonds and to no other purpose.

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

Funds

In the Bond Resolution, the Debt Service Fund is confirmed, and the proceeds from all taxes levied, assessed and collected for and on account of the Bonds authorized by the Bond Resolution shall be deposited, as collected, in such fund.

Accrued interest on the Bonds shall be deposited into the Debt Service Fund upon receipt. Any monies remaining after the refunding of the Refunded Bonds and payment of issuance costs will be deposited into the Debt Service Fund.

Redemption Provisions

Bonds maturing on or after September 1, 2021 are subject to redemption at the option of the District prior to their maturity dates on September 1, 2020, or on any date thereafter at a price of par plus unpaid accrued interest from the most recent Interest Payment Date to the date fixed for redemption.

Bonds of a denomination larger than $5,000 may be redeemed in part ($5,000 or any multiple thereof). If less than all the Bonds are redeemed at any time, the maturities of the Bonds to be redeemed shall be selected by the District. If less than all of the Bonds of a certain maturity are to be redeemed, the particular Bonds or portions thereof to be redeemed will be selected by the District prior to the redemption date by such random method as the District shall deem fair and appropriate (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form).

Notice of any redemption identifying the Bonds to be redeemed in whole or in part shall be given by the Paying Agent/Registrar at least thirty (30) days prior to the date fixed for redemption by sending written notice by first class mail to the Registered Owner of each Bond to be redeemed in whole or in part at the address shown on the Register. Such notices shall state the redemption date, the redemption price, the place at which the Bonds are to be surrendered for payment and, if less than all the Bonds outstanding are to be redeemed, the numbers of the Bonds or the portions thereof to be redeemed. Any notice given shall be conclusively presumed to have been duly given, whether or not the Registered Owner receives such notice. By the date fixed for redemption, due provision shall be made with the Paying Agent/Registrar for payment of the redemption price of the 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.

Authority for Issuance

At a bond election held within the District on January 15, 2000, voters of the District authorized the issuance of $40,000,000 principal amount of unlimited tax bonds for the purpose of purchasing and constructing water supply and distribution, wastewater collection and treatment, and storm drainage facilities in the District and $24,000,000 principal amount of unlimited tax refunding bonds. See "Issuance of Additional Debt" below.

The Bonds are issued by the District pursuant to the terms and conditions of the Bond Resolution, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, Chapter 1207 of the Texas Government Code, City of Houston Ordinance No. 97-416, an election held within the District and general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas.

Before the Bonds can be issued, the Attorney General of Texas must pass upon the legality of certain related matters. The Attorney General of Texas does not guarantee or pass upon the safety of the Bonds as an investment or upon the adequacy of the information contained in this Official Statement.

Registration and Transfer

So long as any Bonds remain outstanding, the Paying Agent/Registrar shall keep the Register at its principal payment office and, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar shall provide for the registration and transfer of Bonds in accordance with the terms of the Bond Resolution.

In the event the "Book-Entry-Only" System is discontinued, each Bond shall be transferable only upon the presentation and surrender of such Bond at the principal payment office of the Paying Agent/Registrar, duly endorsed for transfer, or accompanied by an assignment duly executed by the Registered Owner or his authorized representative in form satisfactory to the Paying Agent/Registrar. Upon due presentation of any Bond in proper form for transfer, the Paying Agent/Registrar has been directed by the District to authenticate and deliver in exchange therefor, within three (3) business days after such presentation, a new Bond or Bonds, registered in the name of the transferee or transferees, in authorized denominations and of the same maturity and aggregate principal amount and paying interest at the same rate as the Bond or Bonds so presented.

All Bonds shall be exchangeable upon presentation and surrender thereof at the principal payment office of the Paying Agent/Registrar for a Bond or Bonds of the same maturity and interest rate and in any authorized denomination in an aggregate amount equal to the unpaid principal amount of the Bond or Bonds presented for exchange. The Paying Agent/Registrar is authorized to authenticate and deliver exchange Bonds. Each Bond delivered shall be entitled to the benefits and security of the Bond Resolution to the same extent as the Bond or Bonds in lieu of which such Bond is delivered.

Neither the District nor the Paying Agent/Registrar shall be required to transfer or to exchange any Bond during the period beginning on a Record Date and ending the next succeeding Interest Payment Date or to transfer or exchange any Bond called for redemption during the thirty (30) day period prior to the date fixed for redemption of such Bond.

The District or the Paying Agent/Registrar may require the Registered Owner of any Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the transfer or exchange of such Bond. Any fee or charge of the Paying Agent/Registrar for such transfer or exchange shall be paid by the District.

Replacement of Paying Agent/Registrar

Provision is made in the Bond Resolution for replacement of the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, the new Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any paying agent/registrar selected by the District shall be a national or state banking institution, a corporation organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise trust powers, and subject to supervision or examination by federal or state authority, to act as Paying Agent/Registrar for the Bonds.

Lost, Stolen or Destroyed Bonds

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

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

Issuance of Additional Debt

The District's voters have authorized the issuance of $40,000,000 principal amount of unlimited tax bonds for the purpose of constructing and or acquiring a waterworks, sanitary sewer and storm sewer system and $24,000,000 principal amount of unlimited tax bonds for refunding purposes and could authorize additional amounts. The District has $22,285,000 principal amount of unlimited tax bonds for the purpose of purchasing and constructing water supply and distribution, wastewater collection and treatment and storm drainage facilities authorized but unissued and after the issuance of the Bonds, $23,027,400 principal amount of unlimited tax refunding bonds will remain authorized but unissued. See "INVESTMENT CONSIDERATIONS—Future Debt."

The District is authorized by statute to develop parks and recreational facilities, including the issuing of bonds payable from taxes for such purpose. Before the District could issue park bonds payable from taxes, the following actions would be required: (a) preparation of a detailed park plan; (b) authorization of park bonds by the qualified voters in the

District; (c) approval of the park project and bonds by the TCEQ; and (d) approval of the bonds by the Attorney General of Texas. If the District does issue park bonds, the outstanding principal amount of such bonds may not exceed an amount equal to one percent of the value of the taxable property in the District. The Board has not considered authorizing the preparation of a park plan or calling a park bond election at this time.

The District is also authorized by statute to engage in fire-fighting activities, including the issuance 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) amendments to the existing City of Houston ordinance specifying the purposes for which the District may issue bonds; (b) authorization of a detailed master plan and bonds for such purpose by the qualified voters in the District; (c) approval of the master plan and issuance of bonds by the TCEQ; and (d) approval of bonds by the Attorney General of Texas. The Board has not considered calling an election to authorize firefighting activities at this time. Issuance of bonds for fire-fighting activities could dilute the investment security for the Bonds.

Abolishment by the City of Houston

Under existing Texas law, because the District lies wholly within the corporate limits of the City of Houston, the District must conform to a City of Houston ordinance consenting to the creation of the District. In addition, the District may be abolished by the City of Houston without the District's consent. If the District is abolished, the City of Houston will assume the District's assets and obligations (including the Bonds). Abolishment of the District 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 abolishment will not occur.

Consolidation

The District has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its assets (such as cash and the utility system) and liabilities (such as the Bonds), with the assets and liabilities of districts with which it is consolidating. Although no consolidation is presently contemplated by the District, no representation is made concerning the likelihood of consolidation in the future.

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 Resolution, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Resolution, the Registered Owners have the statutory right of a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Resolution. Except for mandamus, the Bond Resolution 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. Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages, so that in the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Resolution may not be reduced to a judgment for money damages. If such a judgment against the District were 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. The enforceability of the rights and remedies of the Registered Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the District. See "INVESTMENT CONSIDERATIONS—Registered Owners' Remedies and Bankruptcy Limitations."

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 might 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.

Defeasance

The Bond Resolution 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) of the Bonds or other obligations of the District payable from revenues or from ad valorem taxes or both, 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, (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 the investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and which 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.

Upon such deposit as described above, such Bonds shall no longer be regarded as 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 the future in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds.

BOOK-ENTRY-ONLY SYSTEM

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy or completeness thereof. The District cannot and does not give any assurances that DTC, DTC Direct Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) Bonds representing ownership interest in or other confirmation of ownership interest in the Bonds, or (c) prepayment or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will 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 "Procedure" of DTC to be followed in dealing with DTC Direct 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 Bond certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest 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.

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.

Principal, premium, if any, interest payments and redemption proceeds 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 Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, interest payments and redemption proceeds 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, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or the Paying Agent. 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.

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

THE DISTRICT

General

The District is a municipal utility district created by an order of the TCEQ dated November 5, 1999. The creation of the District was confirmed at an election held within the District on January 15, 2000. The rights, powers, privileges, authority and functions of the District are established by the general laws of the State of Texas pertaining to utility districts, particularly Article XVI, Section 59 of the Texas Constitution, and Chapters 49 and 54 of the Texas Water Code, as amended.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District is also empowered to establish, operate, and maintain fire-fighting facilities, independently or with one or more conservation and reclamation districts, and parks and recreational facilities, in each case after approval by the City of Houston, the TCEQ and the voters of the District.

The TCEQ exercises continuing supervisory jurisdiction over the District. In order to obtain the consent for creation from the City of Houston, within which the District is located, the District is required to observe certain requirements of the City which: limit the purposes for which the District may sell bonds to the acquisition, construction, and improvement of waterworks, wastewater, drainage and recreational facilities; limit the net effective interest rate on such bonds and other terms of such bonds; require approval by the City of District construction plans; and permit connections only to lots and commercial or multi-family reserves described in plats which have been approved by the Planning Commission of the City and recorded in the real property records. Construction and operation of the District's system is subject to the regulatory jurisdiction of additional governmental agencies. See "THE SYSTEM—Regulation."

Description and Location

The District consists of approximately 492 acres of land. The District is located approximately 16 miles west of the central downtown business district of the City of Houston and lies wholly within the corporate limits of the City of Houston and within the boundaries of Alief Independent School District. The District is located north of Alief-Clodine Road, south of Westheimer Road, approximately one mile west of Sam Houston Tollway and approximately five miles east of Texas State Highway 6. Richmond Boulevard bisects the District east to west.

Land Use

The following table has been provided by the Engineer and represents the current land use within the District.

	Approximate Acres	Lots
Single-Family Residential		
Royal Oaks Country Club		
Section One	94	258
Section Two	5	10
Section Three	10	20
Section Four	8	21
Section Five	23	72
Section Six	6	38
Section Seven	7	43
Section Eight	7	45
Section Nine	18	70
Section Ten	27	79
Section Eleven	34	73
Section Twelve	17	53
Section Thirteen	17	46
Section Fourteen	13	47
Subtotal	286	875
Golf Course & Other Recreational Facilities (a)	199	---
Commercial	7	---
Totals	492	875

(a) Includes 79 acres of detention facilities in addition to certain acreage used for detention, recreational purposes, utility sites and rights-of-way.

Status of Development

The District has been developed as Royal Oaks Country Club, a private, gated, luxury single-family residential project around an 18-hole, championship, Fred Couples signature, golf course (7,007 yards, par 72) and a 40,000 square foot clubhouse. Development consists of 875 single-family residential lots on approximately 286 acres. The golf course is a part of a private, members-only club, which also includes an 11,000 square foot sports clubhouse, a swimming pool, a fitness center, tennis courts and a stadium court. Royal Oaks has a homeowners' association, which owns, operates and maintains the streets, community recreation areas and landscaped common areas, as well as three private automobile and golf cart bridges spanning Richmond and Westpark, major thoroughfares within the City of Houston.

As of March 2, 2013, 875 single-family residential lots have been constructed and paved, a total of 827 homes were complete (817 occupied), 2 custom homes were under construction, and 46 lots were available for new construction. Homes within the District range in market value from approximately $350,000 to in excess of $2,900,000.

