

OFFICIAL STATEMENT DATED FEBRUARY 18, 2016

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

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

NEW ISSUE – Book Entry Only

Insured Rating (BAM): S&P "AA" (stable outlook)
Underlying Rating: Moody's "A3" (stable outlook)
See "MUNICIPAL BOND RATING" and
"MUNICIPAL BOND INSURANCE" herein.

\$15,330,000

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71
(A political subdivision of the State of Texas located within Harris County)
UNLIMITED TAX REFUNDING BONDS
SERIES 2016

The bonds described above (the "Bonds") are obligations solely of Harris County Municipal Utility District No. 71 (the "District") and are not obligations of the State of Texas, Harris County, the City of Houston or any entity other than the District.

Dated: March 1, 2016

Due: September 1, as shown below

Principal of the Bonds is payable at stated maturity or 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 March 1, 2016, and is payable each March 1 and September 1, commencing September 1, 2016, until the earlier of stated maturity or 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."



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 (Sept. 1)	CUSIP Number(b)	Interest Rate	Initial Reoffering Yield(a)	Principal Amount	Maturity (Sept. 1)	CUSIP Number(b)	Interest Rate	Initial Reoffering Yield(a)
\$ 45,000	2016	414972 UM9	3.000 %	0.750 %	\$ 1,135,000	2025 (c)	414972 UW7	2.250 %	2.490 %
110,000	2017	414972 UN7	3.000	1.100	1,110,000	2026 (c)	414972 UX5	2.500	2.700
440,000	2018	414972 UP2	3.000	1.200	1,390,000	2027 (c)	414972 UY3	4.000	2.550
440,000	2019	414972 UQ0	3.000	1.390	1,380,000	2028 (c)	414972 UZ0	4.000	2.750
590,000	2020	414972 UR8	3.000	1.550	1,370,000	2029 (c)	414972 VA4	4.000	2.850
585,000	2021	414972 US6	3.000	1.650	1,355,000	2030 (c)	414972 VB2	3.000	3.150
585,000	2022	414972 UT4	3.000	1.930	1,395,000	2031 (c)	414972 VC0	3.000	3.230
605,000	2023	414972 UU1	2.000	2.150	1,365,000	2032 (c)	414972 VD8	4.000	3.100
595,000	2024 (c)	414972 UV9	2.000	2.280	835,000	2033 (c)	414972 VE6	4.000	3.150

- (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 yield resulting when priced to maturity. Accrued interest from March 1, 2016 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, 2024, 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, 2023, 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 Norton Rose Fulbright US LLP, Houston, Texas. Delivery of the Bonds is expected on or about March 22, 2016.

SAMCO Capital Markets, Inc.

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USE OF INFORMATION IN OFFICIAL STATEMENT

No dealer, broker, salesman or other person has been authorized to give any information or to make any representations other than those contained in this OFFICIAL STATEMENT, and, if given or made, such other information or 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 provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in the Official Statement in accordance with, and as part of, its responsibilities to investors under federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

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."

SALE AND DISTRIBUTION OF THE BONDS

The Underwriter

The Bonds are being purchased by SAMCO Capital Markets, Inc. (the “Underwriter”) pursuant to a bond purchase agreement with the District (the “Bond Purchase Agreement”) at a price of \$15,743,471.69 (representing the par amount of the Bonds of \$15,330,000.00, plus a net premium on the Bonds of \$521,165.20, less an Underwriter’s discount of \$107,693.51) 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.”

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...

Harris County Municipal Utility District No. 71 (the “District”) is a political subdivision of the State of Texas, created by the Texas Water Commission, predecessor to the Texas Commission on Environmental Quality (the “TCEQ”) on December 13, 1977, and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. The District consists of approximately 1,317 acres of land. See “THE DISTRICT.”

Location...

The District is located approximately 25 miles west of the central downtown business district of the City of Houston, Texas in Harris County. The District lies wholly within the exclusive extraterritorial jurisdiction of the City of Houston and within the boundaries of the Katy Independent School District. Access to the District is provided by Interstate Highway 10 west to Mason Road, a major thoroughfare into the District, or via Clay Road exit, east from State Highway 99 (the “Grand Parkway”). See “THE DISTRICT.”

Status of Development...

Development of the District began in 1978. The District is currently providing water supply and distribution, wastewater collection and treatment and storm drainage facilities to approximately 853 acres developed into 4,126 single-family residential lots of Westland Creek Village, Section One, Lakes of Bridgewater, Sections One through Ten, Bridgewater Pointe, Sections One through Three, Bridgewater Village, Section One, Enclave at Bridgewater, Sections One and Two, Mason Lakes, Sections One through Three, Morton Ranch, Sections One through Four, Bridgewater Meadow, Sections One through Three, The Lakes at Mason Park, Sections One through Four, Bridgewater Place, Sections One and Two, and Vineyard Meadow, Sections One through Nine. As of January 14, 2016, there were 4,072 completed homes (4,026 of which were occupied), 27 vacant developed single-family residential lots and 27 homes under construction.

In addition, the Katy Independent School District has constructed an elementary school and a middle school and the District has constructed an administration and maintenance building on approximately 32 acres, two churches have been constructed on approximately 14 acres, a Harris County park has been constructed on approximately 6 acres, Evergreen Cottages, an assisted living facility, has been constructed on approximately 1 acre and approximately 126 acres of commercial reserves have been served with water and sewer trunk facilities, upon which two gas stations with convenience stores, two small strip centers, a child care center, a Family Dollar store, a Wendy’s, a gas station and a shopping center have been constructed on approximately 14 acres. Approximately 27 developable acres have not yet been provided with water distribution, wastewater collection and storm drainage facilities and approximately 244 acres are not developable (street right of way, recreation sites, easements and plant sites). See “THE DISTRICT.”

The Developers and Homebuilders...

Buffington Mason Park, Ltd., a Texas limited partnership, is the owner of the vacant lots in The Lakes at Mason Park, Section One through Four and 20 additional acres of undeveloped land in the District. The General Partner of Buffington Mason Park, Ltd. is Buffington Mason Park Management, L.L.C., a Texas limited liability company. As of the date hereof, Buffington Mason Park is delinquent on payment on taxes for 2014 in the amount of \$28,180.67.

KB Home Lone Star, Inc. (“KB Home Lone Star”), a Texas corporation, has developed Vineyard Meadow, Sections Three through Nine. KB Home Lone Star is indirectly wholly owned by KB Home, a Delaware corporation and national homebuilding company, the stock of which is publicly traded on the New York Stock Exchange. KB Home Lone Star owns no remaining undeveloped land in the District.

Buffington Mason Park, Ltd., Inc., and KB Home Lone Star are collectively referred to herein as the “Developers.”

Builders active in the District or who have lots in their names include KB Home, Colina Homes, GreenEco Homes, Gateway Homes, Megatel Homes. Homes range in price from approximately \$110,000 to \$220,000. See “THE DISTRICT—Homebuilders” and “THE DEVELOPERS.”

Payment Record... The District has heretofore issued \$67,960,000 principal amount of unlimited tax bonds to finance water, wastewater and storm drainage facilities and \$32,770,000 principal amount of unlimited tax refunding bonds. As of January 31, 2016, the District has a total of \$53,045,000 principal amount of bonds outstanding (the “Outstanding Bonds”). The District has never defaulted on the payment of principal or interest on the Outstanding Bonds. See “PLAN OF FINANCING—Outstanding Bonds.”

THE BONDS

Description... \$15,330,000 Unlimited Tax Refunding Bonds, Series 2016 (the “Bonds”) mature serially on September 1 in the years 2016 through 2033, both inclusive, in the principal amounts set forth on the cover page. Interest accrues from March 1, 2016, at the rates per annum set forth on the cover page hereof, and is payable September 1, 2016, and each March 1 and September 1 thereafter, until the earlier of stated maturity or 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.”

Optional Redemption... Bonds maturing on or after September 1, 2024 are subject to redemption at the option of the District prior to their maturity dates on September 1, 2023, 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 will be used to pay certain costs incurred in connection with the issuance of the Bonds and to advance refund \$14,305,000 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, \$38,740,000 principal amount of the Outstanding Bonds will remain outstanding (the “Remaining Outstanding Bonds”). See “PLAN OF FINANCING.”

Authority for Issuance... At a bond election held within the District on November 8, 2005, District voters authorized the issuance of \$27,300,000 principal amount of unlimited tax bonds for the purpose of refunding outstanding bonds of the District. The Bonds are being issued pursuant to such authorization. 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 Insurance

and Municipal Bond Rating... It is expected that Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"), will 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"). Moody's Investors Service (Moody's), has assigned an underlying credit rating of "A3" 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."

*Not Qualified Tax
Exempt Obligations...*

The Bonds are **not** "qualified tax-exempt obligations" for financial institutions within the meaning of Section 265(b) of the Internal Revenue Code of 1986, as amended.

Bond Counsel...

Allen Boone Humphries Robinson LLP, Houston, Texas. See "MANAGEMENT OF THE DISTRICT," "LEGAL MATTERS" and "TAX MATTERS."

Financial Advisor...

FirstSouthwest, a Division of Hilltop Securities Inc., Houston, Texas. See "MANAGEMENT OF THE DISTRICT."

Underwriter's Counsel...

Norton Rose Fulbright US LLP, 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."

*Escrow Agent for Refunded
Bonds...*

The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. See "PLAN OF FINANCING—Defeasement of the Refunded Bonds."

Verification Agent...

Grant Thornton LLP, Minneapolis, Minnesota.

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)

2015 Taxable Assessed Valuation.....	\$591,393,997 (a)
Estimated Taxable Assessed Valuation as of August 1, 2015.....	\$608,586,475 (b)
Gross Direct Debt Outstanding	\$54,070,000 (c)
Estimated Overlapping Debt	<u>26,172,945 (d)</u>
Gross Direct Debt and Estimated Overlapping Debt.....	\$80,242,945
Ratios of Gross Direct Debt to:	
2015 Taxable Assessed Valuation.....	9.14%
Estimated Taxable Assessed Valuation as of August 1, 2015.....	8.88%
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:	
2015 Taxable Assessed Valuation.....	13.57%
Estimated Taxable Assessed Valuation as of August 1, 2015.....	13.19%
Debt Service Fund Balance as of February 8, 2016	\$7,336,184
Capital Projects Fund Balance as of February 8, 2016.....	\$7,904,376
General Operating Fund Balance as of February 8, 2016	\$9,517,623 (e)
2015 Debt Service Tax Rate.....	\$0.74
2015 Maintenance Tax Rate.....	<u>0.23</u>
2015 Total Tax Rate	\$0.97
Average Annual Debt Service Requirement (2016-2036).....	\$3,480,492 (f)
Maximum Annual Debt Service Requirement (2016).....	\$4,209,816 (f)
Tax Rates Required to Pay Average Annual Debt Service (2016-2036) at a 95% Collection Rate	
Based upon 2015 Taxable Assessed Valuation.....	\$0.62
Based upon Estimated Taxable Assessed Valuation as of August 1, 2015	\$0.61
Tax Rates Required to Pay Maximum Annual Debt Service (2016) at a 95% Collection Rate	
Based upon 2015 Taxable Assessed Valuation.....	\$0.75
Based upon Estimated Taxable Assessed Valuation as of August 1, 2015	\$0.73
Status of Development as of January 14, 2016(g):	
Completed Homes (4,026 occupied)	4,072
Homes Under Construction	27
Vacant Developed Lots	27
Estimated Population.....	14,091 (h)

- (a) Includes \$587,181,960 of value as certified by the Harris County Appraisal District (the "Appraisal District") and \$4,212,037 of uncertified value in the District not yet certified for 2015. The certified value plus the value of the uncertified properties is \$591,393,997. See "TAXING PROCEDURES."
- (b) Provided by the Appraisal District for informational purposes only. Such amounts reflect an estimate of the taxable appraised value within the District on August 1, 2015. No tax will be levied on such amount until it is certified by the Appraisal District as of January 1 of each year as part of the 2016 taxable assessed valuation as of January 1, 2016. See "TAXING PROCEDURES."
- (c) After the issuance of the Bonds. See "DEBT SERVICE REQUIREMENTS."
- (d) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt" and "—Overlapping Taxes."
- (e) See "WATER AND SEWER OPERATIONS" and "APPENDIX A" for detailed information on the operations of the District.
- (f) See "DEBT SERVICE REQUIREMENTS."
- (g) See "THE DISTRICT—Status of Development."
- (h) Based upon 3.5 persons per occupied single-family residence.

OFFICIAL STATEMENT

\$15,330,000

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71

(A political subdivision of the State of Texas located within Harris County)

UNLIMITED TAX REFUNDING BONDS

SERIES 2016

This Official Statement provides certain information in connection with the issuance by Harris County Municipal Utility District No. 71 (the “District”) of its \$15,330,000 Unlimited Tax Refunding Bonds, Series 2016 (the “Bonds”).

The Bonds are issued pursuant to the Texas Constitution, the general laws of the State of Texas (particularly Chapter 1207 of the Texas Government Code, as amended), City of Houston Ordinance No. 97-416, Chapters 49 and 54 of the Texas Water Code, as amended 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 a bond election held within the District on November 8, 2005, voters of the District have authorized the issuance of \$27,300,000 principal amount of unlimited tax bonds for the purpose of refunding District bonds. See “THE BONDS—Issuance of Additional Debt.”

The proceeds of the Bonds and lawfully available debt service funds are being used to advance refund and defease a portion of each of the District’s Unlimited Tax Bonds, Series 2007 totaling \$6,005,000 and Unlimited Tax Bonds, Series 2009, totaling \$8,300,000 (collectively, 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” below. A total of \$38,740,000 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 as of January 31, 2016, the Refunded Bonds and the Remaining Outstanding Bonds.

Series	Original Principal Amount	Principal Amount Currently Outstanding	Refunded Bonds	Remaining Outstanding Bonds
2005A (a)	\$ 2,865,000	\$ 255,000	\$ -	\$ 255,000
2007	9,680,000	6,655,000	6,005,000	650,000
2009	9,700,000	8,900,000	8,300,000	600,000
2012	4,250,000	3,750,000	-	3,750,000
2012A (a)	5,465,000	4,945,000	-	4,945,000
2013(a)	4,125,000	3,710,000	-	3,710,000
2014	5,300,000	5,250,000	-	5,250,000
2014A(a)	4,640,000	4,595,000	-	4,595,000
2015(a)	6,865,000	6,865,000	-	6,865,000
2015A	8,120,000	8,120,000	-	8,120,000
Total		\$ 53,045,000	\$ 14,305,000	\$ 38,740,000
The Bonds				15,330,000
The Bonds and Remaining Outstanding Bonds				\$ 54,070,000

(a) Unlimited Tax Refunding Bonds.

Refunded Bonds

Proceeds of the Bonds will be applied to 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 Sept. 1	Series 2007	Maturity Date Sept. 1	Series 2009
2018	\$ 325,000	2018	\$ -
2019	325,000 (a)	2019	-
2020	325,000 (a)	2020	150,000
2021	325,000 (b)	2021	150,000
2022	325,000 (b)	2022	150,000
2023	325,000 (c)	2023	175,000 (g)
2024	325,000 (c)	2024	175,000 (g)
2025	450,000 (d)	2025	600,000 (h)
2026	450,000 (d)	2026	600,000 (h)
2027	450,000 (e)	2027	900,000 (i)
2028	450,000 (e)	2028	900,000 (i)
2029	450,000 (e)	2029	900,000 (i)
2030	450,000 (f)	2030	900,000 (j)
2031	515,000 (f)	2031	900,000 (j)
2032	515,000 (f)	2032	900,000 (k)
2033	-	2033	900,000 (k)
	<u>\$ 6,005,000</u>		<u>\$ 8,300,000</u>

Redemption Date: September 1, 2016

Redemption Date: September 1, 2018

- (a) Consisting of a term bond in the aggregate principal amount of \$650,000 maturing September 1, 2020 and subject to mandatory redemption.
- (b) Consisting of a term bond in the aggregate principal amount of \$650,000 maturing September 1, 2022 and subject to mandatory redemption.
- (c) Consisting of a term bond in the aggregate principal amount of \$650,000 maturing September 1, 2024 and subject to mandatory redemption.
- (d) Consisting of a term bond in the aggregate principal amount of \$900,000 maturing September 1, 2026 and subject to mandatory redemption.
- (e) Consisting of a term bond in the aggregate principal amount of \$1,350,000 maturing September 1, 2029 and subject to mandatory redemption.
- (f) Consisting of a term bond in the aggregate principal amount of \$1,480,000 maturing September 1, 2032 and subject to mandatory redemption.
- (g) Consisting of a term bond in the aggregate principal amount of \$650,000 maturing September 1, 2024 and subject to mandatory redemption.
- (h) Consisting of a term bond in the aggregate principal amount of \$1,200,000 maturing September 1, 2026 and subject to mandatory redemption.
- (i) Consisting of a term bond in the aggregate principal amount of \$2,700,000 maturing September 1, 2029 and subject to mandatory redemption.
- (j) Consisting of a term bond in the aggregate principal amount of \$1,800,000 maturing September 1, 2031 and subject to mandatory redemption.
- (k) Consisting of a term bond in the aggregate principal amount of \$1,800,000 maturing September 1, 2033 and subject to mandatory redemption.