MANAGEMENT OF THE DISTRICT

Board of Directors

The District is governed by the Board, consisting of five (5) directors, which has control over and management supervision of all affairs of the District. Directors are elected to four-year terms and elections are held on the second Saturday of May in even numbered years only. All of the Board members reside within the District. Directors have staggered four-year terms. The current members and officers of the Board along with their titles and terms, are listed as follows:

Name	District Board Title	Term Expires
James E. Fick	President	May 2014
Bruce Streeter	Vice President	May 2014
Gregg E. Steffen	Assistant Vice President	May 2016
William E. Shewbart	Secretary	May 2016
R.J. Kepke	Assistant Secretary	May 2014

District Consultants

The District does not have a general manager or other full-time employees, but contracts for certain necessary services as described below.

Bond Counsel/Attorney: The District has engaged Allen Boone Humphries Robinson LLP as general counsel to the District and as Bond Counsel in connection with the issuance of the District's bonds. The fees of the attorneys in their capacity as Bond Counsel are payable from proceeds of the sale of the Bonds and contingent upon the sale and delivery of the Bonds. Compensation to the attorneys for other services to the District is based on a combination of flat fee and time charges actually incurred.

Financial Advisor: First Southwest Company serves as the District's Financial Advisor. The fee for services rendered in connection with the issuance of the Bonds is based on a percentage of the Bonds actually issued, sold and delivered and, therefore, such fee is contingent upon the sale and delivery of the Bonds.

Auditor: The District's audited financial statement for the period ending August 31, 2012, was prepared by Sanderson Knox & Co., LLP, Certified Public Accountants. See "APPENDIX A" for a copy of the District's audited financial statement for the year ended August 31, 2012.

Engineer: The District's consulting engineer is IDS Engineering Group.

Bookkeeper: The District has contracted with Municipal Accounts & Consulting, L.P. (the "Bookkeeper") for bookkeeping services.

Tax Appraisal: The Harris County Appraisal District has the responsibility of appraising all property within the District. See "TAXING PROCEDURES."

Tax Assessor/Collector: The District has appointed an independent tax assessor/collector to perform the tax collection function. Ms. Donna J. Bryant of Assessments of the Southwest, Inc. (the "Tax Assessor/Collector") has been employed by the District to serve in this capacity.

Utility System Operator: The operator of the District's internal water and wastewater system is Severn Trent Services, Inc.

THE SYSTEM

Regulation

Construction and operation of the District's water, wastewater and storm drainage system (the "System") as it now exists or as it may be expanded from time to time is subject to regulatory jurisdiction of federal, state and local authorities. The TCEQ exercises continuing, supervisory authority over the District. Discharge of treated sewage into Texas waters is also subject to the regulatory authority of the TCEQ and the United States Environmental Protection Agency. Withdrawal of ground water and the issuance of water well permits is subject to the regulatory authority of the Harris-Galveston Coastal Subsidence District where applicable (see "Water Supply" below). Construction of drainage facilities is subject to the regulatory authority of the Harris County Flood Control District. Harris County, the City of Houston, and the Texas Department of Health also exercise regulatory jurisdiction over the District's System.

Although the District is located entirely within the City of Houston, it owns and operates its water distribution and wastewater collection systems, and bills and collects from its customers independently of the City of Houston.

Water Supply

Water Supply Facilities: The District owns three 650 gallon per minute ("gpm") irrigation wells. These wells are used to supply water to lakes within the golf course, which serve as supply reservoirs for golf course irrigation and the homeowners' association irrigation systems.

Potable water is supplied to the District pursuant to a Water Supply Agreement with the City of Houston (the "Water Agreement"). The City of Houston requires an impact fee per equivalent single-family connection to be paid by the District, and this fee is subject to change. Under the Water Agreement, the District receives water through master meters located near the boundaries of the District and at the District's Water Repressurization Plant (the "Water Plant").

The District has the ability to either take water at the City of Houston's water distribution pressure, or divert water to the District's water plant and supply water at higher pressure. The Water Plant consists of a 400,000 gallon ground storage tank, a 20,000 gallon pressure tank and four booster pumps with a total combined capacity of 3,400 gpm. Under the Water Agreement, the District is currently obligated to pay $3.169 per 1,000 gallons for water delivered directly to the District's water distribution system under pressure or $2.296 per 1,000 gallons for water delivered to the Water Plant through an air gap. Both wholesale rates are subject to change from time to time. The District is obligated to take a minimum of 10,000,000 gallons per month on a "take or pay" basis, at the wholesale rates listed above, with amounts in excess of the minimum charged at a slightly higher rate. The District has a pending request with the City of Houston to increase the minimum amount to 11,000,000 gallons per month. The District may adjust the minimum amount of "take or pay" by giving notice to the City of Houston once each year.

Subsidence and Conversion to Surface Water Supply: The District is within the boundaries of the Harris Galveston Subsidence District (the "Subsidence District") which regulates groundwater withdrawal. The Subsidence District has adopted regulations requiring reduction of groundwater withdrawals through conversion to alternate source water (e.g., surface water) in certain areas within the Subsidence District's jurisdiction, including the area within the District. The District has entered into a Water Supply Contract with the City of Houston, Texas as described above to obtain treated surface water from Houston. The District has developed a groundwater reduction plan ("GRP") and obtained Subsidence District approval of its GRP. The District's GRP sets forth the District's plan to comply with Subsidence District regulations, by buying treated surface water from the City of Houston.

Under the Subsidence District regulations and the GRP, the District is required: (i) through the year 2019, to limit groundwater withdrawals to no more than 70% of the total annual water demand of the water use within the District; (ii) beginning in the year 2025, to limit groundwater withdrawals to no more than 40% of the total annual water demand of the water use within the District; and (iii) beginning in the year 2035, to limit groundwater withdrawals to no more than 20% of the total annual water demand of the water use within the District. If the District fails to comply with the above Subsidence District regulations or its GRP, the District is subject to a substantial disincentive fee penalty of $7.00 per 1,000 gallons ("Disincentive Fees") imposed by the Subsidence District for any groundwater withdrawn in excess of 20% of the total water demand in the District.

Wastewater Treatment

Wastewater capacity is provided to the District pursuant to a Utility Services Allocation Agreement with the City of Houston (the "Wastewater Agreement"). Initially, the City of Houston requires an impact fee per equivalent single-family connection or service unit to be paid by the District. This fee is subject to change. Under the Wastewater Agreement, wastewater generated by the District is received by the City at or near the boundaries of the District, entering the City's collection system for treatment by the City's wastewater plants. The majority of the District's wastewater is treated at the City of Houston's Upper Brays Plant pursuant to the Wastewater Agreement with the City of Houston. Royal Oaks Country Club, Section Nine (70 lots) and certain commercial tracts are treated by the City's Beltway plant. The Wastewater Agreement also provides that (i) certain facilities to be constructed by the District located in major thoroughfares will be conveyed to the City for ownership and maintenance upon completion, and (ii) the District will receive a rebate of City taxes levied within the District attributable to the City's Storm Sewer Bonds (currently approximately $0.04 per $100 taxable assessed valuation).

Water Distribution, Wastewater Collection and Storm Drainage Facilities

The District has constructed water distribution, wastewater collection and storm drainage facilities to serve Royal Oaks Country Club, Sections One through Fourteen (875 lots). The District and the City of Houston entered into a Drainage Participation Agreement, dated May 8, 2012 (the "Drainage Agreement"), providing for the maintenance of the District's drainage and detention system. In the Drainage Agreement, the District agrees to expend funds on drainage and detention maintenance within the District at least equal to the amount the City would collect within the District within the District under the City's ReBuild Houston program, enacted in Chapter 47, Article XIV of the City's Code of Ordinances. Under the ReBuild Houston program, the City charges individual landowners a fee to be used for drainage and other projects within the City, but that fee will not be collected in the District pursuant to the Drainage Agreement. The requited District expenditures will change from time to time, but are not expected to exceed the amount the District would typically expend for drainage and detention without the Drainage Agreement. In 2013, the District has committee pursuant to the Drainage Agreement to spend approximately $250,000.

100-Year Flood Plain

According to current Federal Emergency Management Agency (FEMA) Flood Insurance Risk Maps (FIRM) all single family residential lots and the Royal Oaks Country Club facility are not located within the 100-year floodplain. Most of the land located within the District is not located within the 100-year floodplain; however a large portion of the golf course is located within the mapped 100-year floodplain. The golf course is constructed to provide stormwater detention storage within the District for a 100-year storm event; so by design, portions of the golf course are located within the 100-year floodplain. The land subject to inundation has been conveyed to the District for this purpose with the right to utilize the land for a golf course retained by the owner of the golf course.

Water and Wastewater Operations

The Bonds are payable from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District. Net revenues, if any, derived from the operation of the District's water and sewer operations are not pledged to the payment of the Remaining Outstanding Bonds and the Bonds but are available for any lawful purpose including payment of debt service on the Remaining Outstanding Bonds and the Bonds, at the discretion and upon action of the Board. It is not anticipated that any significant revenues will be available for the payment of debt service on the Bonds.

The following statement sets forth in condensed form the General Operating Fund as shown in the District's audited financial statements for the years ending August 31, 2008 through 2012. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Reference is made to "APPENDIX A" for further and complete information.

	Fiscal Year Ended August 31,				
	2012	2011	2010	2009	2008
Revenues:					
Water Service	$ 1,043,172	$ 1,068,164	$ 726,709	$ 910,316	$ 742,021
Sewer Service	501,419	517,785	351,551	375,278	303,611
Property taxes	67,231	67,710	69,871	34,906	67,660
Penalties and interest	25,437	22,004	25,999	27,555	17,049
Tap connection & inspection fees	29,007	14,810	14,840	29,295	60,453
Interest on investments	11,662	12,784	43,206	66,042	93,922
Other revenue	2,165	1,431	1,203	6,715	2,989
City of Houston rebate (a)	143,461	248,340	245,018	255,877	224,442
Total Revenues	$ 1,823,554	$ 1,953,028	$ 1,478,397	$ 1,705,984	$ 1,512,147
Expenditures:					
Purchased services	$ 830,707	$ 776,969	$ 515,620	$ 605,687	$ 488,860
Professional fees	96,440	117,452	90,823	110,948	82,307
Contracted services	85,834	83,901	82,707	79,904	74,469
Repairs and maintenance	151,127	171,976	214,989	189,322	205,927
Utilities	2,973	3,740	4,072	3,576	3,260
Tap connecton & inspection	14,744	9,975	12,771	12,736	29,078
Other Expenditures	108,150	63,049	72,429	83,301	56,128
Capital Outlay	331,816	1,549,862	753,113	-	-
Total Expenditures	$ 1,621,791	$ 2,776,924	$ 1,746,524	$ 1,085,474	$ 940,029
Net Revenues (Expenditures)	$ 201,763	$ (823,896)	$ (268,127)	$ 620,510	$ 572,118
Fund Balance, Beginning of Period	$ 2,276,517	$ 3,100,413	$ 3,368,540	$ 2,748,030	$ 2,175,912
Fund Balance, End of Period	$ 2,478,280	$ 2,276,517	$ 3,100,413	$ 3,368,540	$ 2,748,030

(a) See "THE SYSTEM – Wastewater Treatment."

FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)

2012 Taxable Assessed Valuation	$683,269,501	(a)
Gross Direct Debt Outstanding	$11,625,000	(b)
Estimated Overlapping Debt	35,948,017	(c)
Gross Direct Debt and Estimated Overlapping Debt	$47,573,017	
Ratios of Gross Direct Debt to:		
2012 Taxable Assessed Valuation	1.70%	
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:		
2012 Taxable Assessed Valuation	6.96%	
Debt Service Fund Balance as of March 25, 2013	$1,857,417	(d)
Operating Funds Balance as of March 25, 2013	$2,767,822	

(a) As certified by the Harris County Appraisal District (the "Appraisal District") See "TAXING PROCEDURES."