Escrow Agreement

The Refunded Bonds, and the interest due thereon, are to be paid on their scheduled interest payment dates until final payment or their 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 be dated as of the date of the Bond Purchase Agreement (defined herein), but effective on the date of delivery of the Bonds (expected to be March 22, 2016). The Bond Resolution further provides that from the proceeds of the sale of the Bonds, together with certain other lawfully available funds of the District, if any, 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 a portion of such funds will be used to purchase United States Treasury Obligations (the "Escrowed Securities") scheduled to mature at such times and in such amounts as will be sufficient to pay, when due, the principal of and interest of the Refunded Bonds. At the time of delivery of the Bonds to the Underwriter, Grant Thornton LLP, Certified Public Accountants, will verify mathematical calculations to the effect that funds are sufficient to pay, when due, the principal of and interest on the Refunded Bonds. See "VERIFICATION OF MATHEMATICAL CALCULATIONS." 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 or the Remaining Outstanding Bonds.

Defeasance of the Refunded Bonds

By the deposit of the Escrowed Securities and cash, if any, with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of the Refunded Bonds pursuant to the terms of the resolutions authorizing the issuance of the Refunded Bonds. In the opinion of Bond Counsel, as a result of such a deposit, and in reliance upon the verification report of Grant Thornton, LLP, firm banking and financial arrangements will have been made for the discharge and final payment of the Refunded Bonds pursuant to the Escrow Agreement, and such Refunded Bonds will be deemed under Texas law to be fully paid and no longer outstanding, except for the purpose of being paid from the funds provided therefor in the Escrow Fund.

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.....	\$15,330,000.00
Plus: Net Premium on the Bonds.....	521,165.20
Plus: Accrued Interest.....	29,005.52
Total Sources of Funds	\$15,880,170.72

Uses of Funds:

Deposit to Redemption Fund	\$15,321,304.25
Issuance Expenses and Underwriter's Discount (a)	529,860.95
Accrued Interest	29,005.52
Total Uses of Funds	\$15,880,170.72

(a) Includes municipal bond insurance premium.

DEBT SERVICE REQUIREMENTS

The following sets forth the debt service requirements for the Outstanding Bonds, less the debt service on the Refunded Bonds (\$14,305,000 principal amount), plus the debt service on the Bonds.

Year	Outstanding Bonds Debt Service	Less: Debt Service on the	Plus: Debt Service on the Bonds			Debt Service
	<u>Requirements</u>	<u>Refunded Bonds</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Requirements</u>
2016	\$ 4,257,316.25	\$ 341,118.75	\$ 45,000.00	\$ 248,618.75	\$ 293,618.75	\$ 4,209,816.25
2017	4,251,980.00	682,237.50	110,000.00	495,887.50	605,887.50	4,175,630.00
2018	4,215,230.00	1,007,237.50	440,000.00	492,587.50	932,587.50	4,140,580.00
2019	4,190,830.00	994,237.50	440,000.00	479,387.50	919,387.50	4,115,980.00
2020	4,140,930.00	1,131,237.50	590,000.00	466,187.50	1,056,187.50	4,065,880.00
2021	4,131,515.00	1,110,737.50	585,000.00	448,487.50	1,033,487.50	4,054,265.00
2022	4,095,262.50	1,090,050.00	585,000.00	430,937.50	1,015,937.50	4,021,150.00
2023	4,129,700.00	1,094,362.50	605,000.00	413,387.50	1,018,387.50	4,053,725.00
2024	4,117,759.38	1,072,068.76	595,000.00	401,287.50	996,287.50	4,041,978.12
2025	4,062,093.75	1,599,775.00	1,135,000.00	389,387.50	1,524,387.50	3,986,706.25
2026	4,029,081.25	1,549,975.00	1,110,000.00	363,850.00	1,473,850.00	3,952,956.25
2027	3,976,118.75	1,800,175.00	1,390,000.00	336,100.00	1,726,100.00	3,902,043.75
2028	3,889,228.13	1,734,700.00	1,380,000.00	280,500.00	1,660,500.00	3,815,028.13
2029	3,867,993.75	1,669,225.00	1,370,000.00	225,300.00	1,595,300.00	3,794,068.75
2030	3,749,075.00	1,603,750.00	1,355,000.00	170,500.00	1,525,500.00	3,670,825.00
2031	3,392,000.00	1,601,812.50	1,395,000.00	129,850.00	1,524,850.00	3,315,037.50
2032	3,266,531.25	1,532,031.26	1,365,000.00	88,000.00	1,453,000.00	3,187,499.99
2033	2,625,150.00	947,250.00	835,000.00	33,400.00	868,400.00	2,546,300.00
2034	1,371,300.00	-	-	-	-	1,371,300.00
2035	1,349,487.50	-	-	-	-	1,349,487.50
2036	1,320,081.25	-	-	-	-	1,320,081.25
Total	\$ 74,428,663.76	\$ 22,561,981.27	\$ 15,330,000	\$ 5,893,656.25	\$ 21,223,656.25	\$ 73,090,338.74

Maximum Annual Debt Service Requirement (2016).....	\$4,209,816
Average Annual Debt Service Requirements (2016-2036)	\$3,480,492

THE BONDS

Description

The Bonds will be dated and accrue interest from March 1, 2016, with interest payable each March 1 and September 1, beginning September 1, 2016 (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, 2024 are subject to redemption at the option of the District prior to their maturity dates on September 1, 2023, 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 November 8, 2005, voters of the District have authorized the issuance of \$27,300,000 principal amount of unlimited tax bonds for the purpose of refunding District bonds. The Bonds are being issued pursuant to such authorization. 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, elections 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 should be 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 \$80,020,000 principal amount of unlimited tax bonds for the purpose of purchasing and constructing water, wastewater and storm drainage facilities (the "System") in the District and for refunding purposes and \$27,300,000 principal amount of bonds for refunding purposes and could authorize additional amounts. After the issuance of the Bonds, the District will have \$10,324,230.40 principal amount of unlimited tax bonds for the purpose of purchasing and constructing the System and refunding purposes authorized but unissued, and \$26,275,000 of unlimited tax refunding bonds authorized but unissued. See "INVESTMENT CONSIDERATIONS—Future Debt."

The District is 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) authorization of a detailed master plan and bonds for such purpose by the qualified voters in the District; (b) approval of the master plan and issuance of bonds by the TCEQ; and (c) approval of bonds by the Attorney General of Texas. The Board has not considered calling such an election at this time.

The District is authorized by statute to develop parks and recreational facilities, including the issuing of bonds payable from taxes for such purpose. The District has adopted a Master Parks Plan. On November 8, 2005, the voters of the District authorized \$6,630,000 principal amount of unlimited tax park bonds, all of which remains authorized and unissued. Before the District could issue park bonds payable from taxes, the following actions would be required: (a) approval of the park bonds by the TCEQ; and (b) 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 District operates parks and recreational facilities, but has financed such parks and recreational facilities with only operating revenues.

Pursuant to Chapter 54 of the Water Code, a municipal utility district may petition the Commission for the power to issue bonds supported by property taxes to finance roads. Further, the District could seek approval by the Texas Legislature to acquire road powers. Before the District could issue such bonds, the District would be required to receive a grant of such power from the Commission or the State Legislature, authorization from the District's voters to issue such bonds, and approval of the bonds by the Attorney General of Texas. The District has not considered seeking "road powers" nor calling such an election at this time.

The Bond Resolution imposes no limitation on the amount of additional parity bonds which may be authorized for issuance by the District's voters or the amount ultimately issued by the District. See "INVESTMENT CONSIDERATIONS—Future Debt." Issuance of additional bonds could dilute the investment security for the Bonds

Annexation by the City of Houston

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston, the District must conform to a City of Houston ordinance consenting to the creation of the District. In addition, the District may be annexed by the City of Houston without the District's consent. If the District is annexed, the City will assume the District's assets and obligations (including the Bonds) and dissolve the District within ninety (90) days. Annexation of territory by the City is a policy-making matter within the discretion of the Mayor and City Council of the City of Houston, and therefore, the District makes no representation that the City of Houston will ever annex the District and assume its debt, nor does the District make any representation concerning the ability of the City of Houston to pay debt service on the District's bonds if annexation were to occur. Under the terms of the SPA (as hereinafter defined) between the District and the City of Houston, the City has agreed not to annex the District for "full purposes" (a traditional municipal annexation) during the term of the SPA. See "Strategic Partnership" below.

Strategic Partnership

The District entered into a Strategic Partnership Agreement (the "SPA") with the City of Houston (the "City") pursuant to Chapter 43 of the Texas Local Government Code on November 10, 2008. The SPA provides for a "limited purpose annexation" of that portion of the District developed for retail and commercial purposes in order to apply certain City health, safety, planning and zoning ordinances and to impose a sales tax within that portion of the District. Residential development within the District is not subject to the limited purpose annexation. The SPA provides the terms and conditions under which services would be provided and funded by the parties and under which the District would continue to exist if the land within the District were to be annexed for full or limited purposes by the City. The SPA also provides that the City will not annex the District for "full purposes" (a traditional municipal annexation) for at least thirty (30) years from the date of entering into the SPA. See "THE DISTRICT—Strategic Partnership Agreement." For the fiscal year period ended March 31, 2015, the District received approximately \$27,039 in sales tax revenue payment from the SPA, which has been deposited in the District's operating account.

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 observance 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 the Depository Trust Company (“DTC”) and DTC’s book-entry-only 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 or 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 Standard & Poor’s highest rating: 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. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District (or the Trustee on behalf thereof) as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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 political subdivision of the State of Texas, created by the Texas Water Commission (predecessor to the TCEQ) on December 13, 1977, and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. The District currently consists of approximately 1,317 acres of land.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants 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. Additionally, the District may, subject to the granting of road powers by the TCEQ and certain limitations, develop and finance roads.

The TCEQ exercises continuing supervisory jurisdiction over the District. In order to obtain the consent for creation of the District from the City of Houston, within whose extraterritorial jurisdiction the District lies, the District is required to observe certain requirements of the City of Houston which (1) limit the purposes for which the District may sell bonds to the acquisition, construction, and improvement of waterworks, wastewater, and drainage, road, fire-fighting and park facilities, (2) require approval by the City of Houston of District construction plans, and (3) permit connections only to single-family lots and commercial or multi-family/commercial platted reserves which have been approved by the Planning Commission of the City of Houston. Construction and operation of the District's system is subject to the regulatory jurisdiction of additional governmental agencies. See "THE SYSTEM—Regulation."

Location

The District is located approximately 25 miles west of the central downtown business district of the City of Houston in Harris County. The District lies wholly within the extraterritorial jurisdiction of the City of Houston and within the boundaries of the Katy Independent School District. Access to the District is provided by Interstate Highway 10 to Mason Road, a major thoroughfare into the District, or via Clay Road exit, east from the Grand Parkway.

Land Use

The District encompasses approximately 1,317 acres of land and includes approximately 853 acres of single-family residential development, two schools and a District maintenance building on approximately 32 acres, two churches on approximately 14 acres, a Harris County park constructed on approximately 6 acres, Evergreen Cottages, an assisted living facility, constructed on approximately 1 acre, approximately 126 acres of commercial reserves upon which commercial development has been constructed on approximately 14 acres, approximately 244 acres of drainage and pipeline easements, street rights-of-way and utility sites and approximately 27 developable acres that have not been provided with water distribution, wastewater collection and storm drainage facilities.

Status of Development

The District is currently providing water supply and distribution, wastewater collection and treatment and storm drainage facilities to approximately 853 acres developed into 4,126 single-family residential lots of Westland Creek Village, Section One, Lakes of Bridgewater, Sections One through Ten, Bridgewater Pointe, Sections One through Three, Bridgewater Village, Section One, Enclave at Bridgewater, Sections One and Two, Mason Lakes, Sections One through Three, Morton Ranch, Sections One through Four, Bridgewater Meadow, Sections One through Three, The Lakes at Mason Park, Sections One through Four, Bridgewater Place, Sections One and Two, and Vineyard Meadow, Sections One through Nine. As of January 14, 2016, 4,072 homes were completed (4,026 of which were occupied), 27 homes were under construction and 27 developed lots were available for construction.

In addition to the residential development, the District has three gas stations with convenience stores, two small strip centers, a child care center, a Family Dollar store, an assisted living center, a Wendy's and a shopping center.

Homebuilders

Builders active in the District or who have lots in their names include KB Home, Colina Homes, GreenEco Homes, Gateway Homes, and Megatel Homes. Homes range in price from approximately \$110,000 to \$220,000.

Recreational Facilities

Recreational facilities within the District are centered around the park area of Bundy Lake, which features a large lake, a walking trail, a pavilion, and decorative fountains. There are additional recreational areas in the District including two pool facilities, tennis courts, a club house, a park including a water splash pad, and walking trails adjacent to the District administration building. Recreational facilities within the District include additional lakes, which also serve as detention ponds. Some of the recreational facilities are operated and maintained by the District, while others are operated and maintained by various homeowner associations. In addition, Harris County has constructed and operates and maintains a 6 acre park and trails within the District.

Other Development

The District has constructed an administration building and a maintenance building and Katy Independent School District has constructed an elementary school and a middle school on approximately 32 acres within the District. In addition, two churches have been constructed on approximately 14 acres. The schools, the churches and the District's buildings are exempt from ad valorem taxation.

Strategic Partnership Agreement

On November 10, 2008, the District entered into a Strategic Partnership Agreement (the "SPA") with the City of Houston (the "City") pursuant to Chapter 43 of the Texas Local Government Code. The SPA provides for a "limited purpose annexation" of that portion of the District developed for retail and commercial purposes in order to apply certain City health, safety, planning and zoning ordinances and to impose a sales tax within that portion of the District. Residential development within the District is not subject to the limited purpose annexation. The SPA also provides that the City will not annex the District for "full purposes" for at least thirty (30) years from the date of entering into the SPA. Also, as a condition to full purpose annexation, any unpaid reimbursement obligations due to a developer by the District for water, wastewater, and drainage facilities must be assumed by the City to the maximum extent permitted by Commission rules.

Upon execution of the SPA, the City imposed the one percent (1%) retail City Sales Tax within the portion of the District included in the limited purpose annexation. The City pays to the District an amount equal to one-half of all retail sales tax revenues generated within such area of the District and received by the City from the Comptroller (herein defined as the "Contract Sales Tax Revenue"). Pursuant to State law, the District is authorized to use the Contract Sales Tax Revenue generated under the SPA for any lawful purpose. The District received approximately \$27,039 in sales tax revenue for the fiscal year period ended March 31, 2015. None of the anticipated Contract Sales Tax Revenue is pledged toward the payment of principal and interest on the Bonds.

THE DEVELOPERS

Role of a Developer

In general, the activities of a landowner or developer in a municipal utility district such as the District include designing the project, defining a marketing program and setting building schedules; securing necessary governmental approvals and permits for development; arranging for the construction of roads and the installation of utilities; and selling or leasing improved tracts or commercial reserves to other developers or third parties. While a developer is required by the TCEQ to pave streets in areas where District facilities are being financed with bonds, a developer is under no obligation to a district to undertake development activities according to any particular plan or schedule. Furthermore, there is no restriction on a developer's right to sell any or all of the land which the developer owns within a district.

Neither any developer nor any affiliates, if any, is obligated to pay principal of or interest on the Bonds. Furthermore, no developer has a binding commitment to the District to carry out any plan of development, and the furnishing of information relating to the proposed development by a developer should not be interpreted as such a commitment. Prospective purchasers are invited to inspect the District in order to acquaint themselves with the nature of development that has occurred or is occurring within the boundaries of the District.

Buffington Mason Park, Ltd.

Buffington Mason Park, Ltd., a Texas limited partnership, is the owner of the vacant lots in The Lakes at Mason Park, Section One through Four and 20 additional acres of undeveloped land in the District. The General Partner of Buffington Mason Park, Ltd. is Buffington Mason Park Management, L.L.C., a Texas limited liability company. As of the date hereof, Buffington Mason Park is delinquent on payment on taxes for 2014 in the amount of \$28,180.67.

KB Home Lone Star, Inc.

KB Home Lone Star, Inc. ("KB Home Lone Star"), a Texas corporation, has developed Vineyard Meadow, Sections Three through Nine. KB Home Lone Star is indirectly wholly owned by KB Home, a Delaware corporation and national homebuilding company, the stock of which is publicly traded on the New York Stock Exchange.

Other Owners of Undeveloped Land

There are approximately 17 acres of undeveloped land in the District intended to be developed as commercial reserves by Miles Real Estate Enterprises Ltd. The first phase of utilities has been constructed. The second phase of utilities is under design at this time.

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 staggered four-year terms and elections are held in May in even numbered years only. All of the current Board members reside within the District. The current members and officers of the Board along with their titles and terms, are listed as follows:

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Katrina Thornhill	President	May 2016
Pam Kerr	Vice President	May 2016
Mary DuBois	Secretary	May 2018
Phillip Smith	Assistant Vice President	May 2018
Jennifer Elms	Assistant Secretary	May 2016

While the District does not employ any full time employees, it has contracted for certain services as follows:

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 debt obligations. The fees of the attorneys in their capacity as Bond Counsel are contingent upon the sale and delivery of the Bonds. Compensation to the attorneys for other services to the District is based on time charges actually incurred.

Financial Advisor: FirstSouthwest, a Division of Hilltop Securities Inc. serves as the District's Financial Advisor. The fee for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds.

Auditor: As required by the Texas Water Code, the District retains an independent auditor to audit the District's financial statements annually, which annual audit is filed with the Commission. The District's financial statements for the year ended March 31, 2015, were audited by McCall Gibson Swedlund Barfoot, PLLC. See "APPENDIX A" for a copy of the District's March 31, 2015, audited financial statements.

Engineer: The District's consulting engineer is Brown & Gay Engineers, Inc.

Bookkeeper: The District has contracted with Myrtle Cruz, Inc. (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. Tax Tech, Inc. of Tax Tech 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 Regional Water Corporation.

THE SYSTEM

Regulation

Construction and operation of the District's water, wastewater and storm drainage 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, if any, 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 Harris-Galveston Coastal Subsidence District. 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.

Water Supply

Water supply for the District is provided currently by two water plants. Water Plant No.1 consists of a remote 1,200 gallon per minute ("gpm") water well, a 20,000 gallon pressure tank, a 338,000 gallon ground storage tank, 3,000 gpm booster pump capacity and all other necessary facilities. Water Plant No. 2 consists of a 1,400 gpm water well, four 20,000 gallon pressure tanks, 800,000 gallons of ground storage tank capacity, 8,000 gpm booster pump capacity and all other necessary facilities. A 1,200 gpm remote water well located in the Mason Lakes subdivision also serves Water Plant No. 2. Water Plant No. 3 is planned to consist of a 1,100 gpm water well, 30,000 gallons of pressure tank capacity, 540,000 gallons of ground storage tank capacity, 2,250 booster pump capacity and all other necessary facilities. Water Plant No. 3 is designed and the expected construction start date is May 2016 and the expected completion date is March 2017. The District's current water supply facilities adequately serve 6,625 equivalent single family connections ("ESFCs"). According to the Engineer, upon completion of construction of Water Plant No. 3, the District will have capacity capable of serving 8,750 ESFCs. Currently, the District's water system is serving a total of approximately 5,248 ESFCs, including 1,101 connections in Harris County Municipal Utility District No. 287 ("MUD 287"), which shares in the water system.

Subsidence and Conversion to Surface Water Supply

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

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

Under the Subsidence District regulations and the GRP, the Authority is required: (i) through the year 2024, to limit groundwater withdrawals to no more than 70% of the total annual water demand of the water users within the Authority’s GRP; (ii) beginning in the year 2025, to limit groundwater withdrawals to no more than 40% of the total annual water demand of the water users within the Authority’s GRP; and (iii) beginning in the year 2035, and continuing thereafter, to limit groundwater withdrawals to no more than 20% of the total annual water demand of the water users within the Authority’s GRP. If the Authority fails to comply with the above Subsidence District regulations or its GRP, the Authority is subject to a disincentive fee penalty of \$7.00 per 1,000 gallons (“Disincentive Fees”) imposed by the Subsidence District for any groundwater withdrawn in excess of 20% of the total annual water demand in the Authority’s GRP. In the event of such Authority failure to comply, the Subsidence District may also seek to collect Disincentive Fees from the District. If the District failed to comply with surface water conversion requirements mandated by the Authority, the Authority would likely impose monetary or other penalties against the District.

The District cannot predict the amount or level of fees and charges, which may be due the Authority in the future, but anticipates the need to continue passing such fees through to its customers: (i) through higher water rates and/or (ii) with portions of maintenance tax proceeds, if any. In addition, conversion to surface water could necessitate improvements to the System which could require the issuance of additional bonds by the District. No representation is made that the Authority: (i) will build the necessary facilities to meet the requirements of the Subsidence District for conversion to surface water, (ii) will comply with the Subsidence District’s surface water conversion requirements, or (iii) will comply with its GRP.

Wastewater Treatment

The District owns a 1,350,000 gpd wastewater treatment plant which is capable of serving 5,400 ESFCs. The District has entered into a contract with MUD 287 for the provision of 351 ESFCs for wastewater treatment capacity and the remaining 5,049 ESFCs are available for District use. Currently, the District is serving a total of approximately 4,147 ESFCs within the District and approximately 351 ESFCs within MUD 287.

100-Year Flood Plain

Revised Flood Insurance Rate Maps were published by the Federal Emergency Management Agency (“FEMA”) on June 18, 2007. The revised maps indicate that approximately 14 developed acres within the District are included in the 100-year flood plain.

WATER AND SEWER OPERATIONS

The Remaining Outstanding Bonds and the Bonds are payable solely from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District. However, net revenues from operations of the District's water and wastewater system, if any, are available for any legal purpose, including the payment of debt service on the Outstanding Bonds and the Bonds, upon Board action. It is not anticipated that net revenues will be available to pay debt service on the Bonds or the Outstanding Bonds.

The following statement sets forth in condensed form the General Fund as derived from the District's audited financial statement for the years ending September 30, 2011 through 2012, the years ending March 31, 2014 through 2015, and an unaudited summary from the District's bookkeeper ending December 31, 2015. The March 31, 2014 audited financial statements are the first audited financial statements since the District changed its fiscal year end from September 30 to March 31 and cover an 18-month period. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. This summary should be used in conjunction with the full audit attached hereto as "APPENDIX A" and should not be detached. A full review of the documents described herein is recommended.

		Fiscal Year Ended March 31		Fiscal Year Ended September 30	
	4/1/15 to 12/31/15 (a)	2015	2014(b)	2012	2011
REVENUES:					
Property Taxes	\$ 425,453	\$ 1,109,190	\$ 1,846,323	\$ 991,078	\$ 978,756
Water Service	1,098,630	1,400,177	1,934,153	1,184,258	1,240,785
Sewer Service	1,101,308	1,467,997	2,046,333	1,279,261	1,202,880
Regional Water Authority Fees	644,918	788,496	1,080,401	656,145	672,587
Penalty and Interest	94,236	105,611	119,636	76,491	76,992
Tap Connection & Inspection Fees	196,118	523,143	679,670	319,788	293,109
Investment Income	11,698	16,228	26,528	25,143	32,958
Sales Tax Revenue	19,734	27,039	16,456	-	-
Other	144,702	43,699	96,384	139,211	127,255
TOTAL REVENUES	\$ 3,736,796	\$ 5,481,580	\$ 7,845,884	\$ 4,671,375	\$ 4,625,322
EXPENDITURES:					
Professional Fees	\$ 223,707	\$ 260,383	\$ 349,940	\$ 188,874	\$ 192,831
Contracted Services	760,675	975,991	1,329,323	791,078	754,688
Purchased Water Services	1,003,958	1,007,677	1,538,761	1,051,364	938,067
Purchased Wastewater Services	537,255	649,450	1,014,460	496,407	533,650
Utilities	40,274	49,664	75,128	49,097	49,274
Repairs and Maintenance	405,283	709,043	973,067	409,382	488,664
Other Expenditures	115,615	273,483	448,644	221,905	210,551
Bond Issuance Costs	-	27,288	-	-	-
Capital Outlay	-	154,032	2,493,296 (c)	421,254	1,651,677
TOTAL EXPENDITURES	\$ 3,086,766	\$ 4,107,011	\$ 8,222,619	\$ 3,629,361	\$ 4,819,402
NET REVENUES	\$ 650,029	\$ 1,374,569	\$ (376,735)	\$ 1,042,014	\$ (194,080)
Other Financing Sources	\$ -	\$ 9,171	\$ -	\$ 359,831 (d)	\$ 1,184,785 (d)
FUND BALANCE,					
BEGINNING OF YEAR	\$ 8,228,006	\$ 6,844,266	\$ 7,221,001	\$ 5,819,156	\$ 4,828,451
FUND BALANCE,					
END OF YEAR	\$ 8,878,035	\$ 8,228,006	\$ 6,844,266	\$ 7,221,001	\$ 5,819,156

(a) Unaudited. Provided by the District's bookkeeper.

(b) Audited financial statements for the 18-month period ending March 31, 2014.

(c) Includes surplus operating funds used to reimburse various developers, including approximately \$520,000 to Obra Homes, Inc., approximately \$645,000 to Buffington Mason Park, Ltd., and approximately \$1,270,000 to DR Horton-Texas Ltd.

(d) Represents transfer from Harris County Municipal Utility District No. 287 for its proportionate share of construction costs for Water Well No. 4.

FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)

2015 Taxable Assessed Valuation.....	\$591,393,997 (a)
Estimated Taxable Assessed Valuation as of August 1, 2015.....	\$608,586,475 (b)
Gross Direct Debt Outstanding	\$54,070,000(c)
Estimated Overlapping Debt	<u>26,172,945(d)</u>
Gross Direct Debt and Estimated Overlapping Debt.....	\$80,242,945
Ratios of Gross Direct Debt to:	
2015 Taxable Assessed Valuation.....	9.14%
Estimated Taxable Assessed Valuation as of August 1, 2015.....	8.88%
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:	
2015 Taxable Assessed Valuation.....	13.57%
Estimated Taxable Assessed Valuation as of August 1, 2015.....	13.19%
Debt Service Fund Balance as of February 8, 2016	\$7,336,184
Capital Projects Fund Balance as of February 8, 2016.....	\$7,904,376
General Operating Fund Balance as of February 8, 2016	\$9,517,623 (e)

- (a) Includes \$587,181,960 of value as certified by the Harris County Appraisal District (the "Appraisal District") and \$4,212,037 of uncertified value in the District not yet certified for 2015. The certified value plus the value of the uncertified properties is \$591,393,997. See "TAXING PROCEDURES."
- (b) Provided by the Appraisal District for informational purposes only. Such amounts reflect an estimate of the taxable appraised value within the District on August 1, 2015. No tax will be levied on such amount until it is certified by the Appraisal District as of January 1 of each year as part of the 2016 taxable assessed valuation as of January 1, 2016. See "TAXING PROCEDURES."
- (c) After the issuance of the Bonds. See "DEBT SERVICE REQUIREMENTS."
- (d) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt" and "—Overlapping Taxes."
- (e) See "WATER AND SEWER OPERATIONS" and "APPENDIX A" for detailed information on the operations of the District.

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.

<u>Taxing Jurisdiction</u>	<u>Outstanding Bonds</u>	<u>As of</u>	<u>Overlapping Percent</u>	<u>Amount</u>
Harris County	\$2,793,818,330	12/31/15	0.13%	\$3,631,963
Harris County Department of Education	7,210,000	12/31/15	0.13%	9,373
Harris County Flood Control District.....	134,275,000	12/31/15	0.13%	174,557
Port of Houston Authority	674,269,397	12/31/15	0.13%	876,550
Katy Independent School District	1,271,035,662	12/31/15	1.69%	<u>21,480,502</u>
Total Estimated Overlapping Debt.....				\$26,172,945
The District's Total Direct Debt (a).....				<u>54,070,000</u>
Total Direct and Estimated Overlapping Debt				\$80,242,945
Direct and Estimated Overlapping Debt as a Percentage of:				
2015 Taxable Assessed Valuation of \$591,393,997.....				13.57%
Estimated Taxable Assessed Valuation as of August 1, 2015 of \$608,586,475.....				13.19%

(a) Includes 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 2015 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.

	<u>2015 Tax Rate Per \$100 Assessed Valuation</u>
Harris County (including Harris County Flood Control District, Harris County Hospital District, Harris County School Equalization and the Port of Houston Authority)	\$0.635402
Katy Independent School District	1.516600
Harris County Emergency Service District No. 48	<u>0.089000</u>
Total Overlapping Tax Rate	\$2.241002
The District.....	<u>0.970000</u>
Total Tax Rate.....	\$3.211002

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 and the Remaining Outstanding Bonds. The District levied a debt service tax of \$0.74 per \$100 assessed valuation in 2015. 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 August 13, 1994, and voters of the District authorized the Board to levy a maintenance tax at a rate not to exceed \$0.60 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 and the Remaining Outstanding Bonds. The District levied a maintenance tax of \$0.23 per \$100 appraised valuation in 2015.

Tax Exemptions

As discussed in the section titled "TAXING PROCEDURES" herein, certain property in the District may be exempt from taxation by the District. At present, the District does not exempt any percentage of the market value of any residential homesteads from taxation, except \$20,000 of the appraised value of resident homesteads for persons who are disabled or over 65 years of age. Public school facilities, the churches located in the District, District buildings and land bought by the District also are exempt from taxation.

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) and July 1 (for real property) of the year in which they become delinquent or (2) become delinquent on or after June 1, pursuant to the Texas Tax Code.

Historical Tax Rate Distribution

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Debt Service Fund	\$ 0.74	\$ 0.83	\$ 0.87	\$ 0.87	\$ 0.84
Maintenance & Operations	<u>0.23</u>	<u>0.23</u>	<u>0.23</u>	<u>0.23</u>	<u>0.26</u>
Total	\$ 0.97	\$ 1.06	\$ 1.10	\$ 1.10	\$ 1.10

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 District's Tax Assessor/Collector and from the District's Annual Financial Report. Reference is made to such statements and records for further and complete information. Information in this summary may differ slightly from the assessed valuations shown herein due to difference in dates of data. See "Tax Roll Information" below.

Tax Year	Assessed Valuation(a)	Tax Rate	Tax Levy	Total Collections as of February 18, 2016	
				Amount	Percent
2010	\$ 375,298,105	\$1.10000	\$4,128,279	\$ 4,123,218	99.88%
2011	382,125,777	1.10000	4,203,383	4,196,715	99.84%
2012	388,814,245	1.10000	4,276,957	4,268,815	99.81%
2013	423,177,741	1.10000	4,654,955	4,640,320	99.69%
2014	489,462,153	1.06000	5,188,299	5,126,646	98.81% (b)
2015	587,181,960	0.97000	5,726,175	5,428,414	94.80%

(a) Net valuation represents final gross appraised value as certified by the Appraisal District less any exemptions granted. See "Tax Roll Information" below for gross appraised value and exemptions granted by the District.

(b) As of the date hereof, Buffington Mason Park is delinquent on payment on taxes for 2014 in the amount of \$28,180.67.

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 2015 through 2013 Certified Taxable Assessed Valuations. Breakdowns of the uncertified portion of the 2015 tax roll and Estimated Taxable Assessed Valuations as of August 1, 2015 are not available from the Appraisal District. Differences in totals from others shown in this Official Statement are due to differences in dates of the data.

	2015	2014	2013
Land	\$ 121,839,320	\$ 118,455,161	\$ 109,496,458
Improvements	494,881,533	401,130,913	340,571,244
Personal Property	8,263,364	9,720,237	9,641,847
Exemptions	(37,802,257)	(39,844,158)	(36,531,808)
Total Assessed Valuation	\$ 587,181,960	\$ 489,462,153	\$ 423,177,741

Principal Taxpayers

The following table represents the ten principal taxpayers, the taxable appraised value of such property, and such property's taxable appraised value as a percentage of the 2015 Taxable Assessed Valuation, which represents ownership as of January 1, 2015. Principal taxpayer lists related to the uncertified portion of the 2015 Taxable Assessed Valuation and Estimated Taxable Assessed Valuations as of August 1, 2015 are not available.

Taxpayer	Type of Property	2015 Assessed Valuation	Percent of Assessed Valuation
P6K Portfolio Katy LLC	Land & Improvements	\$ 4,851,163	0.83%
MCI Grand Parkway Ltd.	Land	4,209,682	0.72%
Miles Real Estate	Land	3,082,020	0.52%
Bilawal Daudi LLC	Land & Improvements	2,958,905	0.50%
Centerpoint Energy Houston	Electrical Utility	2,771,970	0.47%
D & M Realty LLC	Land	2,402,413	0.41%
Buffington Mason Park Ltd. (a)	Land	1,991,771	0.34%
AMH 2014 3 Borrower LLC	Land & Improvements	1,194,245	0.20%
Lumida LLC	Land & Improvements	1,052,150	0.18%
Transcontinental Gas Pipeline	Personal Property	1,025,020	0.17%
Total		\$ 25,539,339	4.35%

(a) As of the date hereof, Buffington Mason Park is delinquent on payment on taxes for 2014 in the amount of \$28,160.67.

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 2015 Taxable Assessed Valuation of \$591,393,997 (includes \$4,212,037 in uncertified value) and the Estimated Taxable Assessed Valuation as of August 1, 2015 of \$608,586,475. 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 "DEBT SERVICE REQUIREMENTS."

Average Annual Debt Service Requirement (2016-2036)	\$3,480,492
\$0.62 Tax Rate on 2015 Taxable Assessed Valuation	\$3,483,311
\$0.61 Tax Rate on Estimated Taxable Assessed Valuation as of August 1, 2015	\$3,526,759
Maximum Annual Debt Service Requirement (2016).....	\$4,209,816
\$0.75 Tax Rate on 2015 Taxable Assessed Valuation	\$4,213,682
\$0.73 Tax Rate on Estimated Taxable Assessed Valuation as of August 1, 2015	\$4,220,547

No representation or suggestion is made that the uncertified portion of the 2015 Taxable Assessed Valuation and the Estimated Taxable Assessed Valuation as of August 1, 2015 will not be adjusted downward and no person should rely upon such amounts or their inclusion herein as assurance of their attainment. See "TAXING PROCEDURES."

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. 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 of age or older and of certain disabled persons to the extent deemed advisable by the Board. The District may be required to call such an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the previous 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. 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, 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. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. Also, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead spouse. 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%) (not less than \$5,000) of the appraised value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of a homestead exemption may be considered each year, but must be adopted by May 1. See "TAX DATA."

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

Tax Abatement

Harris County or the City of Houston may designate all or part of the area within the District as a reinvestment zone. Thereafter, Harris County, the District, and the City of Houston (if it were to annex the District), at the option and discretion of each entity, may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the District, for a period of up to ten (10) years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with the terms of the tax abatement. 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. Generally, 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. In determining market value, either the replacement cost or the income or the market data method of valuation may be used, whichever is appropriate. Nevertheless, certain land may be appraised at less than market value under the Property Tax Code. Increases in the appraised value of residence homesteads are limited by the Texas Constitution to a cumulative 10 percent annual increase 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 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 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. However, a person who is 65 years of age or older or disabled is entitled by law to pay current taxes on his residential homestead in installments or to receive a deferral or abatement of delinquent taxes without penalty during the time he owns or occupies his property as his residential homestead. 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. 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. The District's tax collector is required to enter into an installment payment agreement with any person who is delinquent on the payment of tax on a residence homestead, if the person requests an installment agreement and has not entered into an installment agreement with the collector in the preceding 24 months. The installment agreement must provide for payments to be made in equal monthly installments and must extend for a period of at least 12 months and no more than 36 months.