(b) After the issuance of the Bonds. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements."

(c) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt—Overlapping Taxes."

(d) The District will contribute $100,000 from the Debt Service Fund toward the purpose for which the Bonds are being sold. See "PLAN OF FINANCING—Sources and Uses of Funds."

Investments of the District

The District has adopted an Investment Policy as required by the Public Funds Investment Act, Chapter 2256, Texas Government Code. The District's goal is to preserve principal and maintain liquidity while securing a competitive yield on its portfolio. Funds of the District will be invested in short term U.S. Treasuries, certificates of deposit insured by the Federal Deposit Insurance Corporation ("FDIC") or secured by collateral evidenced by perfected safekeeping receipts held by a third party bank, and public funds investment pools rated in the highest rating category by a nationally recognized rating service. The District does not currently own, nor does it anticipate the inclusion of, long term securities or derivative products in the District portfolio.

Estimated Overlapping Debt

The following table indicates the outstanding debt payable from ad valorem taxes, of governmental entities within which the District is located and the estimated percentages and amounts of such indebtedness attributable to property within the District. Debt figures equated herein to outstanding obligations payable from ad valorem taxes are based upon data obtained from individual jurisdictions or Texas Municipal Reports compiled and published by the Municipal Advisory Council of Texas. Furthermore, certain entities listed below may have issued additional obligations since the date listed and may have plans to incur significant amounts of additional debt. Political subdivisions overlapping the District are authorized by Texas law to levy and collect ad valorem taxes for the purposes of operation, maintenance and/or general revenue purposes in addition to taxes for the payment of debt service and the tax burden for operation, maintenance and/or general revenue purposes is not included in these figures. The District has no control over the issuance of debt or tax levies of any such entities.

	Outstanding		Overlapping	
Taxing Jurisdiction	Bonds	As of	Percent	Amount
Harris County	$2,345,417,190	3/31/2013	0.24%	$5,558,639
Harris County Department of Education	7,605,000	3/31/2013	0.24%	17,948
Harris County Flood Control District	96,470,000	3/31/2013	0.24%	228,634
Houston Community College	676,095,000	3/31/2013	0.53%	3,563,021
City of Houston	3,068,585,000	3/31/2013	0.45%	13,808,633
Port of Houston Authority	731,969,397	3/31/2013	0.24%	1,734,767
Alief Independent School District	174,930,656	3/31/2013	6.31%	11,036,375
Total Estimated Overlapping Debt				$35,948,017
The District's Total Debt (a)				11,625,000
Total Direct and Overlapping Debt				$47,573,017
Direct and Estimated Overlapping Debt as a Percentage of:				
2012 Taxable Assessed Valuation of $683,269,501				6.96%

(a) The Bonds and the Remaining Outstanding Bonds.

Overlapping Taxes

Property within the District is subject to taxation by several taxing authorities in addition to the District. On January 1 of each year a tax lien attaches to property to secure the payment of all taxes, penalties and interest imposed on such property. The lien exists in favor of each taxing unit, including the District, having the power to tax the property. The District's tax lien is on a parity with tax liens of taxing authorities shown below. In addition to ad valorem taxes required to pay debt service on bonded debt of the District and other taxing authorities, certain taxing jurisdictions, including the District, are also authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administrative and/or general revenue purposes.

Set forth below are all of the taxes levied for the 2012 tax year by all entities overlapping the District and the District. No recognition is given to local assessments for civic association dues, fire department contributions, solid waste disposal charges or any other levy of entities other than political subdivisions.

	2012 Tax Rate Per $100 Assessed Valuation
Harris County (including Harris County Flood Control District, Harris County Hospital District, Harris County School Equalization and the Port of Houston Authority)	$0.636597
City of Houston	0.638750
Alief Independent School District	1.320000
Houston Community College	0.097173
Total Overlapping Tax Rate	$2.692520
The District	0.190000
Total Tax Rate	$2.882520

TAX DATA

Debt Service Tax

The Board covenants in the Bond Resolution to levy and assess, for each year that all or any part of the Bonds and the Remaining Outstanding Bonds remain outstanding and unpaid, a tax adequate to provide funds to pay the principal of and interest on the Bonds. See "Historical Tax Rate Distribution" and "Tax Roll Information" below.

Maintenance Tax

The Board has the statutory authority to levy and collect an annual ad valorem tax for the operation and maintenance of the District, if such a maintenance tax is authorized by the District's voters. A maintenance tax election was conducted January 15, 2000, and voters of the District authorized, among other things, the Board to levy a maintenance tax at a rate not to exceed $1.50 per $100 appraised valuation. A maintenance tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds. See "Debt Service Tax" above.

Historical Tax Rate Distribution

	2012	2011	2010	2009	2008
Debt Service	$ 0.18	$ 0.18	$ 0.18	$ 0.18	$ 0.185
Maintenance	0.01	0.01	0.01	0.01	0.005
Total	$ 0.19	$ 0.19	$ 0.19	$ 0.19	$ 0.190

Additional Penalties

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

Tax Exemptions

The District has not adopted any exemptions.

Historical Tax Collections

The following statement of tax collections sets forth in condensed form a portion of the historical tax experience of the District. Such table has been prepared for inclusion herein, based upon information obtained from the Tax Assessor/Collector. Reference is made to such statements and records for further and complete information. See "Tax Roll Information" below.

	Net Certified Taxable Valuation (a)	Tax Rate	Total Tax Levy (b)	Total Collections As of 2/28/2013 Amount	Total Collections As of 2/28/2013 Percent
2012	$ 683,269,501	$ 0.19	$ 1,298,367	$ 1,245,998 (c)	95.97% (c)
2011	670,977,331	0.19	1,275,432	1,273,430	99.84%
2010	672,360,124	0.19	1,277,260	1,274,588	99.79%
2009	697,874,204	0.19	1,326,121	1,323,661	99.81%
2008	677,554,665	0.19	1,287,331	1,287,286	100.00%
2007	631,827,393	0.19	1,326,963	1,326,963	100.00%

(a) Net valuation represents final gross assessed value as certified by the Appraisal District less any exemptions granted. See "Tax Roll Information" below for gross assessed value and exemptions granted by the District.
(b) Represents actual tax levy, including any adjustments by the Appraisal District, as of the date hereof.
(c) Represents collections as of February 28, 2013. Taxes for the 2012 tax year were due January 31, 2013.

Tax Roll Information

The District's assessed value as of January 1 of each year is used by the District in establishing its tax rate (see "TAXING PROCEDURES—Valuation of Property for Taxation"). The following represents the composition of property comprising the 2008 through 2012 Certified Taxable Assessed Valuations. Taxes are levied on taxable value certified by the Appraisal District as of January 1 of each year.

	Type of Property			Gross	Deferments	Net
Tax Roll Year	Land	Improvements	Personal Property	Assessed Valuations	and Exemptions	Assessed Valuations
2008	$ 227,520,771	$ 448,031,028	$ 7,258,961	$ 682,810,760	$ (5,256,095)	$ 677,554,665
2009	241,234,467	455,163,420	8,129,336	704,527,223	(6,653,019)	697,874,204
2010	241,164,563	429,853,246	8,316,909	679,334,718	(6,974,594)	672,360,124
2011	242,902,264	426,920,288	6,721,905	676,544,457	(5,567,126)	670,977,331
2012	246,561,612	434,954,458	4,561,429	686,077,499	(2,807,998)	683,269,501

Principal Taxpayers

The following table represents the principal taxpayers, the taxable assessed value of such property and such property's assessed value as a percentage of the District's 2012 Taxable Assessed Valuation of $683,269,501. This represents ownership as of January 1, 2012.

Taxpayer	Taxable Assessed Value	% of 2012 Certified Taxable Assessed Valuation
Royal Oaks Houston CC Inc.	$ 11,312,713	1.66%
Individual	4,619,496	0.68%
PMSV Westpark LP	4,100,000	0.60%
McVaugh Investments Ltd.	3,597,733	0.53%
Individual	2,961,345	0.43%
Individual	2,927,105	0.43%
Individual	2,910,727	0.43%
Individual	2,843,356	0.42%
Individual	2,695,862	0.39%
Individual	2,655,540	0.39%
Total	$ 40,623,877	5.96%

Tax Adequacy for Debt Service

The tax rate calculations set forth below are presented to indicate the tax rates per $100 appraised valuation which would be required to meet average annual and maximum debt service requirements if no growth in the District's tax base occurred beyond the 2012 Taxable Assessed Valuation of $683,269,501. The calculations contained in the following table merely represent the tax rates required to pay principal of and interest on the Bonds and the Remaining Outstanding Bonds when due, assuming no further increase or any decrease in taxable values in the District, collection of ninety-five percent (95%) of taxes levied, the sale of no additional bonds, and no other funds available for the payment of debt service. See "PLAN OF FINANCING—Debt Service Requirements."

Average Annual Debt Service Requirement (2014-2024) $1,159,391
$0.18 Tax Rate on 2012 Taxable Assessed Valuation.. $1,168,391

Maximum Annual Debt Service Requirement (2014).. $1,222,055
$0.19 Tax Rate on 2012 Taxable Assessed Valuation.. $1,233,301

TAXING PROCEDURES

Authority to Levy Taxes

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

Property Tax Code and County-Wide Appraisal District

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

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

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; certain goods, wares and merchandise in transit; farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; 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 and of certain disabled persons to the extent deemed advisable by the Board. The District may be required to offer such an exemption if a majority of voters approve it at an election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District's obligation to pay tax supported debt incurred prior to adoption of the exemption by the District. Furthermore, the District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between $3,000 and $12,000 of taxable valuation depending upon the disability rating of the veteran claiming the exemption, and qualifying surviving spouses of persons 65 years of age or older will be entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse. Effective June 19, 2009, a veteran who receives a disability rating of 100% is entitled to an exemption for the full amount of the veteran's residential homestead. Additionally, effective January 1, 2012, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. See "TAX DATA."

Residential Homestead Exemptions: The Property Tax Code authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) of the appraised value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of a homestead exemption may be considered each year, but must be adopted by April 30.

Freeport Goods Exemption: A "Freeport Exemption" applies to goods, wares, ores, and merchandise other than oil, gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining petroleum or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A "Goods-in-Transit" Exemption is applicable to the same categories of tangible personal property which are covered by the Freeport Exemption, if, for tax year 2011 and prior applicable years, such property is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation, and the location where said property is detained during that period is not directly or indirectly owned or under the control of the property owner. For tax year 2012 and subsequent years, such Goods-in-Transit Exemption is limited to tangible personal property acquired in or imported into Texas for storage purposes only if such property is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit personal property. A taxing unit must exercise its option to tax goods-in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law. The District has taken official action to allow taxation of all such goods-in-transit personal property for the tax year 2011 and prior years, and has also taken official action to allow taxation of all such goods-in-transit personal property for tax year 2012 and subsequent years.

Tax Abatement

Harris County or the City of Houston may designate all or part of the area within the District as a reinvestment zone. Thereafter, Harris County, the Alief Independent School District, the City of Houston and the District, at the option and discretion of each entity, may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the District, for a period of up to ten (10) years, all or any part of any increase in the appraised valuation of property covered by the agreement over its appraised valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with the terms of the tax abatement agreement. Each taxing jurisdiction has discretion to determine terms for its tax abatement agreements without regard to the terms approved by the other taxing jurisdictions.

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. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Property Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Property Tax Code.