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 1.05 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)—Overlapping Taxes." 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, subject to the restrictions on residential homesteads described above under "Levy and Collection of Taxes". 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 cost of suit and sale, by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights (a taxpayer may redeem property within 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) or by bankruptcy proceedings which restrict the collection of taxpayer debts. See "INVESTMENT CONSIDERATIONS—General" and "—Tax Collection 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, which are obligations of the District and not obligations of the State of Texas, Harris County, the City of Houston, or any other political entity other than the District, will be secured by a continuing, direct, annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property within the District. The ultimate security for payment of the principal of and interest on the Bonds depends on the ability of the District to collect from the property owners within the District all taxes levied against the property, or in the event of foreclosure, on the value of the taxable property with respect to taxes levied by the District and by other taxing authorities.

Economic Factors and Interest Rates

A substantial percentage of the taxable value of the District results from the current market value of single-family residences and developed lots and commercial development. The market value of such properties is related to general economic conditions in Houston, the State of Texas and the nation and those conditions can affect the demand for such properties. Demand for residential lots of this type and the construction thereon can be significantly affected by factors such as interest rates, credit availability (see “Credit Market and Liquidity in the Financial Markets” below), construction costs and the prosperity and demographic characteristics of the urban center toward which the marketing of such properties is directed. Decreased levels of construction activity would tend to restrict the growth of property values in the District or could adversely impact such values.

Credit Markets and Liquidity in the Financial Markets

Interest rates and the availability of mortgage and development funding have a direct impact on the construction activity, particularly short-term interest rates at which developers are able to obtain financing for development costs. Interest rate levels may affect the ability of a landowner with undeveloped property to undertake and complete construction activities within the District. Because of the numerous and changing factors affecting the availability of funds, particularly liquidity in the national credit markets, the District is unable to assess the future availability of such funds for continued construction within the District. In addition, since the District is located approximately 25 miles from the central downtown business district of the City of Houston, the success of development within the District and growth of District taxable property values are, to a great extent, a function of the Houston metropolitan and regional economies and national credit and financial markets. A decline in the nation’s real estate and financial markets could adversely affect development and home-building plans in the District and restrain the growth or reduce the value of the District’s property tax base.

Impact on District Tax Rates

Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of District property owners to pay their taxes. The 2015 Certified Taxable Assessed Valuation of the District (see “SELECTED FINANCIAL INFORMATION”) is \$591,393,997. After issuance of the Bonds, the maximum annual debt service requirement will be \$4,209,816 (2016) and the average annual debt service requirement will be \$3,480,492 (2016-2036). Assuming no increase or decrease from the 2015 certified assessed valuation and no use of funds other than tax collections, a tax rate of \$0.75 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the maximum annual debt service requirement of \$4,209,816 and a tax rate of \$0.62 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the average annual debt service requirement of \$3,480,492 (see “DEBT SERVICE REQUIREMENTS”). The Estimated Taxable Assessed Valuation as of August 1, 2015 of the District (see “FINANCIAL STATEMENT”) is \$608,586,475. Assuming no increase or decrease from the Estimated Taxable Assessed Valuation as of August 1, 2015 and no use of funds other than tax collections, a tax rate of \$0.73 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the maximum annual debt service requirement of \$4,209,816 and a tax rate of \$0.61 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the average annual debt service requirement of \$3,480,492 (see “DEBT SERVICE REQUIREMENTS”). Although calculations have been made regarding average and maximum tax rates necessary to pay the debt service on the Bonds and the Remaining Outstanding Bonds based upon the 2015 Certified Taxable Assessed Valuation and the Estimated Taxable Assessed Valuation as of August 1, 2015, the District can make no representations regarding the future level of assessed valuation within the District. The District levied a debt service tax rate of \$0.74 per \$100 assessed valuation for 2015. Increases in taxable values depend primarily on the continuing construction and sale of homes and other taxable improvements within the District. See “TAXING PROCEDURES” and “TAX DATA--Tax Adequacy for Debt Service.”

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 \$80,020,000 principal amount of unlimited tax bonds for the purpose of constructing the System and refunding purposes, \$27,300,000 principal amount of unlimited tax refunding bonds for the purpose of refunding outstanding bonds of the District and \$6,630,000 principal amount of unlimited tax bonds for the purpose of developing parks and recreational facilities have been authorized by the District's voters. After the issuance of the Bonds, the District will have \$10,324,230.40 principal amount of unlimited tax bonds for the purpose of constructing the System and refunding purposes authorized but unissued, \$26,275,000 principal amount of unlimited tax refunding bonds authorized but unissued and \$6,630,000 principal amount of unlimited tax park bonds authorized but unissued. 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.

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. However, the principal amount of bonds issued to finance parks may not exceed 1% of the District's assessed valuation as provided by a certificate from the Appraisal District. 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."

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."

Marketability

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

Environmental Regulation

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

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

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

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

On October 1, 2015, the EPA lowered the ozone standard from 75 parts per billion (“ppb”) to 70 ppb. This could make it more difficult for the HGB Area to demonstrate progress in reducing ozone concentration.

Water Supply & Discharge Issues. Water supply and discharge regulations that a Utility District, 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 federal Safe Drinking Water Act (“SDWA”) and Environmental Protection Agency’s National Primary Drinking Water Regulations (“NPDWRs”), which are implemented by TCEQ’s Water Supply Division, a municipal utility district’s provision of water for human consumption is subject to extensive regulation as a public water system. Municipal utility districts must generally provide treated water that meets the primary and secondary drinking water quality standards adopted by TCEQ, the applicable disinfectant residual and inactivation standards, and the other regulatory action levels established under the agency’s rules. EPA has established NPDWRs for more than ninety (90) contaminants and has identified and listed other contaminants which may require national drinking water regulation in the future.

Texas Pollutant Discharge Elimination System (“TPDES”) permits set limits on the type and quantity of discharge, in accordance with state and federal laws and regulations. The TCEQ reissued the TPDES Construction General Permit (TXR150000) on February 19, 2013. The permit became effective on March 5, 2013, and is a general permit authorizing the discharge of stormwater runoff associated with small and large construction sites and certain nonstormwater discharges into surface water in the state. It has a 5-year permit term, then subject to renewal. Moreover, the Clean Water Act (“CWA”) and Texas Water Code require municipal wastewater treatment plants to meet secondary treatment effluent limitations and must establish the total maximum allowable daily load (“TMDL”) of certain pollutants into the water bodies. The TMDLs that municipal utility districts may discharge may have an impact on a Utility District’s ability to obtain and maintain TPDES permits.

On May 27, 2015, the EPA and the United States Army Corps of Engineers (“USACE”) jointly issued a final version of the Clean Water Rule (“CWR”), which expands the scope of the federal government’s CWA jurisdiction over intrastate water bodies and wetlands. The final rule became effective on August 28, 2015. On October 9, 2015, the Sixth Circuit Court of Appeals put the CWR on hold nationwide until the court decides whether it has jurisdiction to consider lawsuits against the CWR. If the CWR is implemented, operations of municipal utility districts, including the District, are potentially subject to additional restrictions and requirements, including permitting requirements, if construction or maintenance activities require the dredging, filling or other physical alteration of jurisdictional waters of the United States or associated wetlands that are within the “waters of the United States.” The CWR expands the federal definition of what is a jurisdictional water, which could negatively impact development in the District.

The District’s stormwater discharges currently maintain permit coverage through the Municipal Separate Storm System Permit (the “Current Permit”) issued to the Storm Water Management Joint Task Force consisting of Harris County, Harris County Flood Control District, the City of Houston, and the Texas Department of Transportation. In the event that at any time in the future the District is not included in the Current Permit, it may be required to seek independent coverage under the TCEQ’s General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the “MS4 Permit”), which authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems. If the District’s inclusion in the MS4 Permit were required at a future date, the District could incur substantial costs to develop and implement the necessary plans as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff in order to comply with the MS4 Permit.

Risk Factors Related to the Purchase of 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 has 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.

Changes in Tax Legislation

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

MUNICIPAL BOND RATING

It is expected that Standard and Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business (“S&P”), will 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. Moody’s Investors Service (“Moody’s”) has assigned an underlying rating of “A3” to the Bonds. An explanation of the rating may be obtained from Moody’s. The rating fees of Moody’s will be paid by the District; however, the fees associated with any other rating will be the responsibility of the Underwriter. 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 ratings will continue for any given period of time or that it will not be revised or withdrawn entirely by Moody’s or S&P, if in their judgment, circumstances so warrant. Any such revisions or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

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 APPENDIX B to this OFFICIAL STATEMENT.

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

Build America Mutual Assurance Company

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

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

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

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

Capitalization of BAM

BAM’s total admitted assets, total liabilities, and total capital and surplus, as of December 31, 2015 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$479.6 million, \$42.3 million and \$437.3million, 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”.

Additional Information Available from BAM

Credit Insights Videos. For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM’s analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM’s website at buildamerica.com/creditinsights/. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Credit Profiles. Prior to the pricing of bonds that BAM has been selected to insure, BAM may prepare a pre-sale Credit Profile for those bonds. These pre-sale Credit Profiles provide information about the sector designation (e.g. general obligation, sales tax); a preliminary summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. Subsequent to closing, for any offering that includes bonds insured by BAM, any pre-sale Credit Profile will be updated and superseded by a final Credit Profile to include information about the gross par insured by CUSIP, maturity and coupon. BAM pre-sale and final Credit Profiles are easily accessible on BAM's website at buildamerica.com/obligor/. BAM will produce a Credit Profile for all bonds insured by BAM, whether or not a pre-sale Credit Profile has been prepared for such bonds. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

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

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

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, and interest on; (b) the mathematical computations of yield 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 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—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 or the Developers 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 there is not pending, and to their knowledge, there is not threatened, any litigation affecting the validity of the Bonds, or the levy and/or collection of taxes for the payment thereof, or the organization or boundaries of the District, or the title of the officers thereof to their respective offices, and that no additional bonds or other indebtedness have been issued since the date of the statement of indebtedness or nonencumbrance certificate submitted to the Attorney General of Texas in connection with approval of the Bonds.

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) 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.

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. Further, the District will rely on the report of Grant Thornton, CPA, 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.

Tax Accounting Treatment of Original Issue Discount Bonds

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

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

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

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

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

Not Qualified Tax-Exempt Obligations

The Bonds are not “qualified tax-exempt obligations” within the meaning of Section 265(b) of the Internal Revenue Code of 1986.

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

FirstSouthwest, a Division of Hilltop Securities Inc. 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, FirstSouthwest, a Division of Hilltop Securities Inc. 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 Tax Tech, Inc. 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 Brown & Gay Engineers, Inc., 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 financial statements for the year ended March 31, 2015, were audited by McCall Gibson Swedlund Barfoot, PLLC. See “APPENDIX A” for a copy of the District’s March 31, 2015, audited financial statements.

Bookkeeper: The information related to the “unaudited” summary of the District’s General Operating Fund as it appears in “WATER AND SEWER OPERATIONS” has been provided by Myrtle Cruz, Inc., and is included herein in reliance upon the authority of such firm as experts in tracking and managing the various funds of municipal utility districts.

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 official executing this certificate may state that he has relied in part on his examination of records of the District relating to matters within his own area of responsibility, and his 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 made the following agreement for the benefit of the registered and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (the "MSRB"). The MSRB has established the Electronic Municipal Market Access ("EMMA") system.

Annual Reports

The District will provide certain financial information and operating data 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 "DEBT SERVICE REQUIREMENTS," "THE SYSTEM," "WATER AND SEWER OPERATIONS," "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)," except for "Estimated Overlapping Debt," "TAX DATA," (most of which information is contained in the District's annual audit report and Supplemental Schedules) and APPENDIX A (the Annual Audit Report and supplemental schedules). 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 2016. Any financial statements so provided by the District 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. If the audit report is not complete within such period, then the District shall provide unaudited financial statements for the applicable fiscal year to the MSRB within such six month period, and audited financial statements when the audit becomes available.

The District's current fiscal year end is March 31. Accordingly, it must provide updated information by September 30 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

Specified Event Notices

The District will provide timely notices of certain events to the MRSB, 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 financial information, operating data, or financial statements in accordance with its agreement described above under “Annual Reports.”

Availability of Information from MSRB

The District has agreed to provide the foregoing information only to the MSRB. The MSRB makes the information available to the public without charge through its Electronic Municipal Market Access (“EMMA”) internet portal at www.emma.msrb.org.

Limitations and Amendments

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

The District may amend its continuing disclosure agreement from time to time to adapt 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

During the last five years, the District has complied in all material respects with all continuing disclosure agreements made by it in accordance with SEC Rule 15c2-12.

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/ Katrina Thornhill
President, Board of Directors

ATTEST:

/s/ Mary DuBois
Secretary, Board of Directors

APPENDIX A

Financial Statement of the District for the year ended March 31, 2015

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

MARCH 31, 2015

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Harris County Municipal Utility District No. 71
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. 71 (the "District"), as of and for the year ended March 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Board of Directors
Harris County Municipal
Utility District No. 71

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of March 31, 2015, and the respective changes in financial position for the period then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

June 8, 2015

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED MARCH 31, 2015

Management's discussion and analysis of Harris County Municipal Utility District No. 71's (the "District") financial performance provides an overview of the District's financial activities for the year ended March 31, 2015. Please read it in conjunction with the District's financial statements.

USING THIS ANNUAL REPORT

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

The government-wide portion of the Statement of Net Position presents information that includes all of the District's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

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

FUND FINANCIAL STATEMENTS

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has four governmental fund types. The General Fund accounts for resources not accounted for in another fund, customer service revenues, operating costs and general expenditures. The Special Revenue Fund accounts for the activities of the joint water and joint wastewater treatment facilities. The Debt Service Fund accounts for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2015**

FUND FINANCIAL STATEMENTS (Continued)

and the cost of assessing and collecting taxes. The Capital Projects Fund accounts for financial resources and the cost of assessing and for acquisition or construction of facilities and related costs.

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

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

NOTES TO THE FINANCIAL STATEMENTS

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements.

OTHER INFORMATION

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information ("RSI"). Budgetary comparison schedules are included as RSI for the General Fund and Special Revenue Fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$3,119,698 as of March 31, 2015.

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

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2015

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Summary of Changes in the Statement of Net Position		
	2015	2014*	Change Positive (Negative)
Current and Other Assets	\$ 17,176,788	\$ 15,653,734	\$ 1,523,054
Capital Assets (Net of Accumulated Depreciation)	36,067,974	35,789,625	278,349
Total Assets	\$ 53,244,762	\$ 51,443,359	\$ 1,801,403
Bonds Payable	\$ 45,408,081	\$ 47,026,210	\$ 1,618,129
Due to Developer	3,631,448	2,372,913	(1,258,535)
Other Liabilities	1,085,535	1,124,356	38,821
Total Liabilities	\$ 50,125,064	\$ 50,523,479	\$ 398,415
Net Investment in Capital Assets	\$ (10,888,732)	\$ (11,442,938)	\$ 554,206
Restricted	5,532,100	5,286,989	245,111
Unrestricted	8,476,330	7,075,829	1,400,501
Total Net Position	\$ 3,119,698	\$ 919,880	\$ 2,199,818

The following table provides a comparative analysis of the District's operations for year ended March 31, 2015, and for the eighteen-month period ended March 31, 2014. The District's net position increased by \$2,199,818.

	Summary of Changes in the Statement of Activities		
	2015	2014*	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 5,155,186	\$ 8,917,146	\$ (3,761,960)
Charges for Services	4,606,236	6,305,844	(1,699,608)
Other Revenues	199,775	205,134	(5,359)
Total Revenues	\$ 9,961,197	\$ 15,428,124	\$ (5,466,927)
Expenses for Services	7,761,379	11,438,963	3,677,584
Change in Net Position	\$ 2,199,818	\$ 3,989,161	\$ (1,789,343)
Net Position, Beginning of Year	919,880	(3,069,281)	3,989,161
Net Position, End of Year	\$ 3,119,698	\$ 919,880	\$ 2,199,818

* Eighteen-month period

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED MARCH 31, 2015

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of March 31, 2015, were \$15,803,312, an increase of \$1,534,234 from the prior year.

The General Fund fund balance increased by \$1,383,740, primarily due to service, tap and tax revenues exceeding operating expenditures.

The Debt Service Fund fund balance increased by \$234,231, primarily due to the structure of the District's outstanding debt and the sale of Series 2015 Refunding Bonds.

The Capital Projects Fund fund balance decreased by \$83,737, primarily due to the construction of water plant improvements.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the budget for the current fiscal year. Actual revenues were \$459,680 more than budgeted revenues primarily due to service and tap revenues being higher than anticipated. Actual expenditures were \$914,737 less than budgeted expenditures primarily due to purchased services being less than budgeted.

CAPITAL ASSETS

Capital assets as of March 31, 2015, total \$36,067,974 (net of accumulated depreciation) and include land, buildings and equipment, as well as the water, wastewater and drainage systems. Current year capital asset activity primarily consisted of water plant nos. 1, 2 and 3 improvements and construction of utilities to serve Lakes of Mason Park Sections 3 and 4 and Vineyard Meadow Section, 8.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2015	2014	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 3,769,576	\$ 3,769,576	\$
Construction in Progress	205,678	178,871	26,807
Capital Assets, Net of Accumulated Depreciation:			
Buildings and Equipment	766,310	806,074	(39,764)
Water System	8,963,988	9,082,322	(118,334)
Wastewater System	14,365,879	14,410,701	(44,822)
Drainage System	7,996,543	7,542,081	454,462
Total Net Capital Assets	<u>\$ 36,067,974</u>	<u>\$ 35,789,625</u>	<u>\$ 278,349</u>

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2015**

LONG-TERM DEBT ACTIVITY

As of March 31, 2015, the District had total bond debt payable of \$45,770,000. The changes in the debt position of the District during the year ended March 31, 2015, are summarized as follows:

Bond Debt Payable, April 1, 2014	\$ 47,420,000
Add: Bond Sale - Series 2015 Refunding	6,865,000
Less: Bond Principal Refunded	6,720,000
Less: Bond Principal Paid	<u>1,795,000</u>
Bond Debt Payable, March 31, 2015	<u>\$ 45,770,000</u>

The District carries an underlying rating of “BBB”. Subsequent to year end, the Series 2005A bond rating increased to “AA” by virtue of bond insurance issued by Radian Asset Assurance, Inc. The Series 2007, 2009, 2012A and 2013 bonds carry an “AA” rating by virtue of bond insurance issued by either Assured Guaranty Corporation or Assured Guaranty Municipal. The Series 2014, 2014A, and 2015 bonds carry an “AA” rating by virtue of bond insurance issued by Build America Mutual Assurance Company. Credit enhanced ratings provided through bond insurance policies are subject to change based on the rating of the bond insurance company. The ratings above include all rating changes through March 31, 2015.

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Harris County Municipal Utility District No. 71, c/o Allen Boone Humphries Robinson LLP, 3200 Southwest Freeway, Suite 2600, Houston, TX 77027.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
MARCH 31, 2015

	<u>General Fund</u>	<u>Special Revenue Fund</u>
ASSETS		
Cash, Note 5	\$ 7,241,372	\$ 264,091
Investments, Note 5	1,091,730	126,573
Receivables:		
Property Taxes	43,233	
Penalty and Interest on Delinquent Taxes		
Service Accounts (Net of Allowance for Uncollectible Accounts of \$10,000)	321,185	
Accrued Interest	3,824	
Other	6,129	
Due from Other Funds, Note 2	10,000	169,119
Prepaid Costs	17,568	
Due from Participants, Note 8		32,140
Advance for Joint Facilities Operations, Note 8	413,660	
Land, Note 6		
Construction in Progress, Note 6		
Capital Assets (Net of Accumulated Depreciation), Note 6		
TOTAL ASSETS	<u>\$ 9,148,701</u>	<u>\$ 591,923</u>

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

Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
\$ 3,036,534	\$ 2,045,586	\$ 12,587,583	\$	\$ 12,587,583
2,467,386	48,580	3,734,269		3,734,269
159,114		202,347		202,347
44,250		44,250		44,250
		321,185		321,185
7,169		10,993		10,993
	15,233	21,362		21,362
770		179,889	(179,889)	
		17,568	205,091	222,659
		32,140		32,140
		413,660	(413,660)	
			3,769,576	3,769,576
			205,678	205,678
			32,092,720	32,092,720
<u>\$ 5,715,223</u>	<u>\$ 2,109,399</u>	<u>\$ 17,565,246</u>	<u>\$ 35,679,516</u>	<u>\$ 53,244,762</u>

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
MARCH 31, 2015

	<u>General Fund</u>	<u>Special Revenue Fund</u>
LIABILITIES		
Accounts Payable	\$ 205,898	\$ 125,398
Participant Advances, Note 8		466,525
Accrued Interest Payable		
Due to Developers		
Due to Other Funds, Note 2	169,889	
Due to Taxpayers		
Security Deposits	501,675	
Accrued Interest at Time of Sale		
Long-Term Liabilities:		
Bonds Payable, Due Within One Year, Note 3		
Bonds Payable, Due After One Year, Note 3		
TOTAL LIABILITIES	<u>\$ 877,462</u>	<u>\$ 591,923</u>
DEFERRED INFLOWS OF RESOURCES		
Property Taxes	\$ 43,233	\$
Penalty and Interest on Delinquent Taxes		
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>\$ 43,233</u>	<u>\$ -0-</u>

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

<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$	\$ 26,576	\$ 357,872	\$	\$ 357,872
		466,525	(413,660)	52,865
			171,560	171,560
			3,631,448	3,631,448
10,000		179,889	(179,889)	
1,563		1,563		1,563
		501,675		501,675
7,813		7,813	(7,813)	
			2,010,000	2,010,000
			<u>43,398,081</u>	<u>43,398,081</u>
<u>\$ 19,376</u>	<u>\$ 26,576</u>	<u>\$ 1,515,337</u>	<u>\$ 48,609,727</u>	<u>\$ 50,125,064</u>
\$ 159,114	\$	\$ 202,347	\$ (202,347)	\$
<u>44,250</u>		<u>44,250</u>	<u>(44,250)</u>	
<u>\$ 203,364</u>	<u>\$ -0-</u>	<u>\$ 246,597</u>	<u>\$ (246,597)</u>	<u>\$ -0-</u>

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
MARCH 31, 2015

	<u>General Fund</u>	<u>Special Revenue Fund</u>
FUND BALANCES		
Nonspendable:		
Prepaid Costs	\$ 17,568	\$
Joint Facilities Operating Advance, Note 8	413,660	
Restricted for Authorized Construction		
Restricted for Debt Service		
Unassigned	<u>7,796,778</u>	<u></u>
TOTAL FUND BALANCES	<u>\$ 8,228,006</u>	<u>\$ - 0 -</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 9,148,701</u>	<u>\$ 591,923</u>
NET POSITION		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
TOTAL NET POSITION		

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

<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$	\$	\$ 17,568	\$ (17,568)	\$
		413,660	(413,660)	
	2,082,823	2,082,823	(2,082,823)	
5,492,483		5,492,483	(5,492,483)	
		7,796,778	(7,796,778)	
<u>\$ 5,492,483</u>	<u>\$ 2,082,823</u>	<u>\$ 15,803,312</u>	<u>\$ (15,803,312)</u>	<u>\$ - 0 -</u>
<u>\$ 5,715,223</u>	<u>\$ 2,109,399</u>	<u>\$ 17,565,246</u>		
			\$ (10,888,732)	\$ (10,888,732)
			5,532,100	5,532,100
			8,476,330	8,476,330
			<u>\$ 3,119,698</u>	<u>\$ 3,119,698</u>

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
MARCH 31, 2015

Total Fund Balances - Governmental Funds	\$ 15,803,312
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Prepaid bond insurance is amortized over the term of the refunding bonds.	205,091
---	---------

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.	36,067,974
--	------------

Deferred tax revenues and deferred penalty and interest revenues on delinquent taxes for the 2014 and prior tax levies became part of recognized revenue in the governmental activities of the District.	246,597
--	---------

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

Due to Developer	\$ (3,631,448)	
Accrued Interest Payable	(163,747)	
Bonds Payable	<u>(45,408,081)</u>	<u>(49,203,276)</u>
Total Net Position - Governmental Activities		<u><u>\$ 3,119,698</u></u>

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

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HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED MARCH 31, 2015

	General Fund	Special Revenue Fund
REVENUES		
Property Taxes	\$ 1,109,190	\$
Water Service	1,400,177	1,244,307
Wastewater Service	1,467,997	694,833
Regional Water Authority Fees	788,496	
Penalty and Interest	105,611	
Tap Connection and Inspection Fees	523,143	
Sales Tax Revenue, Note 12	27,039	
Investment Revenues	16,228	372
Miscellaneous Revenues	43,699	1,437
TOTAL REVENUES	\$ 5,481,580	\$ 1,940,949
EXPENDITURES/EXPENSES		
Service Operations:		
Professional Fees	\$ 301,919	\$ 41,280
Contracted Services	975,991	114,300
Purchased Water Service, Note 8	1,007,677	
Purchased Wastewater Service, Note 8	649,450	
Utilities	49,664	276,091
Regional Water Authority Assessment, Note 9		899,469
Repairs and Maintenance	709,043	197,403
Depreciation, Note 6		
Other	273,483	412,406
Capital Outlay	112,496	
Debt Service:		
Transfer to Refunding Escrow Agent		
Bond Issuance Costs	27,288	
Bond Principal		
Bond Interest		
TOTAL EXPENDITURES/EXPENSES	\$ 4,107,011	\$ 1,940,949
EXCESS (DEFICIENCY) OF REVENUES OVER		
EXPENDITURES/EXPENSES	\$ 1,374,569	\$ - 0 -
OTHER FINANCING SOURCES (USES)		
Transfers In(Out), Note 2	\$ 9,171	\$
Long-Term Debt Issued, Note 13		
Transfer to Refunding Escrow Agent		
Bond Premium		
TOTAL OTHER FINANCING SOURCES (USES)	\$ 9,171	\$ - 0 -
NET CHANGE IN FUND BALANCES	\$ 1,383,740	\$ - 0 -
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION - APRIL 1, 2014	6,844,266	
FUND BALANCES/NET POSITION - MARCH 31, 2015	\$ 8,228,006	\$ - 0 -

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

Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
\$ 4,005,894	\$	\$ 5,115,084	\$ 40,102	\$ 5,155,186
		2,644,484	(1,007,677)	1,636,807
		2,162,830	(649,450)	1,513,380
		788,496		788,496
28,319		133,930	10,480	144,410
		523,143		523,143
		27,039		27,039
16,864	3,142	36,606		36,606
	90,994	136,130		136,130
<u>\$ 4,051,077</u>	<u>\$ 94,136</u>	<u>\$ 11,567,742</u>	<u>\$ (1,606,545)</u>	<u>\$ 9,961,197</u>
\$ 7,714	\$ 20,709	\$ 371,622	\$ 102,522	\$ 474,144
96,286		1,186,577		1,186,577
		1,007,677	(1,007,677)	
		649,450	(649,450)	
		325,755		325,755
		899,469		899,469
		906,446	14,745	921,191
			1,122,890	1,122,890
19,917	518	706,324		706,324
	147,475	259,971	(259,971)	
200,000		200,000	(200,000)	
244,016		271,304	(22,116)	249,188
1,795,000		1,795,000	(1,795,000)	
1,704,631		1,704,631	171,210	1,875,841
<u>\$ 4,067,564</u>	<u>\$ 168,702</u>	<u>\$ 10,284,226</u>	<u>\$ (2,522,847)</u>	<u>\$ 7,761,379</u>
<u>\$ (16,487)</u>	<u>\$ (74,566)</u>	<u>\$ 1,283,516</u>	<u>\$ 916,302</u>	<u>\$ 2,199,818</u>
\$	\$ (9,171)	\$	\$	\$
6,865,000		6,865,000	(6,865,000)	
(6,628,771)		(6,628,771)	6,628,771	
14,489		14,489	(14,489)	
<u>\$ 250,718</u>	<u>\$ (9,171)</u>	<u>\$ 250,718</u>	<u>\$ (250,718)</u>	<u>\$ - 0 -</u>
\$ 234,231	\$ (83,737)	\$ 1,534,234	\$ (1,534,234)	\$
			2,199,818	2,199,818
5,258,252	2,166,560	14,269,078	(13,349,198)	919,880
<u>\$ 5,492,483</u>	<u>\$ 2,082,823</u>	<u>\$ 15,803,312</u>	<u>\$ (12,683,614)</u>	<u>\$ 3,119,698</u>

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2015**

Net Change in Fund Balances - Governmental Funds	\$	1,534,234
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied.		40,102
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Governmental funds report penalty and interest revenue on property taxes when collected. However, in the Statement of Activities, revenue is recorded when penalties and interest are assessed.		10,480
---	--	--------

Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.		(1,122,890)
--	--	-------------

Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected.		142,704
---	--	---------

Governmental funds report bond insurance costs as expenditures and bond premiums as other financing sources. However, in the Statement of Net Position, the bond insurance costs and bond premiums are amortized over the life of the bonds and the current year amortized portion is recorded in the Statement of Activities.		7,627
--	--	-------

Governmental funds report bond principal payments as expenditures. However, in the Statement of Net Position, bond principal payments are reported as decreases in long-term liabilities.		1,795,000
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Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end.		(171,210)
---	--	-----------

Governmental funds report bond proceeds as other financing sources. Issued bonds increase long-term liabilities in the Statement of Net Position.		(6,865,000)
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The refunding of outstanding bonds decreases long-term liabilities in the Statement of Net Position.		6,828,771
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Change in Net Position - Governmental Activities	\$	2,199,818
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The accompanying notes to the financial
statements are an integral part of this report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2015

NOTE 1. CREATION OF DISTRICT

Harris County Municipal Utility District No. 71 (the “District”) was created by an order of the Texas Water Commission, dated December 13, 1977. Pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, sanitary sewer service, storm sewer drainage, irrigation, solid waste collection and disposal, including recycling, parks and recreational facilities for the residents of the District. The District is also empowered to contract for or employ its own peace officers with powers to make arrests and to establish, operate and maintain a fire department to perform all fire-fighting activities within the District.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

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

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

The District participates in a joint venture for the operation of the joint water facilities and wastewater treatment facilities. Since the District exercises oversight responsibility for the plants, the plants’ operations are accounted for in the Special Revenue Fund of the District (see Note 8). The District does not issue separate financial statements for this joint venture.

Financial Statement Presentation

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2015

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

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

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

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

Government-Wide Financial Statements

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

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2015

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide Financial Statements (Continued)

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

Fund Financial Statements

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

Governmental Funds

The District has four governmental funds and considers them to be major funds.

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

Special Revenue Fund – To account for financial resources collected and administered by the District for the operation of the joint water facilities and wastewater treatment facilities.

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

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

Basis of Accounting

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2015

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

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

Amounts transferred from one fund to another fund are reported as an other financing source or use. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis. As of March 31, 2015, the General Fund owed \$169,119 to the Special Revenue Fund for joint water and wastewater operations and the General Fund owed \$770 to the Debt Service Fund for the over transfer of maintenance tax revenue. The Debt Service Fund owed \$10,000 to the General Fund for arbitrage calculation costs. During the current fiscal year, the Capital Projects Fund transferred \$9,171 to the General Fund for the true-up of capital costs for the water plant no. 1 booster pump.

Capital Assets

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

Assets are capitalized, including infrastructure assets, if they have an original cost greater than \$5,000 and a useful life over two years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation. Estimated useful lives are as follows:

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2015

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgeting

In compliance with governmental accounting principles, the Board of Directors annually adopts unappropriated budgets for both the General Fund and Special Revenue Fund.

Pensions

The District has not established a pension plan as the District does not have employees. The Internal Revenue Service has determined that the directors are considered to be employees for federal payroll tax purposes only.

Measurement Focus

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

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

Nonspendable: amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

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

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2015

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

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

Unassigned: all other spendable amounts in the General Fund.

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

Accounting Estimates

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

NOTE 3. LONG-TERM DEBT

	Refunding Series 2005A	Series 2007
Amount Outstanding – March 31, 2015	\$ 500,000	\$ 6,980,000
Interest Rates	4.00% - 4.10%	4.00% - 4.375%
Maturity Dates – Serially Beginning/Ending	September 1, 2015/2016	September 1, 2015/2032
Interest Payment Dates	September 1/ March 1	September 1/ March 1
Callable Dates	September 1, 2013 *	September 1, 2017 *

- * Or any interest payment date thereafter, callable at par, plus unpaid accrued interest in whole or in part, at the option of the District. Series 2007 term bonds maturing September 1, 2020, September 1, 2022, September 1, 2024, September 1, 2026, September 1, 2029, and September 1, 2032, are subject to mandatory redemption beginning September 1, 2019, September 1, 2021, September 1, 2023, September 1, 2025, September 1, 2027, and September 1, 2030, respectively.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2015

NOTE 3. LONG-TERM DEBT (Continued)

	Series 2009	Series 2012	Refunding Series 2012A
Amount Outstanding – March 31, 2015	\$ 9,050,000	\$ 3,825,000	\$ 4,945,000
Interest Rates	5.00% - 6.00%	3.00% - 4.20%	2.00% - 4.00%
Maturity Dates – Serially Beginning/Ending	September 1, 2015/2033	September 1, 2015/2033	March 1, 2016/2029
Interest Payment Dates	September 1/ March 1	September 1/ March 1	September 1/ March 1
Callable Dates	September 1, 2018*	September 1, 2020*	March 1, 2020*
	Refunding Series 2013	Series 2014	Refunding Series 2014A
Amount Outstanding – March 31, 2015	\$ 3,710,000	\$ 5,300,000	\$ 4,595,000
Interest Rates	2.00% - 3.50%	4.00% - 6.00%	2.00% - 3.00%
Maturity Dates – Serially Beginning/Ending	March 1, 2016/2029	September 1, 2015/2036	March 1, 2016/2022
Interest Payment Dates	September 1/ March 1	September 1/ March 1	September 1/ March 1
Callable Dates	March 1, 2020*	September 1, 2022*	N/A

* Or any interest payment date thereafter, callable at par, plus unpaid accrued interest in whole or in part, at the option of the District. Series 2009 term bonds maturing September 1, 2024, September 1, 2026, September 1, 2029, September 1, 2031 and September 1, 2033 are subject to mandatory redemption beginning September 1, 2021, September 1, 2025, September 1, 2027, September 1, 2030, and September 1, 2032, respectively. Series 2012 term bonds maturing March 1, 2029, March 1, 2031, and March 1, 2033, are subject to mandatory redemption beginning March 1, 2021, March 1, 2030, and March 1, 2032. Series 2012A Refunding term bonds maturing March 1, 2029, are subject to mandatory redemption beginning March 1, 2028. Series 2014 term bonds maturing September 1, 2030, are subject to mandatory redemption beginning September 1, 2025.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2015

NOTE 3. LONG-TERM DEBT (Continued)

	Refunding Series 2015
Amount Outstanding – March 31, 2015	\$ 6,865,000
Interest Rates	2.00% - 3.25%
Maturity Dates – Serially Beginning/Ending	March 1, 2016/2030
Interest Payment Dates	September 1/ March 1
Callable Dates	March 1, 2022*

* Or any interest payment date thereafter, callable at par, plus unpaid accrued interest in whole or in part, at the option of the District.