Nevertheless, certain land may be appraised at less than market value under the Property Tax Code. In November 1997, Texas voters approved a constitutional amendment to limit increases in the appraised value of residence homesteads to ten percent (10%) annually regardless of the market value of the property. The Property Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its fair market value. The Property Tax Code permits under certain circumstances that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Provisions of the Property Tax Code are complex and are not fully summarized here. Landowners wishing to avail themselves of the agricultural use, open space or timberland designation or residential real property inventory designation must apply for the designation and the appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions while claiming it as to another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous three (3) years for agricultural use and taxes for the previous five (5) years for open space land and timberland.

The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraisal values. The plan must provide for appraisal of all real property in 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. The District, however, at its expense has the right to obtain from the Appraisal District a current estimate of appraised values within the District or an estimate of any new property or improvements within the District. While such current estimate of appraised values may serve to indicate the rate and extent of growth of taxable values within the District, it cannot be used for establishing a tax rate within the District until such time as the Appraisal District chooses formally to include such values on its appraisal roll.

District and Taxpayer Remedies

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

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

Levy and Collection of Taxes

The District is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. The rate of taxation is set by the Board of Directors, after the legally required notice has been given to owners of property within the District, based upon: a) the valuation of property within the District as of the preceding January 1, and b) the amount required to be raised for debt service, maintenance purposes and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent if not paid before February 1 of the year following the year in which imposed. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. A delinquent tax on personal property incurs an additional penalty, in an amount established by the District and a delinquent tax attorney, 60 days after the date the taxes become delinquent. For those taxes billed at a later date and that become delinquent on or after June 1, they will also incur an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. The delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, may be rejected. Additionally, the owner of a residential homestead property that is a person sixty-five (65) years of age or older or disabled is entitled by law to pay current taxes on a residential homestead in installments or to defer the payment of taxes without penalty during the time of ownership.

Rollback of Operations and Maintenance Tax Rate

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

District's Rights in the Event of Tax Delinquencies

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

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights or by bankruptcy proceedings which restrict the collection of taxpayer debts. A taxpayer may redeem property within six (6) months for commercial property and two (2) years for residential and all other types of property after the purchaser's deed issued at the foreclosure sale is filed in the county records. See "INVESTMENT CONSIDERATIONS—General" and "—Tax Collections Limitations and Foreclosure Remedies."

The Effect of FIRREA on Tax Collections of the District

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

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

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 or may affect the valuation of such property.

INVESTMENT CONSIDERATIONS

General

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 entity other than the District. Payment of the principal of and interest on the Bonds depends upon the ability of the District to collect taxes levied on taxable property within the District in an amount sufficient to service the District's bonded debt or in the event of foreclosure, on the value of the taxable property in the District and the taxes levied by the District and other taxing authorities upon the property within the District. See "THE BONDS—Source of Payment." The collection by the District of delinquent taxes owed to it and the enforcement by Registered Owners of the District's obligation to collect sufficient taxes may be a costly and lengthy process. Furthermore, the District cannot and does not make any representations that continued development of taxable property within the District will accumulate or maintain taxable values sufficient to justify continued payment of taxes by property owners or that there will be a market for the property or that owners of the property will have the ability to pay taxes. See "Registered Owners' Remedies and Bankruptcy Limitations" below.

Tax Collections Limitations and Foreclosure Remedies

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 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, or (c) market conditions affecting the marketability of taxable property within the District and limiting the proceeds from a foreclosure sale of such property. Moreover, the proceeds of any sale of property within the District available to pay debt service on the Bonds may be limited by the existence of other tax liens on the property (see "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Overlapping Taxes"), by the current aggregate tax rate being levied against the property, and by other factors (including the taxpayers' right to redeem property within two years of foreclosure for residential and agricultural use property and six months for other property). Finally, any bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes assessed against such taxpayer. In addition to the automatic stay against collection of delinquent taxes afforded a taxpayer during the pendency of a bankruptcy, a bankruptcy could affect payment of taxes in two other ways: first, a debtor's confirmation plan may allow a debtor to make installment payments on delinquent taxes for up to six years; and, second, a debtor may challenge, and a bankruptcy court may reduce, the amount of any taxes assessed against the debtor, including taxes that have already been paid.

Registered Owners' Remedies and Bankruptcy Limitations

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 Resolution, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Resolution, the Registered Owners have the statutory right of a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Resolution. Except for mandamus, the Bond Resolution 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. Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages, so that in the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Resolution may not be reduced to a judgment for money damages. If such a judgment against the District were 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. The enforceability of the rights and remedies of the Registered Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization or 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. 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 (1) is 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. 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 debts and other obligations as they mature.

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

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

A district may not be forced into bankruptcy involuntarily.

Future Debt

The District has the right to issue obligations other than the Bonds, including tax anticipation notes and bond anticipation notes, and to borrow for any valid corporate purpose. A total of $40,000,000 principal amount of unlimited tax bonds for the purpose of purchasing and constructing water supply and distribution, wastewater collection and treatment and storm drainage facilities and $24,000,000 principal amount of unlimited tax refunding bonds for the purpose of refunding outstanding bonds of the District have been authorized by the District's voters. The District has $22,285,000 principal amount of unlimited tax bonds for the purpose of purchasing and constructing water supply and distribution, wastewater collection and treatment and storm drainage facilities authorized but unissued and after the issuance of the Bonds, $23,027,400 principal amount of unlimited tax refunding bonds will remain authorized but unissued. In addition, voters may authorize the issuance of additional bonds secured by ad valorem taxes. The issuance of additional obligations may increase the District's tax rate and adversely affect the security for, and the investment quality and value of, the Bonds. Presently, the District has no plans to issue additional debt in the foreseeable future.

The District does not employ any formula with respect to appraised valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue. The issuance of additional bonds to finance utilities is subject to approval by the TCEQ pursuant to its rules regarding issuance and feasibility of bonds. In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District. See "THE BONDS—Issuance of Additional Debt."

Environmental and Air Quality Regulations

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

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

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

In order to comply with the EPA's standards for the HGB area, the Commission has established a state implementation plan ("SIP") setting emission control requirements, some of which regulate the inspection and use of automobiles. These types of measures could impact how people travel, what distances people are willing to travel, where people choose to live and work, and what jobs are available in the HGB area. It is possible that additional controls will be necessary to allow the HGB area to reach attainment by June 15, 2019. These additional controls could have a negative impact on the HBG area's economic growth and development.

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

Pursuant to the Safe Drinking Water Act ("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.

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

Operations of utility districts are also potentially subject to stormwater discharge permitting requirements under the Clean Water Act and EPA and TCEQ regulations. The TCEQ issued a general permit for stormwater discharges associated with industrial activities (which will be reissued, and could be revised, in 2013) and a general permit for stormwater discharges associated with small municipal separate storm sewer systems (which should be issued by the end of 2012 and is undergoing significant revisions during TCEQ's renewal of that permit). The TCEQ and/or EPA are expected to issue more stringent stormwater discharge permit The District could incur substantial costs to develop and implement such plans as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff.

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

Marketability of the Bonds

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

Continuing Compliance with Certain Covenants

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

Risk Factors Related to the Purchase of Municipal Bond Insurance

The District has entered into an agreement with BUILD AMERICA MUTUAL ASSURANCE COMPANY ("BAM" or the "Insurer") for the purchase of a municipal bond insurance policy (the "Policy"). At the time of entering into this agreement, the Insurer was rated "AA" (stable outlook) by S&P. See "MUNICIPAL BOND INSURANCE."

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

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

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

Future and Proposed Legislation

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

MUNICIPAL BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Build America Mutual Assurance Company ("BAM") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

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

Build America Mutual Assurance Company

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

The address of the principal executive offices of BAM is: 1 World Financial Center, 27th Floor, 200 Liberty Street, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: www.buildamerica.com.

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

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

Capitalization of BAM

BAM's total admitted assets, total liabilities, and total capital and surplus, as of December 31, 2012 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were $491.2 million, $7.5 million and $483.7 million, respectively.

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

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

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

MUNICIPAL BOND RATING

Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"), is expected to assign its municipal bond rating of "AA" (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by BUILD AMERICA MUTUAL ASSURANCE COMPANY ("BAM" or the "Insurer"). S&P has also assigned an underlying credit rating of "A+" (stable outlook) to the Bonds. See "INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance," "MUNICIPAL BOND INSURANCE," and "APPENDIX B."

There is no assurance that such rating will continue for any given period of time or that it will not be revised or withdrawn entirely by S&P, if in its judgment, circumstances so warrant. Any such revisions or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

VERIFICATION OF MATHEMATICAL CALCULATIONS

Grant Thornton LLP, a firm of independent public accountants, will deliver to the District, on or before the settlement date of the Bonds, its verification report indicating that it has verified, in accordance with attestation standards established by the American Institute of Certified Public Accountants, the mathematical accuracy of (a) the mathematical computations of the adequacy of the maturing principal of and interest on the Escrowed Securities, to pay, when due, the maturing principal of, interest on and related call premium requirements of the Refunded Bonds and; (b) the mathematical computations of yield used by Bond Counsel to support its opinion that interest on the Bonds will be excluded from gross income for federal income tax purposes; and (c) compliance with City of Houston Ordinance No. 97-416.

The verification performed by Grant Thornton LLP will be solely based upon data, information and documents provided to Grant Thornton LLP by the District and its representatives. Grant Thornton LLP has restricted its procedures to recalculating the computations provided by the District and its representatives and has not evaluated or examined the assumptions or information used in the computations.

LEGAL MATTERS

Legal Proceedings

Delivery of the Bonds will be accompanied by the unqualified approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the District under the Constitution and laws of the State of Texas payable from the proceeds of an annual ad valorem tax levied by the District, without limit as to rate or amount, upon all taxable property within the District, and, based upon their examination of a transcript of certified proceedings relating to the issuance and sale of the Bonds, the approving legal opinion of Allen Boone Humphries Robinson LLP, Bond Counsel, to a like effect and to the effect that (i) interest on the Bonds is excludable from gross income of the holders for federal tax purposes under existing law and (ii) interest on the Bonds is not subject to the alternative minimum tax on individuals and corporations, except for certain alternative minimum tax consequences for corporations.

Bond Counsel has reviewed the information appearing in this OFFICIAL STATEMENT under "PLAN OF FINANCING—Defeasance of Refunded Bonds," "THE BONDS," "THE DISTRICT—General," "TAXING PROCEDURES," "LEGAL MATTERS," "TAX MATTERS" and "CONTINUING DISCLOSURE OF INFORMATION" solely to determine whether such information fairly summarizes matters of law and the provisions of the documents referred to therein. Bond Counsel has not, however, independently verified any of the factual information contained in this OFFICIAL STATEMENT nor has it conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this OFFICIAL STATEMENT. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of any information contained herein.

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

No Material Adverse Change

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

No-Litigation Certificate

The District will furnish the Underwriter a certificate, executed by both the President and Secretary of the Board, and dated as of the date of delivery of the Bonds, to the effect that no litigation of any nature is pending or to its knowledge threatened, either in state or federal courts, contesting or attacking the Bonds; restraining or enjoining the levy, assessment and collection of ad valorem taxes to pay the interest or the principal of 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 or the title of the present officers of the District.

TAX MATTERS

Tax Exemption

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

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

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

The Code also imposes a 20% alternative minimum tax on the "alternative minimum taxable income" of a corporation if the amount of such alternative minimum tax is greater than the amount of the corporation's regular income tax. Generally, the alternative minimum taxable income of a corporation (other than any S corporation, regulated investment company, REIT, REMIC, OR FASIT), includes 75% of the amount by which its "adjusted current earnings" exceeds its other "alternative minimum taxable income." Because interest on tax exempt obligations, such as the Bonds, is included in a corporation's "adjusted current earnings," ownership of the Bonds could subject a corporation to alternative minimum tax consequences.

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

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

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

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

Qualified Tax-Exempt Obligations

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

The District will designate the Bonds as "qualified tax-exempt obligations" and has represented that the aggregate amount of tax-exempt bonds (including the Bonds) issued by the District and entities aggregated with the District under the Code during calendar year 2013 is not expected to exceed $10,000,000 and that the District and entities aggregated with the District under the Code have not designated more than $10,000,000 in "qualified tax-exempt obligations" (including the Bonds) during calendar year 2013.

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

PREPARATION OF OFFICIAL STATEMENT

Sources and Compilation of Information

The financial data and other information contained in this OFFICIAL STATEMENT has been obtained primarily from the District's records, the Engineer, the Tax Assessor/Collector, the Appraisal District and information from other sources. All of these sources are believed to be reliable, but no guarantee is made by the District as to the accuracy or completeness of the information derived from such sources, and its inclusion herein is not to be construed as a representation on the part of the District except as described below under "Certification of Official Statement." Furthermore, there is no guarantee that any of the assumptions or estimates contained herein will be realized. The summaries of the agreements, reports, statutes, resolutions, engineering and other related information set forth in this OFFICIAL STATEMENT are included herein 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.

Financial Advisor

First Southwest Company is employed as the Financial Advisor to the District to render certain professional services, including advising the District on a plan of financing and preparing the OFFICIAL STATEMENT. In its capacity as Financial Advisor, First Southwest Company has compiled and edited this OFFICIAL STATEMENT. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to the District and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

Consultants

In approving this OFFICIAL STATEMENT the District has relied upon the following consultants.

Tax Assessor/Collector: The information contained in this OFFICIAL STATEMENT relating to the breakdown of the District's historical assessed value and principal taxpayers, including particularly such information contained in the section entitled "TAX DATA," has been provided by Mr. Tommy Lee and is included herein in reliance upon the authority of such individual as an expert in assessing property values and collecting taxes.

Engineer: The information contained in this OFFICIAL STATEMENT relating to engineering and to the description of the System and, in particular that information included in the sections entitled "THE DISTRICT" and "THE SYSTEM" has been provided by IDS Engineering Group, Consulting Engineers and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

Auditor: The District's audited financial statements for the fiscal year ending August 31, 2012, were prepared by Sanderson Knox & Co., LLP, Certified Public Accountants. See APPENDIX A.

Updating the Official Statement

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

Certification of Official Statement

The District, acting through its Board in its official capacity, hereby certifies, as of the date hereof, that the information, statements, and descriptions or any addenda, supplement and amendment thereto pertaining to the District and its affairs contained herein, to the best of its knowledge and belief, contain no untrue statement of a material fact and do not omit to state any material fact necessary to make the statements herein, in the light of the circumstances under which they are made, not misleading. With respect to information included in this OFFICIAL STATEMENT other than that relating to the District, the District has no reason to believe that such information contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements herein, in the light of the circumstances under which they are made, not misleading; however, the Board has made no independent investigation as to the accuracy or completeness of the information derived from sources other than the District. In rendering such certificate, the Board has relied in part upon its examination of records of the District, and upon discussions with, or certificates or correspondence signed by, certain other officials, employees, consultants and representatives of the District.

CONTINUING DISCLOSURE OF INFORMATION

In the Bond Resolution, the District has the following agreement for the benefit of the holders and Beneficial Owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (the "MSRB"). The MSRB has established the Electronic Municipal Market Access ("EMMA") system.

Annual Reports

The District will provide certain financial information and operating data which is customarily prepared by the District and is publicly available, annually to the MSRB. The financial information and operating data which will be provided with respect to the District includes all quantitative financial information and operating data of the general type included in this OFFICIAL STATEMENT under the headings "THE SYSTEM," "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)," except for "Estimated Overlapping Debt," "TAX DATA," and in APPENDIX A (Financial Statements of the District). The District will update and provide this information to the MSRB within six months after the end of each of its fiscal years ending in or after 2013. Any information so provided shall be prepared in accordance with generally accepted auditing standards or other such principles as the District may be required to employ from time to time pursuant to state law or regulation, and audited if the audit report is completed within the period during which it must be provided.

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

Material Event Notices

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other events affecting the tax-exempt status of the Bonds; (7) modifications to rights of Beneficial Owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of CFR § 240.15c2-12 (the "Rule"); (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of an definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material. The term "material" when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Resolution makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information from MSRB

The District has agreed to provide the foregoing updated information only to the MSRB. The MSRB makes the information available to the public without charge through an internet portal at www.emma.msrb.org.

Limitations and Amendments

The District has agreed to update information and to provide notices of material events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects; nor has the District agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders or Beneficial Owners of Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

The District may amend its continuing disclosure agreement from time to time to adapt to the 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 the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering made hereby in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and either the holders of a majority in aggregate principal amount of the Outstanding Bonds consent to the amendment or any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and Beneficial Owners of the Bonds. The District may amend or repeal the agreement in the Bond Resolution if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction determines that such provisions are invalid or unenforceable, but only to the extent that its right to do so would not prevent the Underwriter from lawfully purchasing the Bonds in the initial offering. If the District so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance With Prior Undertakings

The District became obligated to provide annual disclosure of certain financial information by filing with the state information depository ("SID") and each nationally recognized municipal securities information repository ("NRMSIR") in an offering that occurred in 2000. Due to an administrative oversight, certain financial information and audited financial statements for the fiscal year end 2012 was not timely filed with the SID and each NRMSIR. The District has subsequently filed all required information, including a notice of late filing. The District has put certain administrative procedures in place to help ensure timely compliance with its annual disclosure obligations in the future.

MISCELLANEOUS

All estimates, statements and assumptions in this OFFICIAL STATEMENT and the APPENDICES hereto have been made on the basis of the best information available and are believed to be reliable and accurate. Any statements in this OFFICIAL STATEMENT involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact, and no representation is made that any such statements will be realized.

/s/ James E. Fick
President, Board of Directors
Harris County Municipal Utility District No. 372

ATTEST:

/s/ William E. Shewbart
Secretary, Board of Directors
Harris County Municipal Utility District No. 372

APPENDIX A

Financial Statement of the District for the year ended August 31, 2012

Sandersen Knox & Co., L.L.P.
Certified Public Accountants
130 Industrial Blvd, Suite 130 - Sugar Land, Texas 77478

To the Board of Directors
Harris County Municipal Utility District No. 372
Harris County, Texas

In planning and performing our audit of the financial statements of Harris County Municipal Utility District No. 372 (the "District") as of and for the year ended August 31, 2012, 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 such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 on a timely basis. A material weakness is a deficiency or 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. We consider the following deficiencies in the District's internal control to be material weaknesses:

Financial statement presentation and disclosure

Finding

The District has engaged a licensed certified public accounting firm to both prepare and audit the District's annual financial report. The District ensures the quality of its annual financial report by engaging a qualified audit firm with particular expertise in governmental audits and reading a preliminary draft of the report. The District does not have specific controls in place to separately review the selection and application of accounting principles and resulting disclosures and presentations within the financial statement. Although it is common within the utility district industry, the government sector as a whole, and most private companies to rely on their audit firm for these services, an audit firm cannot be considered part of its client's internal control by professional standards currently in affect. Since some presentations and disclosures may be material to the financial statement, this weakness in internal control would be classified as material.

Recommendation

The District should continue to read its annual financial report and ensure the quality of both the document and the preparer. No changes in operation are recommended.

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. We did not identify any deficiencies in internal control that we consider to be significant deficiencies.

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.

Sartwelle & Co.

Sugar Land, Texas
November 27, 2012

Harris County Municipal Utility District No. 372

HARRIS COUNTY, TEXAS

FINANCIAL REPORT

August 31, 2012

--ooOoo--

CONTENTS

--ooOoo--

Sandersen Knox & Co., L.L.P.
Certified Public Accountants
130 Industrial Blvd, Suite 130 - Sugar Land, Texas 77478 - 281/242-3232 - fax 281/242-3252 - www.skco.com

Independent Auditors' Report

Board of Directors
Harris County Municipal Utility District No. 372
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. 372 as of August 31, 2012, and for the year then ended, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of Harris County Municipal Utility District No. 372 as of August 31, 2012, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Harris County Municipal Utility District No. 372's financial statements taken as a whole. The Texas Supplementary Information (TSI) as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The information 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.

Sandersen Knox & Co.

Sugar Land, Texas
November 27, 2012

Management's Discussion and Analysis

As management of Harris County Municipal Utility District No. 372 (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended August 31, 2012.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by $3,378,495.
- As of August 31, 2012, the District's governmental funds reported an ending fund balance of $3,408,093.
- The District's cash and temporary investments balance at August 31, 2012, was $3,416,202, representing a decrease of $313,424 from August 31, 2011.
- The District had general revenues of $3,052,371 and revenues, net of expenses, of $957,229 for the year ended August 31, 2012.
- At the end of the fiscal year, the unassigned fund balance for the General Fund was $2,478,280, or 153 percent of total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

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

FUND FINANCIAL STATEMENTS

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

OTHER INFORMATION

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by $3,378,495 as of August 31, 2012.

The largest portion of the District's net assets represents unrestricted financial resources available for future operations ($2,487,497).

The District had deficit net assets invested in capital assets, net of related debt of $38,815 as of August 31, 2012. The deficit is due to the fact that the net book value of the capital assets acquired (cost less accumulated depreciation plus deferred charges on bond issuance costs) is less than the related bonded debt outstanding used to acquire these assets.

Additionally, a portion of the District's net assets reflects net assets restricted for specific uses ($929,813).

SUMMARY OF STATEMENT OF NET ASSETS
As of August 31, 2012 & 2011

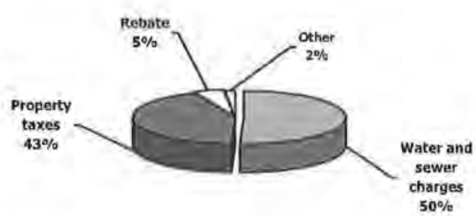
	Governmental Activities	
	2012	**2011**
Current and other assets	$ 4,134,927	$ 4,670,747
Capital assets, net	11,102,603	11,009,971
Total Assets	15,237,530	15,680,718
Long-term liabilities	11,690,000	12,620,000
Other liabilities	169,035	639,452
Total Liabilities	11,859,035	13,259,452
Net Assets:		
Invested in capital assets, net of debt	(38,815)	(896,136)
Restricted	929,813	1,026,970
Unrestricted	2,487,497	2,290,432
Total Net Assets	$ 3,378,495	$ 2,421,266

Net assets of the District, all of which relate to governmental activities, increased by $957,229. Key elements of the increase are as follows:

CHANGES IN NET ASSETS
For the Years Ended August 31, 2012 and 2011

	Governmental Activities	
	2012	**2011**
Revenues		
Program revenues:		
Water and sewer charges	$ 1,544,591	$ 1,585,949
Property taxes, penalties and interest	1,314,350	1,319,519
City of Houston rebate	143,461	248,340
Tap connections, investment income and other	49,969	38,855
Total Revenues	3,052,371	3,192,663
Expenses		
Purchased services	830,707	776,969
Professional fees and contracted services	209,775	236,166
Repairs and maintenance and other	279,111	251,475
Interest on long-term debt	490,650	553,767
Depreciation and amortization	284,899	247,102
Total Expenses	2,095,142	2,065,479
Change in Net Assets	957,229	1,127,184
Net assets, beginning	2,421,266	1,294,082
Net Assets, Ending	$ 3,378,495	$ 2,421,266

2012 GOVERNMENTAL REVENUES



FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

As of August 31, 2012, the District's governmental funds, which consist of a general fund and debt service fund, reported an ending fund balance of $3,408,093, which is an increase of $104,606 from last year's total of $3,303,487. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 153 percent of total General Fund expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The District's investment in capital assets as of August 31, 2012 amounts to $11,102,603 (net of accumulated depreciation). This investment in capital assets includes land and infrastructure.