The following is a summary of transactions regarding bonds payable for the year ended March 31, 2015:

	April 1, 2014	Additions	Refunded/ Retired	March 31, 2015
Bonds Payable	\$ 47,420,000	\$ 6,865,000	\$ 8,515,000	\$ 45,770,000
Unamortized Discounts	(538,127)		(27,257)	(510,870)
Unamortized Premiums	144,337	14,489	9,875	148,951
Bonds Payable, Net	<u>\$ 47,026,210</u>	<u>\$ 6,879,489</u>	<u>\$ 8,497,618</u>	<u>\$ 45,408,081</u>
		Amount Due Within One Year		\$ 2,010,000
		Amount Due After One Year		43,398,081
		Bonds Payable, Net		<u>\$ 45,408,081</u>

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2015

NOTE 3. LONG-TERM DEBT (Continued)

As of March 31, 2015, the District has authorized but unissued tax bonds of \$18,444,230 for the purpose of purchasing and constructing water supply and distribution, wastewater collection and treatment and storm drainage facilities and refunding purposes authorized but unissued, \$27,300,000 of unlimited tax refunding bonds authorized but unissued, and authorized but unissued park bonds of \$6,630,000. The bonds are payable from the proceeds of an ad valorem tax levied upon all property subject to taxation within the District, without limitation as to rate or amount.

As of March 31, 2015, the debt service requirements on the bonds outstanding were as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 2,010,000	\$ 1,738,070	\$ 3,748,070
2017	2,305,000	1,651,720	3,956,720
2018	2,080,000	1,590,249	3,670,249
2019	2,125,000	1,528,181	3,653,181
2020	2,145,000	1,466,817	3,611,817
2021-2025	11,180,000	6,258,444	17,438,444
2026-2030	12,095,000	4,001,761	16,096,761
2031-2035	10,180,000	1,289,070	11,469,070
2036-2037	1,650,000	70,124	1,720,124
	<u>\$ 45,770,000</u>	<u>\$ 19,594,436</u>	<u>\$ 65,364,436</u>

The District levied an ad valorem debt service tax rate of \$0.83 per \$100 of assessed valuation, which resulted in a tax levy of \$4,035,620 on the adjusted taxable valuation of \$486,219,232 for the 2014 tax year. The bond resolutions require the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. See Note 7 for the maintenance tax levy.

The District's tax calendar is as follows:

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2015

NOTE 4. SIGNIFICANT BOND RESOLUTION AND LEGAL REQUIREMENTS

The bond resolutions state that the District is required by the Securities and Exchange Commission to provide continuing disclosure of certain general financial information and operating data with respect to the District to the state information depository. This information, along with the audited annual financial statements, is to be provided within six months after the end of each fiscal year and shall continue to be provided through the life of the bonds.

The District has covenanted that it will take necessary steps to comply with the requirement that rebatable arbitrage earnings on the investment of the gross proceeds of the bonds, within the meaning of section 148(f) of the Internal Revenue Code, be rebated to the federal government. The minimum requirement for determination of the rebatable amount is on the five-year anniversary of the issue.

In accordance with the Series 2014 bond resolution, a portion of the bond proceeds was deposited into the Debt Service Fund and restricted for the payment of bond interest. Transactions for the current year are summarized as follows:

Restricted for Bond Interest – April 1, 2014	\$ 223,375
Less: Bond Interest Paid – Series 2014	<u>223,375</u>
Restricted for Bond Interest – March 31, 2015	<u>\$ -0-</u>

NOTE 5. DEPOSITS AND INVESTMENTS

Deposits

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

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At year end, the carrying amount of the District's deposits was \$16,143,970 and the bank balance was \$16,185,481. Of the bank balance, \$4,152,415 was covered by federal depository insurance and the remainder was collateralized with securities held in a third-party depository in the District's name.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2015

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Deposits (Continued)

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at March 31, 2015, as listed below:

	Cash	Certificates of Deposit	Total
GENERAL FUND	\$ 7,241,372	\$ 1,091,214	\$ 8,332,586
SPECIAL REVENUE FUND	264,091		264,091
DEBT SERVICE FUND	3,036,534	2,465,173	5,501,707
CAPITAL PROJECTS FUND	2,045,586		2,045,586
TOTAL DEPOSITS	<u>\$ 12,587,583</u>	<u>\$ 3,556,387</u>	<u>\$ 16,143,970</u>

Investments

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

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act (PFIA). The PFIA authorizes the following investments: (1) obligations of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (5) certain A rated or higher obligations of states, agencies, counties, cities, and other political subdivisions of any state, (6) bonds issued, assumed or

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2015

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

guaranteed by the State of Israel, (7) insured or collateralized certificates of deposit, (8) certain fully collateralized repurchase agreements secured by delivery, (9) certain bankers' acceptances guaranteed by the State of Israel, (7) insured or collateralized certificates of deposit, (8) certain fully collateralized repurchase agreements secured by delivery, (9) certain bankers' acceptances with limitations, (10) commercial paper rated A-1 or P-1 or higher and a maturity of 270 days or less, (11) no-load money market mutual funds and no-load mutual funds with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools and (14) a qualified securities lending program.

The District's investment policy allows the District to invest in the following: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities; (2) other obligations unconditionally guaranteed or insured by or backed by the full faith and credit of the State of Texas or the United States or its agencies and instrumentalities; (3) insured or collateralized certificates of deposit; and (4) TexPool and Texas CLASS investment pools.

The District invests in TexPool, an external investment pool that is not SEC-registered. The State Comptroller of Public Accounts of the State of Texas has oversight of the pool. Federated Investors, Inc. manages the daily operations of the pool under a contract with the Comptroller. The fair value of the District's position in the pool is the same as the value of pool shares.

As of March 31, 2015, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
<u>GENERAL FUND</u>					
Texpool	\$ 516	\$ 516	\$	\$	\$
Certificates of Deposit	1,091,214	1,091,214			
<u>SPECIAL REVENUE FUND</u>					
Texpool	126,573	126,573			
<u>DEBT SERVICE FUND</u>					
Texpool	2,213	2,213			
Certificates of Deposit	2,465,173	2,465,173			
<u>CAPITAL PROJECTS FUND</u>					
Texpool	48,580	48,580			
TOTAL INVESTMENTS	\$ 3,734,269	\$ 3,734,269	\$ - 0 -	\$ - 0 -	\$ - 0 -

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2015

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At March 31, 2015, the District's investment in TexPool was rated AAAm by Standard and Poor's.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District considers the investment in TexPool to have a maturity of less than one year due to the fact the share position can usually be redeemed each day at the discretion of the District, unless there has been a significant change in value.

Restrictions

All cash and investments of the Special Revenue Fund are restricted for the payment of operating and maintenance costs of the joint water facilities and wastewater treatment plant facilities.

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

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2015

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2015:

	April 1, 2014	Increases	Decreases	March 31, 2015
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 3,769,576	\$	\$	\$ 3,769,576
Construction in Progress	178,871	1,503,761	1,476,954	205,678
Total Capital Assets Not Being Depreciated	<u>\$ 3,948,447</u>	<u>\$ 1,503,761</u>	<u>\$ 1,476,954</u>	<u>\$ 3,975,254</u>
Capital Assets Subject to Depreciation				
Buildings and Equipment	\$ 1,169,400	\$	\$	\$ 1,169,400
Water System	12,513,701	237,122		12,750,823
Wastewater System	19,438,392	476,373		19,914,765
Drainage System	8,731,857	660,937		9,392,794
Total Capital Assets Subject to Depreciation	<u>\$ 41,853,350</u>	<u>\$ 1,374,432</u>	<u>\$ - 0 -</u>	<u>\$ 43,227,782</u>
Less Accumulated Depreciation				
Buildings and Equipment	\$ 363,326	\$ 39,764	\$	\$ 403,090
Water System	3,431,379	355,456		3,786,835
Wastewater System	5,027,691	521,195		5,548,886
Drainage System	1,189,776	206,475		1,396,251
Total Accumulated Depreciation	<u>\$ 10,012,172</u>	<u>\$ 1,122,890</u>	<u>\$ - 0 -</u>	<u>\$ 11,135,062</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 31,841,178</u>	<u>\$ 251,542</u>	<u>\$ - 0 -</u>	<u>\$ 32,092,720</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 35,789,625</u>	<u>\$ 1,755,303</u>	<u>\$ 1,476,954</u>	<u>\$ 36,067,974</u>

The District has financed drainage facilities which have been recorded as conveyed to other entities for maintenance. As a result, the District's long-term debt is greater than its net capital assets.

NOTE 7. MAINTENANCE TAX

At an election held on August 13, 1994, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$0.60 per \$100 of assessed valuation of taxable property within the District. The District levied an ad valorem maintenance tax rate of \$0.23 per \$100 of assessed valuation, which resulted in a tax levy of \$1,118,304 on the adjusted taxable valuation of \$486,219,232 for the 2014 tax year. This maintenance tax is to be used by the General Fund to pay expenditures of operating the District's waterworks and sanitary sewer system and other operating expenses of the District.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2015

NOTE 8. JOINT FACILITIES

Joint Water Facilities

On September 18, 2006, the District entered into an agreement with Harris County Municipal Utility District No. 287 (District No. 287) to finance and operate joint water supply and distribution facilities (the “Project”) to serve the areas within both districts. This agreement was amended on January 14, 2008, February 17, 2014 and December 15, 2014. This agreement is for a term of 40 years. The District has legal title to the Project for the benefit of both districts. Each district is responsible for costs of the construction, operation, maintenance and repair, and extensions of their respective internal water distribution systems.

The District coordinated the construction of all phases of the Project, and each participant paid its share. Under the Agreement, the District constructed and financed Phase 1 of the Project, and District No. 287 paid \$400,000 to the District for Phase 2 of the Project, which included the installation of two additional 20,000-gallon hydropneumatic tanks and rehabilitation of the District’s existing ground storage tank. District No. 287 contributed \$1,600,000 toward the construction costs of Phase 3 which included new ground storage tank, booster pump and electrical improvement at water plant no. 2 and a new hydro tank, control building, electrical improvements and site improvements at water plant no. 1.

Each district pays its share of operation and maintenance expenses which are determined by the number of active connections within each district. Any major repairs or capital costs are prorated based on each district’s capacity share. The District’s cost for water this year ended was \$1,007,677.

Joint Wastewater Treatment Facilities

On September 18, 2006, the District entered into an agreement with District No. 287 to sell capacity in the District’s wastewater treatment facilities to serve 350 ESFCs in District No. 287 at a price of \$1,260 per ESFC, or \$441,000. This agreement was amended on October 1, 2009, to allow for District No. 287 to purchase from the District 351 ESFCs at a price of \$1,260 per ESFC, or \$442,260. This agreement was amended on January 1, 2012, to include the new replacement lift station located on the site of the facilities owned by the District. Each district is required to pay its share of operation and maintenance expenses for the wastewater

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2015

NOTE 8. JOINT FACILITIES (Continued)

Joint Wastewater Treatment Facilities (Continued)

treatment facilities based on the total capacity purchased by District No. 287 with respect to the total capacity owned by the District. The term of this agreement is 40 years from its effective date. The District's wastewater treatment costs totaled \$649,450 for the current year.

As of March 31, 2015, the following balances have been recorded in the joint facilities:

	Harris County Municipal Utility District No. 71	Harris County Municipal Utility District No. 287	Total
Balance Receivable from Participants	\$ 169,119	\$ 32,140	\$ 201,259
Reserve for Joint Operations	\$ 413,660	\$ 52,865	\$ 466,525

NOTE 9. WEST HARRIS COUNTY REGIONAL WATER AUTHORITY

The District is located within the boundaries of the West Harris County Regional Water Authority (the "Authority"). The Authority was created under Article 16, Section 59 of the Texas Constitution by House Bill 1842 (the "Act"), as passed by the 77th Texas Legislature, in 2001. The Act empowers the Authority for purposes including the acquisition and provision of surface water and groundwater for residential, commercial, industrial, agricultural, and other uses, the reduction of groundwater withdrawals, the conservation, preservation, protection, recharge, and prevention of waste of groundwater, and of groundwater reservoirs or their subdivisions, and the control of subsidence caused by withdrawal of water from those groundwater reservoirs or their subdivisions. The Authority is overseeing that its participants comply with subsidence district pumpage requirements.

The Authority charges a fee, based on the amount of water pumped from a well, to the owners of wells located within the boundaries of the Authority, unless exempted. The current fee is \$2.05 per 1,000 gallons of water pumped from each well. The District recorded expenditures of \$899,469 during the current year.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2015

NOTE 10. UNREIMBURSED COSTS

The District has executed financing agreements with Developers within the District. The agreements call for the Developers to fund costs associated with water, wastewater and drainage facilities until such time as the District can sell bonds to reimburse the Developers. Reimbursement to the Developers for these projects is contingent upon approval from the Commission and the future sale of bonds.

NOTE 11. 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. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

NOTE 12. STRATEGIC PARTNERSHIP AGREEMENT

Effective November 10, 2008, the District entered into a Strategic Partnership Agreement with the City of Houston, Texas. The agreement provides that in accordance with Subchapter F of Chapter 43 of the Local Government Code and Act, the City shall annex a tract of land defined as the "Subject Tract" for the limited purposes described below. The District will continue to develop, to own, and to operate and maintain a water and wastewater system in the District.

Neither the District nor any owners of taxable property within the District is liable for any present or future debts of the City, and current and future ad valorem taxes levied by the City will not be levied on taxable property within the District. Provisions of the Regulatory Plan adopted by the City will be applicable to the Subject Tract of land within the District. The District's assets, liabilities, indebtedness, and obligations will remain the responsibility of the District during the period preceding full-purpose annexation. The qualified voters of the Subject Tract may vote in City elections pursuant to Local Government Code. The City is responsible for notifying the voters within the Subject Tract. The City's Municipal Courts shall have jurisdiction to adjudicate cases filed under the most current section of the Fire Code banning fireworks.

The City has imposed a sales and use tax within the boundaries of the subject tract upon the limited-purpose annexation of the subject tract. The sales and use tax is imposed on the receipts from the sale and use at retail of taxable items at the rate of one percent or the rate specified

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2015

NOTE 12. STRATEGIC PARTNERSHIP AGREEMENT (Continued)

in future amendments to Chapter 321 of the Tax Code. The City agreed to pay to the District an amount equal to one-half of all sales and use tax revenues generated within the boundaries of the subject tract. The City agreed to deliver to the District its share of the sales tax receipts within 30 days of the City receiving the funds from the State Comptroller's office.

The City agrees that it will not annex the District for full purposes or commence any action to annex the District for full purposes during the term of this Agreement. The term of this Agreement is 30 years from the effective date of the agreement.

During the year ending March 31, 2015, the District received \$27,039 in sales tax revenues, of which \$6,129 is recorded as a receivable.

NOTE 13. BOND SALE

On January 15, 2015, the District issued its \$6,865,000 Series 2015 Unlimited Tax Refunding Bonds to refund the Series 2005, Series 2006 and Series 2006A bonds in the amount of \$1,600,000, \$2,100,000 and \$3,020,000, respectively. The refunding resulted in gross debt service savings of \$528,722 and net present value savings of \$405,645.

Series	Interest Rates	Maturities	Callable Dates	Callable at March 31, 2015
2005	3.80% - 4.55%	2016-2029	03/01/2013	\$ -0-
2006	4.10% - 4.45%	2015-2030	03/01/2014	-0-
2006A	4.00% - 4.25%	2016, 2023-2026	03/01/2014	-0-
Total				<u>\$ -0-</u>

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71

REQUIRED SUPPLEMENTARY INFORMATION

MARCH 31, 2015

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2015

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Property Taxes	\$ 963,000	\$ 1,109,190	\$ 146,190
Water Service	1,400,000	1,400,177	177
Wastewater Service	1,325,000	1,467,997	142,997
Regional Water Authority Fee	800,000	788,496	(11,504)
Penalty and Interest	75,000	105,611	30,611
Tap Connection and Inspection Fees	410,400	523,143	112,743
Sales Tax Revenue	6,000	27,039	21,039
Investment Revenues	20,000	16,228	(3,772)
Miscellaneous Revenues	22,500	43,699	21,199
TOTAL REVENUES	<u>\$ 5,021,900</u>	<u>\$ 5,481,580</u>	<u>\$ 459,680</u>
EXPENDITURES			
Services Operations:			
Professional Fees	\$ 238,000	\$ 301,919	\$ (63,919)
Contracted Services	887,000	975,991	(88,991)
Purchased Services	2,419,700	1,657,127	762,573
Utilities	50,000	49,664	336
Repairs and Maintenance/Capital Outlay	1,009,948	821,539	188,409
Other	417,100	300,771	116,329
TOTAL EXPENDITURES	<u>\$ 5,021,748</u>	<u>\$ 4,107,011</u>	<u>\$ 914,737</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 152</u>	<u>\$ 1,374,569</u>	<u>\$ 1,374,417</u>
OTHER FINANCING SOURCES(USES)			
Transfers In	<u>\$ -0-</u>	<u>\$ 9,171</u>	<u>\$ 9,171</u>
NET CHANGE IN FUND BALANCE	\$ 152	\$ 1,383,740	\$ 1,383,588
FUND BALANCE - APRIL 1, 2014	<u>6,844,266</u>	<u>6,844,266</u>	
FUND BALANCE - MARCH 31, 2015	<u><u>\$ 6,844,418</u></u>	<u><u>\$ 8,228,006</u></u>	<u><u>\$ 1,383,588</u></u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - SPECIAL REVENUE FUND
FOR THE YEAR ENDED MARCH 31, 2015

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Water and Wastewater Service	\$ 2,572,895	\$ 1,939,140	\$ (633,755)
Investment Revenues	400	372	(28)
Miscellaneous Revenues		1,437	1,437
TOTAL REVENUES	<u>\$ 2,573,295</u>	<u>\$ 1,940,949</u>	<u>\$ (632,346)</u>
EXPENDITURES			
Services Operations:			
Professional Fees	\$ 12,500	\$ 41,280	\$ (28,780)
Contracted Services	114,300	114,300	
Utilities	345,000	276,091	68,909
Regional Water Authority			
Assessments	950,000	899,469	50,531
Repairs and Maintenance	768,304	197,403	570,901
Other	382,500	412,406	(29,906)
TOTAL EXPENDITURES	<u>\$ 2,572,604</u>	<u>\$ 1,940,949</u>	<u>\$ 631,655</u>
NET CHANGE IN FUND BALANCE	\$ 691	\$ -0-	\$ (691)
FUND BALANCE - APRIL 1, 2014	<u> </u>	<u> </u>	<u> </u>
FUND BALANCE - MARCH 31, 2015	<u>\$ 691</u>	<u>\$ -0-</u>	<u>\$ (691)</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71
SUPPLEMENTARY INFORMATION REQUIRED BY THE
WATER DISTRICT FINANCIAL MANAGEMENT GUIDE
MARCH 31, 2015

FOR THE YEAR ENDED MARCH 31, 2015

1. SERVICES PROVIDED BY THE DISTRICT DURING THE YEAR:

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

2. RETAIL SERVICE PROVIDERS

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

Based on the rate order effective October 27, 2014.