	2012	2011
Land	$ 3,156,583	$ 3,158,270
Construction in progress	40,303	1,586,668
Water system	4,786,418	2,906,550
Wastewater system	2,273,116	2,273,116
Storm water system	2,659,456	2,659,456
Engineering	421,230	421,230
Less: accumulated depreciation	(2,234,503)	(1,995,319)
Total Capital Assets, Net	$ 11,102,603	$ 11,009,971

Additional information on the District's capital assets can found in Note 7 in the notes to financial statements.

LONG-TERM DEBT

As of August 31, 2012, the District has a total bonded debt outstanding of $11,690,000. Interest expense and fiscal charges for the year totaled $490,650 for the 2012 fiscal year on this bonded debt. These outstanding bonds have maturities ranging from 2013 to 2024. Additional information on the District's long-term debt can be found in Note 8 in the notes to the financial statements.

GENERAL FUND BUDGETARY HIGHLIGHTS

- Unreserved fund balance in the General Fund increased to $2,478,280. A planned decrease of fund balance of was projected.

REQUESTS FOR INFORMATION

The financial report is designed to provide a general overview of Harris County Municipal Utility District No. 372's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Harris County Municipal Utility District No. 372: Allen Boone Humphries Robinson LLP, 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027.

FINANCIAL STATEMENTS

Harris County Municipal Utility District No. 372

STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET

August 31, 2012

		General		Debt Service		Total
Assets						
Cash and cash equivalents	$	164,323	$	13,866	$	178,189
Temporary investments		2,314,156		923,857		3,238,013
Receivables:						
Property taxes		484		8,733		9,217
Customer service accounts		140,706				140,706
Accrued interest and other		19,431		789		20,220
Internal receivables		6,336				6,336
Deferred charges, net of amortization						
Capital assets, net of accumulated depreciation:						
Land						
Infrastructure						
Total Assets	$	2,645,436	$	947,245	$	3,592,681
Liabilities and Fund Balances/Net Assets						
Liabilities						
Accounts payable and accrued liabilities	$	126,922	$	2,363	$	129,285
Customer deposits		39,750				39,750
Internal payables				6,336		6,336
Deferred revenue		484		8,733		9,217
Long-term liabilities:						
Due within one year						
Due after one year						
Total Liabilities		167,156		17,432		184,588
Fund Balances/Net Assets						
Fund Balances:						
Restricted:						
Debt Service				929,813		929,813
Unrestricted:						
Unassigned		2,478,280				2,478,280
Total Fund Balances		2,478,280		929,813		3,408,093
Total Liabilities and Fund Balances	$	2,645,436	$	947,245	$	3,592,681
Net Assets:						
Invested in capital assets, net of related debt						
Restricted for debt service						
Unrestricted						
Total Net Assets						

See Notes to Financial Statements.

Exhibit B(1)

Adjustments (Note 2)	Statement of Net Assets
$	$ 178,189
	3,238,013
	9,217
	140,706
	20,220
(6,336)	
548,582	548,582
3,156,583	3,156,583
7,946,020	7,946,020
$ 11,644,849	$ 15,237,530
$	$ 129,285
	39,750
(6,336)	
(9,217)	
850,000	850,000
10,840,000	10,840,000
11,674,447	11,859,035
(929,813)	
(2,478,280)	
(3,408,093)	
(38,815)	(38,815)
929,813	929,813
2,487,497	2,487,497
$ 3,378,495	$ 3,378,495

Harris County Municipal Utility District No. 372

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

Year Ended August 31, 2012

	General	Debt Service	Total
Revenues			
Water service	$ 1,043,172	$	$ 1,043,172
Sewer service	501,419		501,419
Property taxes	67,231	1,210,224	1,277,455
Penalties and interest	25,437	16,156	41,593
Tap connection and inspection fees	29,007		29,007
Interest on investments	11,662	7,135	18,797
Other revenue	2,165		2,165
City of Houston rebate	143,461		143,461
Total Revenues	1,823,554	1,233,515	3,057,069
Expenditures/Expenses			
Current:			
Purchased services	830,707		830,707
Professional fees	96,440	5,398	101,838
Contracted services	85,834	22,103	107,937
Repairs and maintenance	151,127		151,127
Utilities	2,973		2,973
Tap connection and inspection	14,744		14,744
Other	108,150	2,117	110,267
Capital Outlay	331,816		331,816
Debt Service:			
Principal		820,000	820,000
Interest and fiscal charges		490,650	490,650
Depreciation and amortization			
Total Expenditures/Expenses	1,621,791	1,340,268	2,962,059
Excess (Deficiency) of Revenues Over (Under) Expenditures	201,763	(106,753)	95,010
Other Financing Sources (Uses)			
Proceeds from the sale of refunding bonds		3,690,000	3,690,000
Payment to refunding bond escrow agent		(3,800,000)	(3,800,000)
Bond premium		119,596	119,596
Total Other Financing Sources (Uses)		9,596	9,596
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)	201,763	(97,157)	104,606
Change in Net Assets			
Fund Balances/Net Assets - Beginning	2,276,517	1,026,970	3,303,487
Fund Balances/Net Assets - Ending	$ 2,478,280	$ 929,813	$ 3,408,093

See Notes to Financial Statements.

Exhibit B(2)

Adjustments (Note 2)	Statement of Activities
$	$ 1,043,172
	501,419
(4,698)	1,272,757
	41,593
	29,007
	18,797
	2,165
	143,461
(4,698)	3,052,371
	830,707
	101,838
	107,937
	151,127
	2,973
	14,744
	110,267
(331,816)	
(820,000)	
	490,650
284,899	284,899
(866,917)	2,095,142
862,219	
(3,690,000)	
3,800,000	
(119,596)	
(9,596)	
(104,606)	
957,229	957,229
(882,221)	2,421,266
$ (29,598)	$ 3,378,495

(This Page Intentionally Left Blank)

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

Harris County Municipal Utility District No. 372 (the "District") was created by an Order of the Texas Natural Resource Conservation Commission, now known as the Texas Commission on Environmental Quality, effective November 5, 1999. 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 parks and recreational facilities for the residents of the District. The District is also empowered to contract for or employ its own peace officers with powers to make arrests and to establish, operate and maintain a fire department to perform all fire-fighting activities within the District. The Board of Directors held its first meeting on January 17, 2000, and the first bonds were issued on September 12, 2000.

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

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

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

B. Financial Statement Presentation

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

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

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

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

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

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

C. Government-wide and Fund Financial Statements

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

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

D. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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

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

The District reports the following governmental funds:

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

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

E. Budget

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

F. Investments

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

G. Short-Term Internal Receivables/Payables

During the course of operations, transactions occur between individual funds for specified purposes. These receivables and payables are classified as internal receivables and payables on the combined balance sheet. These amounts are eliminated for government-wide presentation.

H. Capital Assets

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

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

Asset Description	Estimated Useful Life
Water system	20-45 years
Wastewater system	20-45 years
Storm water system	20-45 years
Engineering	20-45 years
Other	10-20 years

I. Deferred Charges

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

J. Long-Term Obligations

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

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

K. Fund Equity

Restricted equity balances represent those portions of fund balance/net assets not appropriable for expenditures/expenses or legally segregated for a specific future use. Unassigned/unrestricted fund balances/net assets represent available balances for the District's future use.

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. The Governmental Accounting Standards Board has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes. GASB 54 requires the fund balance amounts to be properly reported within one of the following fund balance categories:

Nonspendable:
To indicate fund balance associated with inventories, prepaids, long-term loans and notes receivable and property held for resale (unless the proceeds are restricted, committed or assigned).

Restricted:
To indicate fund balance that can be spent only for the specific purposes stipulated by constitution, external resource providers or through enabling legislation.

Committed:
To indicate fund balance that can be used only for the specific purposes determined by a formal action of the Board of Directors (the District's highest level of decision-making authority).

Assigned:
To indicate fund balance to be used for specific purposes but do meet the criteria to be classified as restricted or committed.

Unassigned:
To indicate the residual classification of fund balance in the General Fund and includes all spendable amounts not contained in the other classification.

GASB 54 also requires disclosure of any formally adopted minimum fund balance policies. The District does not currently have any such policies.

"Invested in capital assets, net of related debt" has a deficit balance as of August 31, 2012. As all of the capital assets were financed with general obligation debt, timing differences generally arise related to the straight line depreciation of the capital assets as compared to the level principal and interest payment structure of the debt, which yields lower principal retirement in the early years of the debt. As bond principal retirement increases over time, the deficit will be eliminated.

L. Date of Management's Review

In preparing the financial statements, the District has evaluated events and transactions for potential recognition or disclosure through November 27, 2012, the date that the financial statements were available to be issued.

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

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

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

Total fund balances - governmental funds	$	3,408,093
Capital assets and deferred charges used in governmental activities are not financial resources and are not reported in the funds.		11,651,185
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.		9,217
Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.		(11,690,000)
Net Assets of Governmental Activities	$	3,378,495

NOTES TO FINANCIAL STATEMENTS

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

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

Net change in fund balances - total governmental funds	$	104,606
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation and amortization in the current period.		46,917
Repayment of bond principal is reported as an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		810,404
Revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(4,698)
Change in Net Assets of Governmental Activities	$	957,229

NOTE 3 - CASH AND INVESTMENTS

Cash consists of interest-bearing checking accounts and investments consist of TexPool, money market accounts and certificates of deposit.

The carrying amounts for cash and investment balances, which approximate fair values, by fund at August 31, 2012, are as follows:

	Checking	Money Market	Certificates of Deposit	TexPool	Total
General	$ 164,323	$ 2,108	$ 2,090,000	$ 222,048	$ 2,478,479
Debt Service	13,866	38,857	885,000		937,723
	$ 178,189	$ 40,965	$ 2,975,000	$ 222,048	$ 3,416,202

Investment Policy

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

Applicable state laws and regulations allow the District to invest its funds in direct or indirect obligations of the United States, the State, or any county, city, school district, or other political subdivision of the State. Funds may also be placed in certificates of deposit of state or national banks or savings and loan associations (depository institutions) domiciled within the State. Related state statutes and provisions included in the District's bond resolutions require that all funds invested in depository institutions be guaranteed by federal depository insurance (FDIC) and/or be secured in the manner provided by law for the security of public funds. Balances in checking accounts in depository institutions were entirely guaranteed by federal depository insurance or security as provided by statutes and bond provisions at August 31, 2012.

At year-end, the District's investment balances were as follows:

		Fair Market Value	Weighted Average Maturity (Days)
Certificates of Deposit	$	2,975,000	232
TexPool		222,048	1
Money Market		40,965	1
Total Investments	$	3,238,013	

Investment Pools

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

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

Interest Rate Risk

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

Credit Risk – Investments

In accordance with its investment policy, the District minimized credit risk losses due to default of a security issuer or backer by limiting investments to the safest types of securities.

NOTE 4 - PROPERTY TAXES

The voters of the District have authorized the District's Board of Directors to levy maintenance taxes annually for use in financing general operations limited to $1.50 per $100 of assessed value. The District's bond resolution requires that ad valorem taxes be levied for use in paying interest and principal on long-term debt and for use in paying the cost of assessing and collecting taxes. Taxes levied for debt service requirements are without limitation as to rate or amount.

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

Property taxes are prorated between operations and debt service based on the respective rates adopted for the year of the levy. For the 2011 tax year, the District levied a combined rate of $0.19 per $100 of assessed valuation of which $0.01 was allocated to maintenance and operations and $0.18 was allocated to debt service. The resulting tax levy was $1,275,585 on the adjusted taxable valuation of $671,360,326 for the 2011 tax year.