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate per 1,000 Gallons over Minimum Use	Usage Levels
WATER:	\$ 24.00	5,000	N	\$ 1.00	5,001 to 15,000
				\$ 1.50	15,001 to 30,000
				\$ 2.00	30,001 and up
WASTEWATER:	\$ 30.10		Y		
SURCHARGE:					
Regional Water Authority Fees	Current RWA fee per 1,000 gallons plus 20%				

District employs winter averaging for wastewater usage?

<u>Yes</u>	<u>X</u> No
------------	----------------

Total charges per 10,000 gallons usage: Water: \$29.00 Wastewater: \$30.10 Surcharge: \$24.60

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71
SERVICES AND RATES
FOR THE YEAR ENDED MARCH 31, 2015

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered			x 1.0	
≤¾"	<u>2,011</u>	<u>1,994</u>	x 1.0	<u>1,994</u>
1"	<u>2,011</u>	<u>1,989</u>	x 2.5	<u>4,973</u>
1½"	<u>3</u>	<u>3</u>	x 5.0	<u>15</u>
2"	<u>41</u>	<u>41</u>	x 8.0	<u>328</u>
3"			x 15.0	
4"	<u>4</u>	<u>4</u>	x 25.0	<u>100</u>
6"			x 50.0	
8"			x 80.0	
10"			x 115.0	
Total Water Connections	<u>4,070</u>	<u>4,031</u>		<u>7,410</u>
Total Wastewater Connections	<u>4,029</u>	<u>3,990</u>	x 1.0	<u>3,990</u>

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

Gallons pumped into system:	467,631,000	Water Accountability Ratio: 93.5% (Gallons billed and sold/Gallons pumped)
Gallons billed to customers:	355,276,000	
Gallons sold:	81,966,000	<u>To: Harris County Municipal Utility District No. 287</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71
SERVICES AND RATES
FOR THE YEAR ENDED MARCH 31, 2015

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

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

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

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes ☒ No ☐

County in which District is located:

Harris County, Texas

Is the District located within a city?

Entirely ☐ Partly ☐ Not at all ☒

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

Entirely ☒ Partly ☐ Not at all ☐

ETJ in which District is located:

City of Houston, Texas

Are Board Members appointed by an office outside the District?

Yes ☐ No ☒

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED MARCH 31, 2015

PROFESSIONAL FEES:	
Auditing	\$ 18,500
Engineering	97,395
Legal	<u>186,024</u>
TOTAL PROFESSIONAL FEES	<u>\$ 301,919</u>
PURCHASED SERVICES FOR RESALE:	
Purchased Water Service	\$ 1,007,677
Purchased Wastewater Service	<u>649,450</u>
TOTAL PURCHASED SERVICES FOR RESALE	<u>\$ 1,657,127</u>
CONTRACTED SERVICES:	
Bookkeeping	\$ 22,125
Operations and Billing	<u>149,520</u>
TOTAL CONTRACTED SERVICES	<u>\$ 171,645</u>
UTILITIES:	
Electricity	<u>\$ 49,664</u>
REPAIRS AND MAINTENANCE	<u>\$ 709,043</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 20,550
Dues	565
Insurance	13,208
Office Supplies and Postage	58,203
Payroll Taxes	1,718
Travel and Meetings	3,342
Other	<u>3,345</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 100,931</u>
CAPITAL OUTLAY	<u>\$ 112,496</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED MARCH 31, 2015

TAP CONNECTIONS	\$ <u>122,786</u>
SOLID WASTE DISPOSAL	\$ <u>673,569</u>
SECURITY	\$ <u>130,777</u>
OTHER EXPENDITURES:	
Permit Fees	\$ 8,198
Inspection Fees	27,925
Regulatory Assessment	<u>13,643</u>
TOTAL OTHER EXPENDITURES	\$ <u>49,766</u>
DEBT SERVICE	
Bond Issuance Costs	\$ <u>27,288</u>
TOTAL EXPENDITURES	\$ <u><u>4,107,011</u></u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71
INVESTMENTS
MARCH 31, 2015

<u>Funds</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at End of Year</u>
<u>GENERAL FUND</u>					
TexPool	XXXX0002	Varies	Daily	\$ 516	\$
Certificate of Deposit	XXXX2426	0.80%	04/29/15	101,458	747
Certificate of Deposit	XXXX6239	0.69%	04/29/15	248,059	1,576
Certificate of Deposit	XXXX5319	0.40%	04/29/15	248,629	916
Certificate of Deposit	XXXX2897	0.30%	09/03/15	246,475	423
Certificate of Deposit	XXXX8033	0.50%	02/11/16	<u>246,593</u>	<u>162</u>
TOTAL GENERAL FUND				<u>\$ 1,091,730</u>	<u>\$ 3,824</u>
<u>SPECIAL REVENUE FUND</u>					
TexPool	XXXX0004	Varies	Daily	<u>\$ 126,573</u>	<u>\$ -0-</u>
<u>DEBT SERVICE FUND</u>					
TexPool	XXXX0001	Varies	Daily	\$ 2,213	\$
Certificate of Deposit	XXXX4165	0.50%	06/25/15	240,000	917
Certificate of Deposit	XXXX2445	0.60%	06/26/15	243,383	1,112
Certificate of Deposit	XXXX2901	0.55%	06/27/15	243,818	1,018
Certificate of Deposit	XXXX1500	0.50%	09/04/15	247,267	704
Certificate of Deposit	XXXX3557	0.70%	09/13/15	244,235	932
Certificate of Deposit	XXXX0287	0.80%	12/10/15	1,000,000	2,433
Certificate of Deposit	XXXX8333	0.30%	09/03/15	<u>246,470</u>	<u>53</u>
TOTAL DEBT SERVICE FUND				<u>\$ 2,467,386</u>	<u>\$ 7,169</u>
<u>CAPITAL PROJECTS FUND</u>					
TexPool	XXXX0003	Varies	Daily	<u>\$ 48,580</u>	<u>\$ - 0 -</u>
TOTAL				<u><u>\$ 3,734,269</u></u>	<u><u>\$ 10,993</u></u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED MARCH 31, 2015

	<u>Maintenance Taxes</u>		<u>Debt Service Taxes</u>	
TAXES RECEIVABLE -				
APRIL 1, 2014	\$	33,867	\$	128,378
Adjustments to Beginning				
Balance		<u>252</u>		<u>1,010</u>
	\$	34,119	\$	129,388
Original 2014 Tax Levy	\$	1,015,955	\$	3,666,274
Adjustment to 2014 Tax Levy		<u>102,349</u>		<u>369,346</u>
		1,118,304		4,035,620
TOTAL TO BE				
ACCOUNTED FOR		\$ 1,152,423		\$ 4,165,008
TAX COLLECTIONS:				
Prior Years	\$	21,605	\$	81,131
Current Year		<u>1,087,585</u>		<u>3,924,763</u>
		1,109,190		4,005,894
TAXES RECEIVABLE -				
MARCH 31, 2015		<u>\$ 43,233</u>		<u>\$ 159,114</u>
TAXES RECEIVABLE BY				
YEAR:				
2014	\$	30,719	\$	110,857
2013		5,997		22,683
2012		2,337		8,841
2011		1,409		4,553
2010		619		1,999
2009		435		1,560
2008		482		2,592
2007 and prior		<u>1,235</u>		<u>6,029</u>
TOTAL	\$	<u>43,233</u>	\$	<u>159,114</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED MARCH 31, 2015

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
PROPERTY VALUATIONS:				
Land	\$ 115,945,153	\$ 109,412,428	\$ 104,251,422	\$ 100,337,120
Improvements	400,174,068	340,608,296	312,140,682	309,122,566
Personal Property	7,924,047	8,632,744	7,371,456	6,753,369
Exemptions	<u>(37,824,036)</u>	<u>(35,496,261)</u>	<u>(35,141,807)</u>	<u>(33,801,073)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 486,219,232</u>	<u>\$ 423,157,207</u>	<u>\$ 388,621,753</u>	<u>\$ 382,411,982</u>
TAX RATES PER \$100 VALUATION:				
Debt Service Tax	\$ 0.83	\$ 0.87	\$ 0.87	\$ 0.84
Maintenance Tax	<u>0.23</u>	<u>0.23</u>	<u>0.23</u>	<u>0.26</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 1.06</u>	<u>\$ 1.10</u>	<u>\$ 1.10</u>	<u>\$ 1.10</u>
ADJUSTED TAX LEVY*	<u>\$ 5,153,924</u>	<u>\$ 4,654,730</u>	<u>\$ 4,274,839</u>	<u>\$ 4,206,531</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>97.25 %</u>	<u>99.38 %</u>	<u>99.73 %</u>	<u>99.85 %</u>

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

Maintenance Tax – Maximum tax rate of \$0.60 per \$100 of assessed valuation approved by voters on August 13, 1994.

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71
LONG-TERM DEBT SERVICE REQUIREMENTS
MARCH 31, 2015

REFUNDING SERIES - 2005 A			
Due During Fiscal Years Ending March 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2016	\$ 245,000	\$ 15,355	\$ 260,355
2017	255,000	5,227	260,227
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
	<u>\$ 500,000</u>	<u>\$ 20,582</u>	<u>\$ 520,582</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71
LONG-TERM DEBT SERVICE REQUIREMENTS
MARCH 31, 2015

S E R I E S - 2 0 0 7			
Due During Fiscal Years Ending March 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2016	\$ 325,000	\$ 284,075	\$ 609,075
2017	325,000	271,075	596,075
2018	325,000	258,075	583,075
2019	325,000	245,075	570,075
2020	325,000	232,075	557,075
2021	325,000	219,075	544,075
2022	325,000	206,075	531,075
2023	325,000	193,074	518,074
2024	325,000	179,913	504,913
2025	325,000	166,587	491,587
2026	450,000	150,475	600,475
2027	450,000	131,575	581,575
2028	450,000	112,563	562,563
2029	450,000	93,438	543,438
2030	450,000	74,312	524,312
2031	450,000	54,906	504,906
2032	515,000	33,797	548,797
2033	515,000	11,266	526,266
2034			
2035			
2036			
2037			
	<u>\$ 6,980,000</u>	<u>\$ 2,917,431</u>	<u>\$ 9,897,431</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71
LONG-TERM DEBT SERVICE REQUIREMENTS
MARCH 31, 2015

S E R I E S - 2 0 0 9			
Due During Fiscal Years Ending March 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2016	\$ 150,000	\$ 469,288	\$ 619,288
2017	150,000	460,288	610,288
2018	150,000	451,288	601,288
2019	150,000	442,475	592,475
2020	150,000	434,412	584,412
2021	150,000	426,912	576,912
2022	150,000	419,319	569,319
2023	150,000	411,631	561,631
2024	175,000	403,303	578,303
2025	175,000	394,334	569,334
2026	600,000	374,400	974,400
2027	600,000	343,500	943,500
2028	900,000	304,875	1,204,875
2029	900,000	258,525	1,158,525
2030	900,000	212,175	1,112,175
2031	900,000	165,375	1,065,375
2032	900,000	78,125	978,125
2033	900,000	70,875	970,875
2034	900,000	23,625	923,625
2035			
2036			
2037			
	<u>\$ 9,050,000</u>	<u>\$ 6,144,725</u>	<u>\$ 15,194,725</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71
LONG-TERM DEBT SERVICE REQUIREMENTS
MARCH 31, 2015

S E R I E S - 2 0 1 2			
Due During Fiscal Years Ending March 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2016	\$ 75,000	\$ 151,137	\$ 226,137
2017	75,000	148,887	223,887
2018	75,000	146,637	221,637
2019	75,000	144,387	219,387
2020	75,000	142,137	217,137
2021	75,000	139,794	214,794
2022	75,000	137,076	212,076
2023	75,000	134,076	209,076
2024	75,000	131,076	206,076
2025	75,000	128,076	203,076
2026	100,000	124,576	224,576
2027	150,000	119,576	269,576
2028	150,000	113,576	263,576
2029	150,000	107,576	257,576
2030	325,000	98,076	423,076
2031	550,000	80,232	630,232
2032	550,000	57,544	607,544
2033	550,000	34,650	584,650
2034	550,000	11,550	561,550
2035			
2036			
2037			
	\$ 3,825,000	\$ 2,150,639	\$ 5,975,639

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71
LONG-TERM DEBT SERVICE REQUIREMENTS
MARCH 31, 2015

<u>S E R I E S - 2 0 1 2 A R E F U N D I N G</u>			
<u>Due During Fiscal Years Ending March 31</u>	<u>Principal Due March 1</u>	<u>Interest Due September 1/ March 1</u>	<u>Total</u>
2016	\$ 505,000	\$ 152,524	\$ 657,524
2017	520,000	142,424	662,424
2018	540,000	132,030	672,030
2019	270,000	115,824	385,824
2020	275,000	107,724	382,724
2021	290,000	96,724	386,724
2022	300,000	88,894	388,894
2023	310,000	79,894	389,894
2024	335,000	70,594	405,594
2025	340,000	60,125	400,125
2026	350,000	48,650	398,650
2027	370,000	36,400	406,400
2028	395,000	21,600	416,600
2029	145,000	5,800	150,800
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
	<u>\$ 4,945,000</u>	<u>\$ 1,159,207</u>	<u>\$ 6,104,207</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71
LONG-TERM DEBT SERVICE REQUIREMENTS
MARCH 31, 2015

<u>REFUNDING SERIES - 2013</u>			
<u>Due During Fiscal Years Ending March 31</u>	<u>Principal Due March 1</u>	<u>Interest Due September 1/ March 1</u>	<u>Total</u>
2016	\$ 215,000	\$ 111,738	\$ 326,738
2017	215,000	107,438	322,438
2018	225,000	103,138	328,138
2019	235,000	98,638	333,638
2020	235,000	93,938	328,938
2021	245,000	89,238	334,238
2022	255,000	80,662	335,662
2023	265,000	71,738	336,738
2024	280,000	62,462	342,462
2025	290,000	52,662	342,662
2026	295,000	42,512	337,512
2027	305,000	32,188	337,188
2028	320,000	21,512	341,512
2029	330,000	10,312	340,312
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
	<u>\$ 3,710,000</u>	<u>\$ 978,176</u>	<u>\$ 4,688,176</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71
LONG-TERM DEBT SERVICE REQUIREMENTS
MARCH 31, 2015

S E R I E S - 2 0 1 4			
Due During Fiscal Years Ending March 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2016	\$ 50,000	\$ 221,875	\$ 271,875
2017	50,000	218,875	268,875
2018	50,000	215,875	265,875
2019	50,000	212,876	262,876
2020	50,000	209,875	259,875
2021	50,000	207,000	257,000
2022	50,000	204,375	254,375
2023	50,000	202,125	252,125
2024	50,000	200,125	250,125
2025	50,000	198,125	248,125
2026	50,000	196,125	246,125
2027	50,000	194,125	244,125
2028	50,000	192,125	242,125
2029	50,000	190,125	240,125
2030	50,000	188,125	238,125
2031	525,000	176,625	701,625
2032	525,000	155,625	680,625
2033	525,000	134,625	659,625
2034	525,000	113,625	638,625
2035	800,000	86,625	886,625
2036	825,000	52,593	877,593
2037	825,000	17,531	842,531
	\$ 5,300,000	\$ 3,789,000	\$ 9,089,000

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71
LONG-TERM DEBT SERVICE REQUIREMENTS
MARCH 31, 2015

REFUNDING SERIES - 2014 A			
Due During Fiscal Years Ending March 31	Principal Due March 1	Interest Due September 1/ March 1	Total
2016	\$ 50,000	\$ 105,500	\$ 155,500
2017	525,000	104,500	629,500
2018	530,000	94,000	624,000
2019	835,000	83,400	918,400
2020	850,000	66,700	916,700
2021	890,000	49,700	939,700
2022	915,000	27,450	942,450
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
	<u>\$ 4,595,000</u>	<u>\$ 531,250</u>	<u>\$ 5,126,250</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71
LONG-TERM DEBT SERVICE REQUIREMENTS
MARCH 31, 2015

<u>REFUNDING SERIES - 2015</u>			
<u>Due During Fiscal Years Ending March 31</u>	<u>Principal Due March 1</u>	<u>Interest Due September 1/ March 1</u>	<u>Total</u>
2016	\$ 395,000	\$ 226,578	\$ 621,578
2017	190,000	193,006	383,006
2018	185,000	189,206	374,206
2019	185,000	185,506	370,506
2020	185,000	179,956	364,956
2021	185,000	174,406	359,406
2022	185,000	168,856	353,856
2023	1,175,000	163,306	1,338,306
2024	1,215,000	128,056	1,343,056
2025	655,000	91,606	746,606
2026	665,000	71,956	736,956
2027	390,000	52,006	442,006
2028	385,000	40,306	425,306
2029	550,000	28,276	578,276
2030	320,000	10,400	330,400
2031			
2032			
2033			
2034			
2035			
2036			
2037			
	<u>\$ 6,865,000</u>	<u>\$ 1,903,426</u>	<u>\$ 8,768,426</u>

See accompanying independent auditor's report.