Property taxes receivable at August 31, 2012, consisted of the following:

	General Fund	Debt Service Fund	Total
2011 Levy	$ 213	$ 3,826	$ 4,039
2010 Levy	141	2,531	2,672
2009 Levy	129	2,332	2,461
2008 Levy	1	44	45
	$ 484	$ 8,733	$ 9,217

Harris County Municipal Utility District No. 372

Exhibit B(3)

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - RECEIVABLES

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

	General		Debt Service		Total	
Receivables:						
Property taxes	$	484	$	8,733	$	9,217
Customer service		140,706				140,706
Accrued interest/other		19,431		789		20,220
Total Receivables	$	160,621	$	9,522	$	170,143

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

	Unavailable		Unearned	
Delinquent property taxes receivable - General Fund	$	484	$	
Delinquent property taxes receivable - Debt Service Fund		8,733		
Total Deferred Revenue for Governmental Funds	$	9,217	$	

NOTE 6 - DEFERRED CHARGES

A summary of changes in debt issuance costs – net follows:

	Original Bond Issue Cost		Balance at Sept. 1, 2011		Current Year Amortization		Balance at Aug. 31, 2012	
Refunding Bonds:								
Series 2005R	$	1,098,298	$	713,893	$	54,915	$	658,978
Series 2012R		(119,596)				(9,200)		(110,396)
Total Debt Issuance Costs	$	978,702	$	713,893	$	45,715	$	548,582

NOTE 7 - CAPITAL ASSETS

A summary of changes in capital assets for the year ended August 31, 2012, follows:

	Balance Sept. 1, 2011	Increases	(Decreases)	Balance Aug. 31, 2012
Governmental Activities:				
Non-depreciable Assets:				
Land	$ 3,158,270	$	$ (1,687)	$ 3,156,583
Construction in progress	1,586,668		(1,546,365)	40,303
Total Non-Depreciabable Assets	4,744,938		(1,548,052)	3,196,886
Depreciable Assets:				
Water system	2,906,550	1,879,868		4,786,418
Wastewater system	2,273,116			2,273,116
Storm water system	2,659,456			2,659,456
Impact fees	421,230			421,230
Total Depreciable Assets	8,260,352	1,879,868		10,140,220
Less Accumulated Depreciation	(1,995,319)	(239,184)		(2,234,503)
Totals	$ 11,009,971	$ 1,640,684	$ (1,548,052)	$ 11,102,603

Depreciation expense for the year ended August 31, 2012, totaled $239,184.

NOTE 8 - LONG-TERM DEBT

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

The following is a summary of changes in bonds payable for the year ended August 31, 2012:

Bonds payable, September 1, 2011	$ 12,620,000
Bonds retired	(820,000)
Bonds sold	3,690,000
Bonds refunded	(3,800,000)
Bonds Payable, Aug. 31, 2012	$ 11,690,000

Bonds payable at August 31, 2012, are comprised of the following individual issues:

	Amounts Outstanding	Interest Rate	Date Serially Begin/End	Maturity Interest Dates
2001	$ 200,000	4.125-6.125%	September 1 2003/2024	March 1/ Sept. 1
2003	$ 320,000	3.30-4.00%	September 1 2004/2024	March 1/ Sept. 1
2005R*	$7,480,000	4.00-4.40%	September 1 2008/2024	March 1/ Sept. 1
2012R*	$3,690,000	2.00-3.50%	September 1 2013/2024	March 1/ Sept. 1

The "R" in the 2005 issue denotes that these are refunding bonds.

As of August 31, 2012, the debt service requirements on bonds outstanding for the next five fiscal years and thereafter through 2024 are as follow:

Year	Principal	Interest	Total
2013	$ 850,000	$ 447,300	$ 1,297,300
2014	875,000	414,130	1,289,130
2015	890,000	384,050	1,274,050
2016	910,000	355,750	1,265,750
2017	930,000	322,950	1,252,950
2018-2022	5,015,000	1,069,755	6,084,755
2023-2024	2,220,000	138,355	2,358,355
	$ 11,690,000	$ 3,132,290	$ 14,822,290

The District remits its September 1st debt service payment in the preceding fiscal year. The above schedule presumes this practice will continue.

At August 31, 2012, the District had voted and approved, but unissued, bonds in the amount of $22,285,000 for tax bonds and $19,337,400 for refunding bonds.

As of August 31, 2012, the Debt Service Fund had $929,813 available to service the above bonds.

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

NOTE 9 - RISK MANAGEMENT

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

REQUIRED SUPPLEMENTARY INFORMATION

Harris County Municipal Utility District No. 372

Exhibit C(1)

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

Year Ended August 31, 2012

	Budgeted Amounts			Variance Positive
	Original	**Final**	**Actual**	**(Negative)**
Revenues				
Water service	$ 1,020,750	$ 1,020,750	$ 1,043,172	$ 22,422
Sewer service	490,600	490,600	501,419	10,819
Property taxes	66,454	66,454	67,231	777
Penalties and interest	18,630	18,630	25,437	6,807
Tap connection and inspection fees	11,350	11,350	29,007	17,657
Interest on investments	5,100	5,100	11,662	6,562
Other revenue	1,700	1,700	2,165	465
City of Houston rebate	248,340	248,340	143,461	(104,879)
Total Revenues	1,862,924	1,862,924	1,823,554	(39,370)
Expenditures				
Current:				
Purchased services	678,410	678,410	830,707	(152,297)
Professional fees	110,250	110,250	96,440	13,810
Contracted services	80,260	80,260	85,834	(5,574)
Repairs and maintenance	146,400	146,400	151,127	(4,727)
Utilities	1,200	1,200	2,973	(1,773)
Tap connection and inspection	2,480	2,480	14,744	(12,264)
Other	109,374	109,374	108,150	1,224
Capital Outlay	880,000	880,000	331,816	548,184
Total Expenditures	2,008,374	2,008,374	1,621,791	386,583
Excess of Revenues Over Expenditures	(145,450)	(145,450)	201,763	347,213
Fund Balances - Beginning	2,276,517	2,276,517	2,276,517	
Fund Balances - Ending	$ 2,131,067	$ 2,131,067	$ 2,478,280	$ 347,213

Harris County Municipal Utility District No. 372

Exhibit C(2)

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Budgets and Budgetary Accounting

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

(This Page Intentionally Left Blank)

TEXAS SUPPLEMENTARY INFORMATION

Harris County Municipal Utility District No. 372

SCHEDULE OF SERVICES AND RATES (UNAUDITED)*

August 31, 2012

1. Services provided by the District:

X	Retail Water		Wholesale Water	X	Drainage
X	Retail Sewer		Wholesale Sewer		Irrigation
	Parks/Recreation		Fire Protection		Security
	Solid Waste/Garbage		Flood Control		Roads

X Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)

___ Other (specify): ______

2. Retail Service Providers

a. Retail rates based on 5/8" meter — Retail rates not applicable

The most prevalent type of meter (if not a 5/8"): 1"

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate per 1,000 Gallons Over Minimum	Usage Levels
Water	$ 20.29	5,000	N	$ 3.65	5,000-12,000
				6.01	12,001-no limit
Waste	$ 23.24	5,000	N	5.75	5,000-no limit

District employs winter averaging for wastewater usage? Yes ___ No x

Total charges per 10,000 gallons usage:

Water $ 38.54 Wastewater $ 51.99

b. Water and Wastewater Retail Connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFCs
< or = .75"	6	6	x 1.0	6
1"	1,419	1,392	x 2.5	3,480
1.5"	68	64	x 5.0	320
2"	14	11	x 8.0	88
3"	-	-	x 15.0	-
4"	-	-	x 25.0	-
6"	1	1	x 50.0	50
8"	-	-	x 80.0	-
10"	-	-	x 115.0	-
Total Water	1,508	1,474		
Total Wastewater	852	824	x 1.0	824

3. Total Water Consumption During the Fiscal Year: (Rounded to the nearest thousand)

Gallons purchased:	228,128	Water Accountability Ratio (Gallons billed/Gallons pumped)
Gallons billed to customers:	208,564	91.4%

* See accompanying Independent Auditors' Report.

4. **Standby Fees** (n/a)

5. **Location of District:**

County(ies) in which District is located. Harris

Is the District located entirely within one county? Yes _X_ No ___

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

City(ies) in which District is located. City of Houston

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

Entirely ___ Partly ___ Not at all _X_

ETJ's in which District is located. ___________

Are Board members appointed by an office outside the District?

Yes ___ No _X_

If yes, by whom? ___________

Harris County Municipal Utility District No. 372

TSI-2

GENERAL FUND EXPENDITURES

August 31, 2012 and 2011

	2012	2011
Personnel Expenditures (including benefits)	$	$
Professional Fees:		
Auditing	7,500	7,500
Legal	61,749	54,493
Engineering	27,191	55,459
Purchased Services For Resale:		
Bulk Water and Wastewater Service Purchases	830,707	776,969
Contracted Services:		
Bookkeeping	21,030	20,365
Operations and Billing	64,804	63,536
Repairs and Maintenance	151,127	171,976
Utilities	2,973	3,740
Tap Connection Expenditures	14,744	9,975
Administrative Expenditures:		
Directors Fees	23,968	26,137
Office Supplies	19,579	5,708
Insurance	6,118	3,679
Other Administrative Expenditures	58,485	27,525
Capital Outlay:		
Capitalized Assets	331,816	1,549,862
Expenditures not Capitalized		
TOTAL EXPENDITURES	$ 1,621,791	$ 2,776,924

	Full-Time	Part-Time
Number of employees employed by the District:	0	0

Harris County Municipal Utility District No. 372

TSI-3

INVESTMENTS

August 31, 2012

Funds	Identification or Certificate Number	Interest Rate (%)	Maturity Date	Balance at End of Year	Accrued Interest Receivable at End of Year
General Fund					
Certificate of deposit	3331	0.50	7/23/2013	$ 175,000	$ 93
Certificate of deposit	0862	0.55	1/26/2013	225,000	414
Certificate of deposit	4734	0.40	12/27/2012	240,000	652
Certificate of deposit	6376	0.75	4/20/2013	240,000	656
Certificate of deposit	5031	0.72	4/10/2013	95,000	270
Certificate of deposit	9934	0.72	5/1/2013	150,000	361
Certificate of deposit	5469	0.70	4/5/2013	240,000	686
Certificate of deposit	4808	0.85	6/22/2013	150,000	245
Certificate of deposit	2927	0.35	5/28/2013	95,000	89
Certificate of deposit	8687	0.95	8/22/2013	240,000	56
Certificate of deposit	2679	0.32	1/3/2013	240,000	140
Money Market	6043	Variable	N/A	2,108	
TexPool	2670900002	Variable	N/A	222,048	
Total General Fund				2,314,156	3,662
Debt Service Fund					
Certificate of deposit	7829	0.30	2/2/2013	240,000	239
Certificate of deposit	1731	0.55	8/20/2013	240,000	40
Certificate of deposit	7925	0.75	8/20/2013	165,000	37
Certificate of deposit	9538	0.59	2/20/2013	240,000	473
Money Market	3654621	Variable	N/A	38,857	
TexPool	2670900001	Variable	N/A		
Total Debt Service Fund				923,857	789
Total - All Funds				$ 3,238,013	$ 4,451

(This Page Intentionally Left Blank)

Harris County Municipal Utility District No. 372

TSI-4

TAXES LEVIED AND RECEIVABLE

Year Ended August 31, 2012

	Maintenance Taxes	Debt Service Taxes	Total
Taxes receivable - Beginning of Year	$ 729	$ 13,186	13,915
Adjustments	(53)	(956)	(1,009)
Adjusted Receivable	676	12,230	12,906
2011 Original Tax Levy	67,040	1,206,719	1,273,759
Adjustments and corrections	96	1,729	1,825
Adjusted tax levy	67,136	1,208,448	1,275,584
Total to be Accounted for	67,812	1,220,678	1,288,490
Tax Collections			
Current year	66,923	1,204,622	1,271,545
Prior years	405	7,323	7,728
Total Collections	67,328	1,211,945	1,279,273
Taxes Receivable - End of Year	$ 484	$ 8,733	$ 9,217
Taxes Receivable - By Years			
2011	$ 213	$ 3,826	4,039
2010	141	2,531	2,672
2009	129	2,332	2,461
2008	1	44	45
2007 and prior			
Taxes Receivable - End of Year	$ 484	$ 8,733	$ 9,217

Assessed Property Valuations	2011	2010	2009	2008
Land	$ 242,902,264	$ 241,164,563	$ 234,008,451	$ 226,751,715
Improvements	426,899,878	430,919,363	462,818,012	448,465,760
Personal Property	8,318,270	8,305,427	7,701,545	7,462,716
Less: Exemptions	(6,760,086)	(6,974,594)	(4,889,545)	(4,737,919)
Total	$ 671,360,326	$ 673,414,759	$ 699,638,463	$ 677,942,272
Tax Rates Per $100 Valuations				
Debt service	$ 0.180	$ 0.180	$ 0.180	$ 0.185
General operations	0.010	0.010	0.010	0.005
Total Tax Rate per $100 Valuation	$ 0.190	$ 0.190	$ 0.190	$ 0.190
Original Tax Levy	$ 1,275,584	$ 1,279,505	$ 1,329,313	$ 1,288,090
Percent of Taxes Collected to Taxes Levied	99.68%	100.00%	100.00%	100.00%

Maximum Maintenance Tax Rate Approved by Voters: $ 1.50 on 1/15/2000

Harris County Municipal Utility District No. 372

TSI-5

LONG-TERM DEBT SERVICE REQUIREMENTS - BY YEARS

August 31, 2012

Due During	Annual Requirements for All Series			Series 2001		
Fiscal Years	Principal	Interest Due		Principal	Interest Due	
Ending	Due	March 1,		Due	March 1,	
August 31	September 1	September 1	Total	September 1	September 1	Total
2013	$ 850,000	$ 447,300	$ 1,297,300	$ 200,000	$ 8,250	$ 208,250
2014	875,000	414,130	1,289,130			
2015	890,000	384,050	1,274,050			
2016	910,000	355,750	1,265,750			
2017	930,000	322,950	1,252,950			
2018	950,000	289,300	1,239,300			
2019	975,000	254,200	1,229,200			
2020	1,000,000	215,665	1,215,665			
2021	1,030,000	176,080	1,206,080			
2022	1,060,000	134,510	1,194,510			
2023	1,090,000	91,650	1,181,650			
2024	1,130,000	46,705	1,176,705			
Total	$ 11,690,000	$ 3,132,290	$ 14,822,290	$ 200,000	$ 8,250	$ 208,250

Due During	Series 2003			Series 2005R		
Fiscal Years	Principal	Interest Due		Principal	Interest Due	
Ending	Due	March 1,		Due	March 1,	
August 31	September 1	September 1	Total	September 1	September 1	Total
2013	$ 160,000	$ 11,200	$ 171,200	$ 480,000	$ 312,800	$ 792,800
2014	160,000	5,680	165,680	505,000	293,600	798,600
2015				525,000	273,400	798,400
2016				550,000	252,400	802,400
2017				575,000	230,400	805,400
2018				600,000	207,400	807,400
2019				630,000	182,800	812,800
2020				655,000	156,340	811,340
2021				690,000	128,830	818,830
2022				720,000	99,160	819,160
2023				755,000	68,200	823,200
2024				795,000	34,980	829,980
Total	$ 320,000	$ 16,880	$ 336,880	$ 7,480,000	$ 2,240,310	$ 9,720,310

Due During	Series 2012R		
Fiscal Years	Principal	Interest Due	
Ending	Due	March 1,	
August 31	September 1	September 1	Total
2013	$ 10,000	$ 115,050	$ 125,050
2014	210,000	114,850	324,850
2015	365,000	110,650	475,650
2016	360,000	103,350	463,350
2017	355,000	92,550	447,550
2018	350,000	81,900	431,900
2019	345,000	71,400	416,400
2020	345,000	59,325	404,325
2021	340,000	47,250	387,250
2022	340,000	35,350	375,350
2023	335,000	23,450	358,450
2024	335,000	11,725	346,725
Total	$ 3,690,000	$ 866,850	$ 4,556,850

Harris County Municipal Utility District No. 372

TSI-6

CHANGE IN GENERAL LONG-TERM BONDED DEBT

Year Ended August 31, 2012

	Bond Issues				
	Series 2001	Series 2003	Series 2005R	Series 2012R	Total
Interest rate	4.125-6.125%	3.30-4.00%	4.00-4.40%	4.00-4.40%	
Dates interest payable	3/1;9/1	3/1;9/1	3/1;9/1	3/1;9/1	
Maturity dates	9/1/03-9/1/24	9/1/04-9/1/24	9/1/06-9/1/24	9/1/06-9/1/24	
Beginning Bonds Outstanding	$ 2,600,000	$ 2,080,000	$ 7,940,000	$	$ 12,620,000
Bonds Sold During the Fiscal Year				3,690,000	3,690,000
Bonds Retired during the Fiscal Year	(2,200,000)	(1,600,000)			(3,800,000)
Principal retirements	(200,000)	(160,000)	(460,000)		(820,000)
Bonds Payable, Ending	$ 200,000	$ 320,000	$ 7,480,000	$ 3,690,000	$ 11,690,000
Interest Paid During the Fiscal Year	$ 61,875	$ 48,000	$ 331,200	$ 48,577	$ 489,652

Paying Agent's Name and City

All Series — JPMorgan Chase Bank, Houston, Texas

Bond Authority	Tax Bonds*	Other Bonds	Refunding Bonds
Amount Authorized by Voters	$ 40,000,000	$	$ 24,000,000
Amount Issued	$ 17,715,000	$	$ 4,662,600
Remaining to be Issued	$ 22,285,000	$	$ 19,337,400

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

Debt Service Fund Cash and Temporary Investment Balances at Year End	$ 937,723
Average Annual Debt Service Payment (Principal and Interest) for Remaining Term of all Debt	$ 1,235,191

Harris County Municipal Utility District No. 372

COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES - GENERAL AND DEBT SERVICE FUNDS

Last Five Fiscal Years

	Amounts				
	2012	2011	2010	2009	2008
7a. GENERAL FUND					
REVENUES:					
Water and sewer service	$ 1,544,591	$ 1,585,949	$ 1,078,260	$ 1,285,594	$ 1,045,632
Property taxes	67,231	67,710	69,871	34,906	67,660
Penalties and interest	25,437	22,004	25,999	27,555	17,049
Interest and other	186,295	277,365	304,267	357,929	381,806
TOTAL REVENUES	1,823,554	1,953,028	1,478,397	1,705,984	1,512,147
EXPENDITURES:					
Current	1,289,975	1,227,062	993,411	1,085,474	940,029
Capital outlay	331,816	1,549,862	753,113		
TOTAL EXPENDITURES	1,621,791	2,776,924	1,746,524	1,085,474	940,029
EXCESS REVENUES OVER (UNDER) EXPENDITURES	$ 201,763	$ (823,896)	$ (268,127)	$ 620,510	$ 572,118
7b. DEBT SERVICE FUND					
REVENUES:					
Property taxes	$ 1,210,224	$ 1,219,767	$ 1,265,370	$ 1,262,496	$ 1,256,511
Penalty and interest	16,156	18,344	31,033	19,305	31,392
Interest and other	7,135	9,830	21,486	41,112	66,020
TOTAL REVENUES	1,233,515	1,247,941	1,317,889	1,322,913	1,353,923
EXPENDITURES:					
Tax collection	29,618	37,548	30,609	33,576	32,088
Debt service	1,310,650	1,353,767	1,363,669	1,374,996	1,392,767
Total Expenditures	1,340,268	1,391,315	1,394,278	1,408,572	1,424,855
EXCESS REVENUES OVER (UNDER) EXPENDITURES	$ (106,753)	$ (143,374)	$ (76,389)	$ (85,659)	$ (70,932)
TOTAL ACTIVE RETAIL WATER CONNECTIONS	1,483	1,472	1,463	1,442	1,422
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	822	822	799	815	807

Percent of Total Fund Revenues				
2012	2011	2010	2009	2008
84.6 %	81.2 %	72.9 %	75.4 %	69.1 %
3.7	3.5	4.7	2.0	4.5
1.4	1.1	1.8	1.6	1.1
10.3	14.2	20.6	21.0	25.3
100.0	100.0	100.0	100.0	100.0
70.7	62.8	67.2	63.6	62.2
18.2	79.4	50.9		
88.9	142.2	118.1	63.6	62.2
11.1 %	(42.2) %	(18.1) %	36.4 %	37.8 %
98.1 %	97.7 %	96.0 %	95.4 %	92.8 %
1.3	1.5	2.4	1.5	2.3
0.6	0.8	1.6	3.1	4.9
100.0	100.0	100.0	100.0	100.0
2.4	3.0	2.3	2.5	2.4
106.3	108.5	103.5	103.9	102.9
108.7	111.5	105.8	106.4	105.3
(8.7) %	(11.5) %	(5.8) %	(6.4) %	(5.3) %

Harris County Municpal Utility District No. 372

TSI-8

BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS

August 31, 2012

Complete District Mailing Address: 3200 Southwest Freeway, Suite 2600, Houston TX 77027
District Business Telephone Number: (713) 860-6400
Submission date of most recent District Registration Form
(TWC Sections 36.054 and 49.054): 06/14/2012
Limit on Fees of Office that a Director may receive during a fiscal year
(Set by Board Resolution - TWC Section 49.6000): $ 7,200

Names:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid * 08/31/12	Expense Reimburse-ments 08/31/12	Title at Year End
Board Members:				
James E. Fick	(Elected) 5/10 - 5/14	$ 6,450	$ 854	President
Bruce Streeter	(Appointed) 5/12 - 5/14	1,950	904	Vice President
William Shewbart	(Elected) 5/12 - 5/16	1,050	0	Secretary
Gregg Steffen	(Elected) 5/12 - 5/16	1,500	953	Assistant Vice President
Robert J. Kepke	(Elected) 5/10 - 5/14	3,600	796	Assistant Secretary
Consultants:				
Allen Boone Humphries Robinson LLP		$ 61,749		Attorney
IDS Engineering Group		35,129		Engineer
Harris County Appraisal District		10,429		Tax Appraiser
Sandersen Knox & Co., LLP		7,500		Independent Auditor
Severn Trent Environmental Services, Inc.		181,530		Operator
Assessments of the Southwest, Inc.		11,674		Tax Assessor/Collector
First Southwest Company		-		Financial Advisor
Municipal Accounts & Consulting, LP		21,030		Bookkeeper

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

APPENDIX B

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER] Policy No: _____

MEMBER: [NAME OF MEMBER]

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

Effective Date: _________

Risk Premium: $__________
Member Surplus Contribution: $ _________

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

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

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

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

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

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

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By ______________________________________

Authorized Officer

Notices (Unless Otherwise Specified by BAM)

Email:
claims@buildamerica.com
Address:
1 World Financial Center, 27^{th} floor
200 Liberty Street
New York, New York 10281
Telecopy:
212-235-5214 (attention: Claims)