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HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71
LONG-TERM DEBT SERVICE REQUIREMENTS
MARCH 31, 2015

ANNUAL REQUIREMENTS FOR ALL SERIES			
Due During Fiscal Years Ending March 31	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2016	\$ 2,010,000	\$ 1,738,070	\$ 3,748,070
2017	2,305,000	1,651,720	3,956,720
2018	2,080,000	1,590,249	3,670,249
2019	2,125,000	1,528,181	3,653,181
2020	2,145,000	1,466,817	3,611,817
2021	2,210,000	1,402,849	3,612,849
2022	2,255,000	1,332,707	3,587,707
2023	2,350,000	1,255,844	3,605,844
2024	2,455,000	1,175,529	3,630,529
2025	1,910,000	1,091,515	3,001,515
2026	2,510,000	1,008,694	3,518,694
2027	2,315,000	909,370	3,224,370
2028	2,650,000	806,557	3,456,557
2029	2,575,000	694,052	3,269,052
2030	2,045,000	583,088	2,628,088
2031	2,425,000	477,138	2,902,138
2032	2,490,000	325,091	2,815,091
2033	2,490,000	251,416	2,741,416
2034	1,975,000	148,800	2,123,800
2035	800,000	86,625	886,625
2036	825,000	52,593	877,593
2037	825,000	17,531	842,531
	<u>\$ 45,770,000</u>	<u>\$ 19,594,436</u>	<u>\$ 65,364,436</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71
CHANGE IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED MARCH 31, 2015

Description	Original Bonds Issued	Bonds Outstanding April 1, 2014
Harris County Municipal Utility District No. 71 Unlimited Tax Bonds - Series 2003	\$ 2,490,000	\$ 85,000
Harris County Municipal Utility District No. 71 Unlimited Tax Bonds - Series 2005	2,350,000	1,675,000
Harris County Municipal Utility District No. 71 Unlimited Tax Refunding Bonds - Series 2005A	2,865,000	735,000
Harris County Municipal Utility District No. 71 Unlimited Tax Bonds - Series 2006	2,700,000	2,100,000
Harris County Municipal Utility District No. 71 Unlimited Tax Refunding Bonds - Series 2006A	7,255,000	3,215,000
Harris County Municipal Utility District No. 71 Unlimited Tax Bonds - Series 2007	9,680,000	7,305,000
Harris County Municipal Utility District No. 71 Unlimited Tax Bonds - Series 2009	9,700,000	9,200,000
Harris County Municipal Utility District No. 71 Unlimited Tax Bonds - Series 2012	4,250,000	3,900,000
Harris County Municipal Utility District No. 71 Unlimited Tax Refunding Bonds - Series 2012A	5,465,000	5,345,000
Harris County Municipal Utility District No. 71 Unlimited Tax Refunding Bonds - Series 2013	4,125,000	3,920,000
Harris County Municipal Utility District No. 71 Unlimited Tax Bonds - Series 2014	5,300,000	5,300,000
Harris County Municipal Utility District No. 71 Unlimited Tax Refunding Bonds - Series 2014A	4,640,000	4,640,000

See accompanying independent auditor's report.

Current Year Transactions				
Bonds Sold	Retirements		Bonds Outstanding	
	Principal	Interest	March 31, 2015	
\$	\$ 85,000	\$ 3,145	\$ - 0 -	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	1,675,000	37,444	- 0 -	Wells Fargo Bank of Texas, N.A. Dallas, TX
	235,000	24,838	500,000	Wells Fargo Bank of Texas, N.A. Dallas, TX
	2,100,000	45,125	- 0 -	Wells Fargo Bank of Texas, N.A. Dallas, TX
	3,215,000	69,881	- 0 -	Wells Fargo Bank of Texas, N.A. Dallas, TX
	325,000	297,075	6,980,000	Wells Fargo Bank of Texas, N.A. Dallas, TX
	150,000	478,288	9,050,000	Wells Fargo Bank of Texas, N.A. Dallas, TX
	75,000	153,387	3,825,000	Wells Fargo Bank of Texas, N.A. Dallas, TX
	400,000	160,524	4,945,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	210,000	115,938	3,710,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
		220,272	5,300,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	45,000	98,714	4,595,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71
CHANGE IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED MARCH 31, 2015

Description	Original Bonds Issued	Bonds Outstanding April 1, 2014	
Harris County Municipal Utility District No. 71 Unlimited Tax Refunding Bonds - Series 2015	\$ 6,865,000	\$ - 0 -	
TOTAL	\$ 67,685,000	\$ 47,420,000	
Bond Authority:	Tax Bonds	Park Bonds	Refunding Bonds
Amount Authorized by Voters	\$ 80,020,000	\$ 6,630,000	\$ 27,300,000
Amount Issued	61,575,770		
Remaining to be Issued	\$ 18,444,230	\$ 6,630,000	\$ 27,300,000
Debt Service Fund cash and investment balances as of March 31, 2015:			\$ 5,503,920
Average annual debt service payment (principal and interest) for remaining term of all debt:			\$ 2,971,111

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

See accompanying independent auditor's report.

Current Year Transactions			
Bonds Sold	Retirements		Bonds Outstanding March 31, 2015
	Principal	Interest	
\$ 6,865,000	\$ - 0 -	\$ - 0 -	\$ 6,865,000
\$ 6,865,000	\$ 8,515,000	\$ 1,704,631	\$ 45,770,000

The Bank of New York Mellon
Trust Company, N.A.
Dallas, TX

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS

	Amount		
	2015	2014*	2012
REVENUES			
Property Taxes	\$ 1,109,190	\$ 1,846,323	\$ 991,078
Water Service	1,400,177	1,934,153	1,184,258
Wastewater Service	1,467,997	2,046,333	1,279,261
Regional Water Authority Fee	788,496	1,080,401	656,145
Penalty and Interest	105,611	119,636	76,491
Tap Connection and Inspection Fees	523,143	679,670	319,788
Sales Tax Revenue	27,039	16,456	
Investment Revenues	16,228	26,528	25,143
Miscellaneous Revenues	43,699	96,384	139,211
TOTAL REVENUES	<u>\$ 5,481,580</u>	<u>\$ 7,845,884</u>	<u>\$ 4,671,375</u>
EXPENDITURES			
Service Operations:			
Professional Fees	\$ 301,919	\$ 349,940	\$ 188,874
Contracted Services	975,991	1,329,323	791,078
Purchased Water Services	1,007,677	1,538,761	1,051,364
Purchased Wastewater Services	649,450	1,014,460	496,407
Utilities	49,664	75,128	49,097
Repairs and Maintenance	709,043	973,067	409,382
Other	273,483	448,644	221,905
Capital Outlay	139,784	2,493,296	421,254
TOTAL EXPENDITURES	<u>\$ 4,107,011</u>	<u>\$ 8,222,619</u>	<u>\$ 3,629,361</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 1,374,569</u>	<u>\$ (376,735)</u>	<u>\$ 1,042,014</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	\$ 9,171	\$	\$ 50,445
Contributed by Other Governmental Unit			309,386
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ 9,171</u>	<u>\$ - 0 -</u>	<u>\$ 359,831</u>
NET CHANGE IN FUND BALANCE	\$ 1,383,740	\$ (376,735)	\$ 1,401,845
BEGINNING FUND BALANCE	<u>6,844,266</u>	<u>7,221,001</u>	<u>5,819,156</u>
ENDING FUND BALANCE	<u>\$ 8,228,006</u>	<u>\$ 6,844,266</u>	<u>\$ 7,221,001</u>

- Eighteen-month period

See accompanying independent auditor's report.

		Percentage of Total Revenue				
2011	2010	2015	2014*	2012	2011	2010
\$ 978,756	\$ 896,695	20.3 %	23.5 %	21.3 %	21.2 %	22.6 %
1,240,785	1,057,861	25.5	24.7	25.4	26.8	26.8
1,202,880	1,126,164	26.8	26.1	27.4	26.0	28.5
672,587	382,629	14.4	13.8	14.0	14.5	9.7
76,992	79,556	1.9	1.5	1.6	1.7	2.0
293,109	243,769	9.5	8.7	6.8	6.3	6.2
		0.5	0.2			
32,958	34,522	0.3	0.3	0.5	0.7	0.9
127,255	132,092	0.8	1.2	3.0	2.8	3.3
<u>\$ 4,625,322</u>	<u>\$ 3,953,288</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 192,831	\$ 199,358	5.5 %	4.5 %	4.0 %	4.2 %	5.0 %
754,688	694,150	17.8	16.9	16.9	16.3	17.6
938,067	673,881	18.4	19.6	22.5	20.3	17.0
533,650	499,007	11.8	12.9	10.6	11.5	12.6
49,274	45,904	0.9	1.0	1.1	1.1	1.2
488,664	413,238	12.9	12.4	8.8	10.6	10.5
210,551	190,472	5.0	5.7	4.8	4.5	4.8
1,651,677	394,534	2.6	31.8	9.0	35.7	10.0
<u>\$ 4,819,402</u>	<u>\$ 3,110,544</u>	<u>74.9 %</u>	<u>104.8 %</u>	<u>77.7 %</u>	<u>104.2 %</u>	<u>78.7 %</u>
<u>\$ (194,080)</u>	<u>\$ 842,744</u>	<u>25.1 %</u>	<u>(4.8) %</u>	<u>22.3 %</u>	<u>(4.2) %</u>	<u>21.3 %</u>
\$	\$					
<u>1,184,785</u>						
<u>\$ 1,184,785</u>	<u>\$ - 0 -</u>					
\$ 990,705	\$ 842,744					
<u>4,828,451</u>	<u>3,985,707</u>					
<u>\$ 5,819,156</u>	<u>\$ 4,828,451</u>					

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FIVE YEARS

	Amount		
	2015	2014*	2012
REVENUES			
Property Taxes	\$ 4,005,894	\$ 6,983,968	\$ 3,202,703
Penalty and Interest	28,319	60,394	31,884
Investment Revenues	16,864	29,130	26,562
Miscellaneous Revenues	<u>304</u>	<u>304</u>	<u>304</u>
TOTAL REVENUES	<u>\$ 4,051,077</u>	<u>\$ 7,073,492</u>	<u>\$ 3,261,453</u>
EXPENDITURES			
Tax Collection Expenditures	\$ 123,917	\$ 181,686	\$ 104,347
Debt Service Principal	1,795,000	2,985,000	1,500,000
Debt Service Interest and Fees	1,704,631	2,660,243	1,885,537
Transfer to Refunding Escrow Agent	200,000	100,000	
Issuance Costs	<u>244,016</u>	<u>399,837</u>	<u>245,977</u>
TOTAL EXPENDITURES	<u>\$ 4,067,564</u>	<u>\$ 6,326,766</u>	<u>\$ 3,735,861</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (16,487)</u>	<u>\$ 746,726</u>	<u>\$ (474,408)</u>
OTHER FINANCING SOURCES (USES)			
Long-Term Debt Issued	\$ 6,865,000	\$ 8,988,375	\$ 5,630,013
Transfer to Refunding Bond Escrow Agent	(6,628,771)	(8,426,894)	(5,261,216)
Bond Discount		(3,414)	(45,748)
Bond Premium	<u>14,489</u>	<u>64,854</u>	<u>95,588</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ 250,718</u>	<u>\$ 622,921</u>	<u>\$ 418,637</u>
NET CHANGE IN FUND BALANCE	\$ 234,231	\$ 1,369,647	\$ (55,771)
BEGINNING FUND BALANCE	<u>5,258,252</u>	<u>3,888,605</u>	<u>3,944,376</u>
ENDING FUND BALANCE	<u>\$ 5,492,483</u>	<u>\$ 5,258,252</u>	<u>\$ 3,888,605</u>
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>4,031</u>	<u>3,872</u>	<u>3,526</u>
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	<u>3,990</u>	<u>3,832</u>	<u>3,486</u>

* Eighteen-month period

See accompanying independent auditor's report.

		Percentage of Total Revenue				
2011	2010	2015	2014*	2012	2011	2010
\$ 3,171,326	\$ 3,242,013	98.9 %	98.7 %	98.2 %	96.6 %	95.8 %
70,741	82,891	0.7	0.9	1.0	2.2	2.4
39,717	59,732	0.4	0.4	0.8	1.2	1.8
286						
<u>\$ 3,282,070</u>	<u>\$ 3,384,636</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 127,949	\$ 132,003	3.1 %	2.6 %	3.2 %	3.9 %	3.9 %
1,455,000	1,390,000	44.3	42.2	46.0	44.3	41.1
1,927,113	1,992,571	42.1	37.6	57.8	58.7	58.9
		4.9	1.4			
		<u>6.0</u>	<u>5.7</u>	<u>7.5</u>		
<u>\$ 3,510,062</u>	<u>\$ 3,514,574</u>	<u>100.4 %</u>	<u>89.5 %</u>	<u>114.5 %</u>	<u>106.9 %</u>	<u>103.9 %</u>
<u>\$ (227,992)</u>	<u>\$ (129,938)</u>	<u>(0.4) %</u>	<u>10.5 %</u>	<u>(14.5) %</u>	<u>(6.9) %</u>	<u>(3.9) %</u>
\$	\$					
<u>\$ - 0 -</u>	<u>\$ - 0 -</u>					
\$ (227,992)	\$ (129,938)					
<u>4,172,368</u>	<u>4,302,306</u>					
<u>\$ 3,944,376</u>	<u>\$ 4,172,368</u>					
<u>3,374</u>	<u>3,204</u>					
<u>3,336</u>	<u>3,166</u>					

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71

BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS

MARCH 31, 2015

District Mailing Address - Harris County Municipal Utility District No. 71
c/o Allen Boone Humphries Robinson LLP
3200 Southwest Freeway, Suite 2600
Houston, TX 77027

District Telephone Number - (713) 860-6406

Board Members	Term of Office (Elected or Appointed)	Fees of office for the year ended March 31, 2015	Expense reimbursements for the year ended March 31, 2015	Title
Katrina Thornhill	05/12 - 05/16 (Elected)	\$ 4,350	\$ 734	President
Pam Kerr	05/12 - 05/16 (Elected)	\$ 3,900	\$ -0-	Vice President
Garth Freeze	05/12 - 05/16 (Elected)	\$ 3,750	\$ -0-	Assistant Vice President
Mary Dubois	05/14 - 05/18 (Elected)	\$ 4,650	\$ 1,798	Secretary
Phillip Smith, Jr.	05/14 - 05/18 (Elected)	\$ 3,900	\$ -0-	Assistant Secretary

Notes: No Director has any business or family relationships (as defined by the Texas Water Code) with major landowners in the District, with the District's developer or with any of the District's consultants except for Director Mary DuBois who is employed by Acclaim Energy Advisors which provides energy advisory services to the District. Karen has filed a conflict of interest disclosure statement with the District.

Submission date of most recent District Registration Form (TWC Sections 36.054 and 49.054): August 28, 2014.

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by Board Resolution (TWC Section 49.060) on July 18, 2001. Fees of Office are the amounts actually paid to a Director during the District's current year.

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 71
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
MARCH 31, 2015

Consultants:	<u>Date Hired</u>	<u>Fees for the year ended March 31, 2015 District</u>	<u>Fees for the year ended March 31, 2015 Joint Facilities</u>	<u>Title</u>
Allen Boone Humphries Robinson LLP	07/27/03	\$ 206,382	\$ 7,258	General Counsel/ Bond Counsel
		\$ 68,953		
McCall Gibson Swedlund Barfoot PLLC	09/07/07	\$ 19,885	\$ 2,250	Auditor
Myrtle Cruz, Inc.	04/01/89	\$ 36,331	\$ 8,174	Bookkeeper
Perdue, Brandon, Fielder, Collins & Mott, L.L.P.	03/11/91	\$ 7,714	\$ -0-	Delinquent Tax Attorney
Brown & Gay Engineers, Inc.	08/01/83	\$ 281,100	\$ 31,771	Engineer
First Southwest Company	09/14/87	\$ 72,372	\$ -0-	Financial Advisor
Mary Jarmon	02/13/06	\$ -0-	\$ -0-	Investment Officer
Regional Water Corporation	11/14/97	\$ 553,147	\$ 508,958	Operator
Esther Flores	05/08/95	\$ 56,238	\$ -0-	Tax Assessor/ Collector
Mike Stone Associates	04/01/13	\$ 252,620	\$ -0-	Park Maintenance

See accompanying independent auditor's report.

APPENDIX B

Specimen Municipal Bond Insurance Policy



MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

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

Effective Date: _____

Risk Premium: \$ _____

Member Surplus Contribution: \$ _____

Total Insurance Payment: \$ _____

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

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

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

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

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

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

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

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

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN