

OFFICIAL STATEMENT DATED NOVEMBER 12, 2003

IN THE OPINION OF BOND COUNSEL, INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER EXISTING LAW AND THE BONDS ARE NOT PRIVATE ACTIVITY BONDS. SEE "LEGAL MATTERS — TAX EXEMPTION" FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL, INCLUDING A DESCRIPTION OF ALTERNATIVE MINIMUM TAX CONSEQUENCES FOR CORPORATIONS.

THE DISTRICT HAS DESIGNATED THE BONDS AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.

NEW ISSUE — Book-Entry-Only

Rating — S&P: "AAA"

See "MUNICIPAL BOND INSURANCE"
and "MUNICIPAL BOND RATING" herein.

\$3,440,000

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 147

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

UNLIMITED TAX BONDS, SERIES 2003

Dated: December 1, 2003

Due: September 1, as shown below

The bonds described above (the "Bonds") are obligations solely of Harris County Municipal Utility District No. 147 (the "District"), and are not obligations of the State of Texas, Harris County, the City of Houston or any entity other than the District.

Principal of the Bonds will be payable at stated maturity or prior redemption by the paying agent/registrar, initially Wachovia Bank, N.A., (the "Paying Agent/Registrar") in Houston, Texas. Interest on the Bonds will accrue from December 1, 2003, and is payable on September 1, 2004 (nine months of interest) and on each March 1 and September 1 thereafter until the earlier of maturity or prior redemption. The Bonds will be issued only in fully registered form. Interest will be calculated on the basis of a 360 day year of twelve 30 day months. The Bonds are subject to redemption prior to 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 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 as described herein. See "THE BONDS — Book-Entry-Only System."

FGIC. Financial Guaranty Insurance Company

FGIC is a registered service mark used by Financial Guaranty Insurance Company, a private company not affiliated with any U.S. Government agency.

Payment of the principal and interest on all or part of the Bonds when due will be guaranteed by a municipal bond insurance policy issued simultaneously with the delivery of the Bonds by Financial Guaranty Insurance Company. See "MUNICIPAL BOND INSURANCE" herein.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS

Due Sept. 1	Principal Amount	Interest Rate	Initial Reoffering Yield(a)	CUSIP Number(c)	Due Sept. 1	Principal Amount	Interest Rate	Initial Reoffering Yield(a)	CUSIP Number(c)
2005	\$ 20,000	3.000%	1.450%	414958CK2	2013	\$275,000(b)	3.700%	3.650%	414958CT3
2006	20,000	3.000	1.750	414958CL0	2014	275,000(b)	3.800	3.800	414958CU0
2007	25,000	3.000	2.150	414958CM8	2015	275,000(b)	3.900	3.950	414958CV8
2008	25,000	3.000	2.550	414958CN6	2016	275,000(b)	4.000	4.050	414958CW6
2009	275,000	3.000	2.750	414958CP1	2017	275,000(b)	4.000	4.150	414958CX4
2010	275,000	3.200	3.150	414958CQ9	2018	275,000(b)	4.200	4.300	414958CY2
2011	275,000	3.500	3.300	414958CR7	2019	300,000(b)	4.250	4.400	414958CZ9
2012	275,000	3.500	3.500	414958CS5	2020	300,000(b)	4.375	4.500	414958DA3

(a) Initial reoffering yield represents the initial offering yield to the public which has been established by the Initial Purchaser (as herein defined) for offers to the public and which may be subsequently changed by the Initial Purchaser and is the sole responsibility of the Initial Purchaser. The initial reoffering yields indicated above represent the lower of the yields resulting when priced at maturity or to the first call date. Accrued interest from December 1, 2003, is to be added to the price.

(b) Bonds maturing on and after September 1, 2014, are subject to redemption prior to maturity at the option of the District, in whole or in part, on September 1, 2013, or on any date thereafter, at a price equal to the principal amount thereof plus accrued interest to the date fixed for redemption. See "THE BONDS — Redemption Provisions."

(c) 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 Initial Purchaser shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.

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

The Bonds are offered by the Initial Purchaser subject to prior sale, when, as and if issued by the District and accepted by the Initial Purchaser, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Allen Boone Humphries LLP, Bond Counsel. Delivery of the Bonds through DTC is expected on or about December 11, 2003.

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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, resolutions, 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 LLP, 3200 Southwest Freeway, Suite 2600, Houston, Texas, 77027, upon payment of duplication costs.

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 Initial Purchaser and thereafter only as specified in "PREPARATION OF OFFICIAL STATEMENT-Updating the Official Statement."

OFFICIAL STATEMENT SUMMARY

The following information is qualified in its entirety by the detailed information appearing elsewhere in this Official Statement.

THE FINANCING

The Issuer Harris County Municipal Utility District No. 147 (the "District"), a political subdivision of the State of Texas, is located in Harris County, Texas. See "THE DISTRICT."

The Issue..... The District's \$3,440,000 Unlimited Tax Bonds, Series 2003 (the "Bonds") are issued pursuant to a resolution (the "Bond Resolution") of the District's Board of Directors. The Bonds will be issued as fully registered serial bonds. Interest on the Bonds accrues from December 1, 2003, and is payable on September 1, 2004 (nine months of interest), and on each March 1 and September 1 thereafter until the earlier of maturity or prior redemption.

The Bonds maturing on or after September 1, 2014, are subject to redemption, in whole or in part, at the option of the District, prior to their maturity dates, on September 1, 2013, or on any date thereafter. Upon redemption, the Bonds will be payable at a price of par plus accrued interest to the date of redemption. See "THE BONDS."

Source of Payment..... The Bonds are payable from an annual ad valorem tax without legal limitation as to rate or amount, levied upon all taxable property within the District (see "TAX PROCEDURES"). The Bonds are obligations of the District and are not obligations of the State of Texas, Harris County, the City of Houston or any other political subdivision or agency other than the District. See "THE BONDS—Source of and Security for Payment."

Use of Proceeds..... Proceeds from sale of the Bonds will be used to reimburse developers in the District for the District's share of funds advanced on behalf of the District for design and construction of water, sanitary sewer and drainage facilities to serve Clayton Greens, Sections 1 and 2 and Wingate Park, Section 1. Bond proceeds will also be used to finance water line improvements and sanitary sewer improvements to pay for Westpark Tollway utility adjustments, to pay future costs related to surface water rights, to capitalize twelve months of interest on the Bonds, to pay developer interest, and to pay certain costs associated with the issuance of the Bonds. See "THE SYSTEM—Use and Distribution of Bond Proceeds."

Payment Record The District was created in 1977 and has previously issued two series of unlimited tax bonds and one series of unlimited tax refunding bonds, of which a total principal amount of \$1,375,000 is outstanding as of October 31, 2003 (the "Outstanding Bonds"). There has been no default by the District on the Outstanding Bonds.

Qualified Tax-Exempt Obligations In the Bond Resolution the District states that it has designated the Bonds to be "qualified tax-exempt obligations." See "LEGAL MATTERS— Qualified Tax-Exempt Obligations—Purchase of the Bonds by Financial Institutions."

Municipal Bond Rating and Municipal Bond Insurance Standard and Poor's Ratings Service ("S&P") has assigned its municipal bond rating of "AAA" to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of principal of and interest on the Bonds will be issued by Financial Guaranty Insurance Company. S&P has assigned an underlying credit rating of "BBB" to the District. See "MUNICIPAL BOND INSURANCE" and "MUNICIPAL BOND RATING."

Legal Opinion..... Allen Boone Humphries LLP, Bond Counsel, Houston, Texas.

Financial Advisor First Southwest Company, Houston, Texas.

Engineer Van DeWiele Engineering Incorporated, Houston, Texas.

Investment Considerations The purchase and ownership of the Bonds are subject to special investment considerations and all prospective purchasers are urged to examine carefully the entire Official Statement for a discussion of investment risks, including particularly the section captioned "INVESTMENT CONSIDERATIONS."

THE DISTRICT

Description The District is a political subdivision of the State of Texas, created by order of the Texas Water Rights Commission, now the Texas Commission on Environmental Quality (the "Commission"), dated March 10, 1977. See "THE DISTRICT." The District, which contains approximately 231 acres of land, is located approximately 22 miles west of downtown Houston, west of Texas State Highway 6 and south of FM 1093. The District is located wholly within the extraterritorial jurisdiction of the City of Houston. See "AERIAL PHOTOGRAPH" herein.

Status of Development The District includes single family, multifamily and commercial development. Approximately 166 acres of land in the District have been developed into single family residential subdivisions, including Wingate, Sections 1 and 2, Forestview, Section 1, Timber Gate, Wingate Park, Section 1 and Clayton Greens, Sections 1 and 2. Such subdivisions contain approximately 841 single family residential lots, and as of June 11, 2003, the District contained 779 single family homes completed and occupied, 20 single family homes completed and unoccupied, 20 single family homes in various stages of construction, and approximately 22 lots available for home construction. Recent single family development in the District has been conducted by Wingate Properties, Ltd. Choice Homes is the only currently active homebuilder in the District. New homes are being offered for sale at prices ranging from \$110,000 to \$150,000. Values of houses in the older sections are on the tax rolls of the District for the 2003 tax year averaging from approximately \$90,000 to \$140,000.

Commercial and multifamily development in the District includes approximately 33 acres of commercial/multi-use reserves. Two small strip shopping centers and a convenience store are located in the District. Construction of a 140-unit apartment complex known as Laurel Point Apartments was recently completed.

Approximately 18 acres of land in the District are presently not provided with internal water distribution, wastewater collection and storm drainage facilities. However, trunk water supply and wastewater collection lines have been constructed along the major roadways located in the District. The District has no knowledge of any imminent plans for development of any of the undeveloped acreage. The remaining 14 acres are located in easements, drainage facilities, plant sites and rights-of-way. See "STATUS OF DEVELOPMENT."

SELECTED FINANCIAL INFORMATION

2003 Assessed Valuation.....	\$75,605,227(a)
Gross Debt Outstanding (after the issuance of the Bonds)	\$4,815,000
Ratio of Gross Debt to 2003 Assessed Valuation	6.37%
2003 Tax Rate:	
Debt Service (b)	\$0.69
Maintenance and Operations	<u>0.25</u>
Total	\$0.94/\$100 A.V.
Average percentage of current tax collections (1998-2002).....	98.48%
Average percentage of total tax collections (1998-2002).....	99.57%
Maximum Annual Debt Service Requirements (2007) of the Bonds ("Maximum Requirement") - after capitalized interest period.....	\$443,169
Tax rate required to pay Maximum Requirement based upon 2003 Assessed Valuation at a 95% collection rate	\$0.62/\$100 A.V.
Water connections as of June 11, 2003:	
Single-family – Completed and occupied.....	779
Single-family – Completed and unoccupied.....	20
Single-family - builder.....	20
Multifamily (140 total apartment units).....	1
Commercial.....	8
Other.....	<u>2</u>
Total	830
Estimated 2003 Population.....	3,006 (c)

- (a) Includes \$70,343,390 of value certified by the Harris County Appraisal District (the "Appraisal District") and \$5,261,837 owner's opinion of value on properties in the District not yet certified by the Appraisal District for 2003. See "TAX PROCEDURES."
- (b) In connection with its approval, the Commission recommended that the District levy a debt service tax rate of not less than \$0.58 per \$100 assessed valuation in the first year of the Bonds, which is 2004.
- (c) Estimate based on 3.5 persons per occupied home and 2 persons per apartment unit.

OFFICIAL STATEMENT

\$3,440,000

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 147
(A political subdivision of the State of Texas located within Harris County)

UNLIMITED TAX BONDS SERIES 2003

This Official Statement provides certain information in connection with the issuance by Harris County Municipal Utility District No. 147 (the "District") of its \$3,440,000 Unlimited Tax Bonds, Series 2003 (the "Bonds").

The Bonds are issued pursuant to the Texas Constitution, the general laws of the State of Texas, a resolution authorizing the issuance of the Bonds (the "Bond Resolution") adopted by the Board of Directors of the District (the "Board"), and an order of the Texas Commission on Environmental Quality (the "Commission").

This Official Statement includes descriptions, among others, of the Bonds and the Bond Resolution, and certain other information about the District and the developers of land within 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 the District upon payment of the costs of duplication therefor.

THE BONDS

General

Following is a description of some of the terms and conditions of the Bonds, which description is qualified in its entirety by reference to the Bond Resolution of the Board authorizing the issuance and sale of the Bonds. The Bond Resolution authorizes the issuance and sale of the Bonds and prescribes the terms, conditions, and provisions for the payment of the principal of and interest on the Bonds by the District.

The Bonds will be dated and accrue interest from December 1, 2003, and is payable on each March 1 and September 1 commencing September 1, 2004 (nine months of interest), until the earlier of maturity or prior redemption. The Bonds mature on September 1 in the amounts and years shown on the cover page of this Official Statement. Interest calculations are based on a 360-day year comprised of twelve 30-day months.

Book-Entry-Only System

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 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 the Bonds, in the aggregate principal amount of such issue, 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 2 million issues of U.S. and non U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 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 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. 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: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or 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 nor its nominee, Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or 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 Agent. Under such circumstances, in the event that a successor depository is not obtained, Bonds 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, Bonds 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.

Authority for Issuance

The District's voters have authorized the issuance of a total of \$8,000,000 principal amount of unlimited tax bonds in two separate elections held for such purpose on August 13, 1977 and September 26, 1981. See "Issuance of Additional Debt" below. The Commission has authorized the District to sell the Bonds for the purposes described in "THE SYSTEM—Use and Distribution of Bond Proceeds."

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

Source of and Security for Payment

While the Bonds or any part of the principal thereof or interest thereon remain outstanding and unpaid, the District covenants in the Bond Resolution to levy a continuing, direct, annual ad valorem tax, without legal limit as to rate or amount, upon all taxable property in the District sufficient to pay the principal of and interest on the Bonds, with full allowance being made for delinquencies and costs of collection.

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 and twelve months of capitalized interest shall be deposited into the Debt Service Fund upon receipt. The remaining proceeds from sale of the Bonds, including interest earnings thereon, shall be deposited into the Capital Projects Fund, to pay the costs of acquiring or constructing District facilities and for paying the costs of issuing the Bonds. See "THE SYSTEM--Use and Distribution of Bond Proceeds" for a more complete description of the use of Bond proceeds.

No Arbitrage

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

Redemption Provisions

The District reserves the right, at its option, to redeem the Bonds maturing on or after September 1, 2014, prior to their scheduled maturities, in whole or in part, in integral multiples of \$5,000, on September 1, 2013, or on any date thereafter, at a price of par plus accrued interest on the principal amounts called for redemption to the date fixed for redemption. If fewer than all of the Bonds are redeemed at any time, the particular maturities and amounts of Bonds to be redeemed shall be selected by the District. If less than all the Bonds of any maturity are redeemed at any time, the particular Bonds within a maturity to be redeemed shall be selected by the Paying Agent/Registrar by lot or other customary method of selection (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 fewer than all the Bonds outstanding within any one maturity 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 that would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

Registration and Transfer

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

In the event the book-entry-only system is discontinued, each Bond shall be transferable only upon the presentation and surrender of such Bond at the 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 the 15th calendar day preceding an Interest Payment Date and ending on 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 is 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, stolen or destroyed, 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 bond. In addition, the District or the Paying Agent/Registrar may require the Registered Owner to pay a sum sufficient to cover any tax or other governmental charge that may be imposed.

Issuance of Additional Debt

The District may issue additional bonds, with the approval of the Commission, necessary to provide and maintain improvements and facilities consistent with the purposes for which the District was created. After issuance of the Bonds, the District will not have any unlimited tax bonds for facilities. However, additional bonds could be authorized in the future by District voters. 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 "THE SYSTEM—Future Debt."

The District also is authorized by statute to engage in fire-fighting activities, including the issuing of bonds payable from taxes for such purpose. Before the District could issue fire-fighting bonds payable from taxes, the following actions would be required: (a) amendments to existing city ordinances specifying the purposes for which the District may issue bonds; (b) authorization of a detailed master plan and bonds for such purpose by the qualified voters in the District; (c) approval of the master plan and issuance of bonds by the Commission; and (d) approval of bonds by the Attorney General of Texas. The Board has not considered calling such an election at this time.

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.

Strategic Partnership

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

Consolidation

A district (such as 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, with the water and wastewater systems of districts with which it is consolidating as well as its liabilities (which would include the Bonds). No representation is made concerning the likelihood of consolidation.

Remedies in Event of Default

Other than a writ of mandamus, the Bond Resolution does not provide a specific remedy for a default. Although a Registered Owner could presumably obtain a judgment against the District for a default in the payment of principal or interest on the Bonds, such judgment could not be satisfied by execution against any property of the District. If the District defaults, a Registered Owner could petition for a writ of mandamus issued by a court of competent jurisdiction compelling and requiring the District and the District's officials to observe and perform the covenants, obligations or conditions prescribed in the Bond Resolution. Such remedy might need to be enforced on a periodic basis. The enforcement of a claim for payment on the Bonds would be subject to the applicable provisions of the federal bankruptcy laws, any other similar laws affecting the rights of creditors of political subdivisions, and general principles of equity which permit the exercise of judicial discretion. See "INVESTMENT CONSIDERATIONS—Registered Owners' Remedies" and "Bankruptcy Limitation to Registered Owners' Rights."

Legal Investment and Eligibility to Secure Public Funds in Texas

Pursuant to Section 49.186, Texas Water Code, the Bonds, whether rated or unrated, are (a) legal investments for banks, savings banks, trust companies, building and loan associations, savings and loan associations, insurance companies, fiduciaries, and trustees and (b) legal investments for the public funds of cities, towns, villages, school districts, and other political subdivisions or public agencies of the State. The Bonds are also eligible under the Public Funds Collateral Act, Chapter 2257, Texas Government Code, to secure deposits of public funds of the State or any political subdivision or public agency of the State and are lawful and sufficient security for those deposits to the extent of their market value. Most political subdivisions in the State are required to adopt investment guidelines under the Public Funds Investment Act, Chapter 2256, Texas Government Code, and such political subdivisions may impose other, more stringent requirements in order for the Bonds to be legal investments for such entity's funds or to be eligible to serve as collateral for their funds.

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 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 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.

THE DISTRICT

General

Harris County Municipal Utility District No. 147 (the "District") is a municipal utility district created by order of the Texas Water Rights Commission (now known as the Texas Commission on Environmental Quality (the "Commission")), dated March 10, 1977, and operates under the provisions of Chapters 49 and 54 of the Texas Water Code and other general statutes applicable to municipal utility districts. The District is located wholly within the exclusive extraterritorial jurisdiction of the City of Houston, Texas ("Houston" or the "City").

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

The Commission exercises continuing supervisory jurisdiction over the District. The District is required to observe certain requirements of the City which: limit the purposes for which the District may sell bonds for the acquisition, construction, and improvement of waterworks, wastewater, and drainage facilities and the refunding of outstanding debt obligations; limit the net effective interest rate on such bonds and other terms of such bonds; require approval by the City of District construction plans; and permit connections only to platted lots and reserves which have been approved by the Planning Commission of the City. Construction and operation of the District's drainage system are subject to the regulatory jurisdiction of additional government agencies. See "THE SYSTEM."

The District, which contains approximately 231 acres of land, is located in western Harris County approximately 22 miles west of downtown Houston, west of Texas State Highway 6 and south of FM 1093. The District is located wholly within the extraterritorial jurisdiction of the City. See "LOCATION MAP" and "AERIAL PHOTOGRAPH" herein.

Status of Development

The District includes single family, multifamily and commercial development. Approximately 166 acres of land in the District have been developed into single family residential subdivisions, including Wingate, Sections 1 and 2, Forestview, Section 1, Timber Gate, Wingate Park, Section 1 and Clayton Greens, Sections 1 and 2. Such subdivisions contain approximately 841 single family residential lots, and as of June 11, 2003, the District contained 779 single family homes completed and occupied, 20 single family homes completed and unoccupied, 20 single family homes in various stages of construction, and approximately 22 lots available for home construction. Recent single family development in the District has been conducted by Wingate Properties, Ltd. Choice Homes is the only currently active homebuilder in the District. New homes are being offered for sale at prices ranging from \$110,000 to \$150,000. Values of houses in the older sections are on the tax rolls of the District for the 2003 tax year averaging from approximately \$90,000 to \$140,000.

Commercial and multifamily development in the District includes approximately 33 acres of commercial/multi-use reserves. Two small strip shopping centers and a convenience store are located in the District. Construction of a 140-unit apartment complex known as Laurel Point Apartments was recently completed.

Approximately 18 acres of land in the District are presently not provided with internal water distribution, wastewater collection and storm drainage facilities. However, trunk water supply and wastewater collection lines have been constructed along the major roadways located in the District. The District has no knowledge of any imminent plans for development of any of the undeveloped acreage. The remaining 14 acres are located in easements, drainage facilities, plant sites and rights-of-way.

Community Facilities

Community facilities are available in the general vicinity of the District. Neighborhood shopping facilities including supermarkets, pharmacies, cleaners, restaurants, banking facilities, and other retail and service establishments are located within two miles of the District in the Mission Bend area and those areas adjacent to SH 6. West Oaks Mall, a regional shopping center, is located at the intersection of SH 6 and Westheimer Road approximately one mile east of the District. Fire protection is provided by the Alief Volunteer Fire Department, which operates from a fire station located adjacent to the southern boundary of the District. Children residing within the District attend schools within the Alief Independent School District.

MANAGEMENT OF THE DISTRICT

Board of Directors

The Directors and Officers of the District, together with their occupational status, are listed below:

<u>Name</u>	<u>Title</u>	<u>Occupation</u>	<u>Term</u>
David E. Bugyi	President	Real Estate Broker	May 2006
Charles Phillips	Vice President	Attorney	May 2006
Mary L. Purzer	Secretary	Consultant	May 2004
William C. Boecker	Assistant Vice President	Sales/Management	May 2006
Kay L. Pugh	Assistant Secretary	Petroleum Landman	May 2004

All of the Directors reside within the District. Directors are elected by the voters within the District for four-year staggered terms. Directors elections are held only in even numbered years.

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

Tax Assessor/Collector

Land and improvements within the District were appraised for ad valorem taxation purposes by the Harris County Appraisal District. The District's Tax Assessor/Collector is appointed by the Board of Directors of the District. Bob Leared, of Bob Leared Interests, is currently serving in this capacity for the District.

Bookkeeper

The District contracts with District Data Services, Inc. for bookkeeping services.

System Operator

The District contracts with Severn Trent Environmental Services, Inc. for maintenance and operation of the District's System.

Engineer

The consulting engineer for the District in connection with the design and construction of the District's facilities is Van DeWiele Engineering Incorporated (the "Engineer").

Auditor

The District's financial statements for the year ended September 30, 2002, were audited by BKD, LLP, Certified Public Accountants. The District has engaged BKD, LLP to audit the District's financial statements for the fiscal year ending September 30, 2003 and September 30, 2004. See "Appendix A" for a copy of the District's September 30, 2002 financial statements.

Bond Counsel and General Counsel

The District employs Allen Boone Humphries LLP as general counsel and as Bond Counsel in connection with the issuance of the Bonds. The legal fees to be paid 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 on the sale and delivery of the Bonds.

Financial Advisor

First Southwest Company (the "Financial Advisor") serves as financial advisor to the District. The fee to be paid the Financial Advisor is contingent upon the sale and delivery of the Bonds.

THE SYSTEM

Regulation

According to the Engineer, the District's water supply and distribution, wastewater collection, and storm drainage facilities (collectively, the "System") have been designed in accordance with accepted engineering practices and the then current requirements of various entities having regulatory or supervisory jurisdiction over the construction and operation of such facilities. The construction of the System was required to be accomplished in accordance with the standards and specifications of such entities and is subject to inspection by each such entity. Operation of the System must be accomplished in accordance with the standards and requirements of such entities. The Commission exercises continuing supervisory authority over the District. Discharge of treated sewage is subject to the regulatory authority of the Commission and the U.S. Environmental Protection Agency. Construction of drainage facilities is subject to the regulatory authority of the Harris County Flood Control District, the City, Harris County and, in some instances, the Commission. Harris County and the City also exercise regulatory jurisdiction over the System. The regulations and requirements of entities exercising regulatory jurisdiction over the System are subject to further development and revision which, in turn, could require additional expenditures by the District in order to achieve compliance. In particular, additional or revised requirements in connection with any permit for the wastewater treatment plant in which the District owns capacity beyond the criteria existing at the time of construction of the plant could result in the need to construct additional facilities in the future. The following descriptions are based upon information supplied by the Engineer.

Water, Sanitary Sewer and Drainage System

Construction of the District's existing water, sanitary sewer, and drainage system has been financed from proceeds of the Outstanding Bonds and surplus construction funds of the District. See "STATUS OF DEVELOPMENT". The System has been designed to be in conformity with requirements of the City, Harris County, and the Commission.

Source of Water Supply: The District is presently served by one water plant. Water Plant No. 1 includes a 1,200 gallon per minute ("gpm") well and pump, a 500,000 gallon ground storage tank, 40,000 gallons of pressure tank capacity and booster pump capacity of 3,000 gpm. The District's Engineer has stated that the present water supply facilities are capable of serving approximately 1,500 equivalent single family residential connections. At present, the District is serving approximately 820 equivalent single family connections. The District maintains emergency waterline interconnects with Harris County Municipal Utility District No. 120.

The District is within the boundaries of the Harris-Galveston Coastal Subsidence District (the "Subsidence District") which regulates groundwater withdrawal. The District's authority to pump groundwater from its well is subject to an annual permit issued by the Subsidence District. On April 14, 1999 the Subsidence District adopted a District Regulatory Plan (the "1999 Plan") to reduce groundwater withdrawal through conversion to service water in areas within the Subsidence District's jurisdiction. Under the 1999 Plan, the District must submit a groundwater reduction plan to the Subsidence District by January 2003 and begin construction of surface water conversion infrastructure by January 2005, or pay a disincentive fee for any groundwater withdrawn in excess of 20% of the District's total water demand. In addition, pursuant to the 1999 Plan, the area within the boundaries of the Subsidence District, like the District, must be converted to at least 30% alternate source (e.g., surface) water use by 2010, 70% alternate source water use by 2020, and 80% alternate source water use by 2030. Failure to meet these requirements could result in the imposition of additional disincentive fees.

In May, 2001, the Texas legislature created the West Harris County Regional Water Authority (the "Authority") to provide a groundwater reduction plan ("GRP") for its territory. The District is included within the Authority, and the District is to be included within the Authority's GRP. To implement the conversion to alternate source water use in accordance with the requirements of the Subsidence District, the Authority has designed and plans to construct and operate a network of transmission and distribution lines, storage tanks, and pumping stations to transport and distribute water within the Authority (the "Authority System"). In addition, the Authority has entered into a water supply contract to secure a long-term supply of treated surface water from the City of Houston. Noncompliance with the GRP and nonparticipation in the Authority's surface water conversion project could result in the District's exclusion from the GRP and assessment of the Subsidence District's disincentive fee (currently \$3.00 per 1,000 gallons) against groundwater pumped from wells located within the District. Groundwater

pumped from wells located with the District is not currently subject to the Subsidence District's groundwater disincentive fee. However, groundwater pumped from wells located with the District is subject to a \$0.50 per 1,000 gallon pumpage fee (the "Pumpage Fee") that is assessed and collected by the Authority pursuant to the GRP. The Pumpage Fee may increase in the future. A portion of the proceeds of the Bonds will be used to finance the acquisition and construction of surface water infrastructure. The issuance of additional bonds by the District in an undetermined amount may be necessary at some time in the future to finance additional acquisition and construction costs for surface water infrastructure (whether such costs are incurred directly by the District or through projects undertaken by the Authority). The Authority has recently issued its first series of bonds.

Source of Wastewater Treatment: Permanent wastewater treatment is provided by the Chelford City Regional Wastewater Treatment Plant (the "Regional Plant"), which has a total capacity of 15.5 million gallons per day ("gpd"). The District owns 690,080 gpd capacity in the Regional Plant, which, according to the Engineer, should be sufficient to serve approximately 2,190 equivalent single family connections. The wastewater collection system within the District consists of a network of collection lines which convey sewage to trunklines owned by several districts for transportation to the Regional Plant.

100-Year Flood Plain

According to the Engineer, none of the acreage within the District lies within the 100-year flood plain.

Use and Distribution of Bond Proceeds

The estimated use and distribution of Bond proceeds is shown below. Of proceeds to be received from sale of the Bonds, \$2,835,068 is estimated for construction costs, and \$604,932 is estimated for nonconstruction costs, including \$129,775 of capitalized interest on the Bonds (twelve months).

Construction Costs

Water, sanitary sewer and drainage facilities to serve:	
Clayton Greens, Section 1	\$35,927
Clayton Greens, Section 2	2,962
Wingate Park, Section 1	344,156
Water Line Improvements	125,000
Sanitary Sewer Improvements	1,350,000
Westpark Tollway Utility Adjustments	50,000
West Harris County Regional Water Authority	355,000
Contingencies	188,000
Engineering	<u>384,023</u>
Total Construction Costs	<u>\$2,835,068</u>

Nonconstruction Costs

Legal Fees	\$ 101,000
Financial Advisory Fees	68,800
Bond Discount (3%)	103,200
Capitalized Interest (twelve months)	129,775
Developer Interest (estimated)	84,437
Bond Issuances Expenses	24,695
Bond Application Report	25,000
Commission Fee	8,600
Contingency (a)	<u>59,425</u>
Total Nonconstruction Costs	<u>\$604,932</u>

TOTAL BOND ISSUE \$3,440,000

(a) Represents surplus funds resulting from the sale of the Bonds at a lower interest rate than estimated and can be used for purposes allowed and approved by the Commission.

In the event approved estimated amounts exceed actual costs, the difference comprises a surplus which may be expended for uses in accordance with the rules of the Commission. In the event actual costs exceed previously approved estimated amounts and contingencies, additional Commission approval and the issuance of additional bonds may be required.

UNLIMITED TAX BONDS AUTHORIZED BUT UNISSUED

<u>Date of Authorization</u>	<u>Purpose</u>	<u>Amount Authorized</u>	<u>Issued to Date</u>	<u>Amount Unissued</u>
8/13/1977 9/26/81	Water, Sanitary Sewer and Drainage	\$8,000,000	\$8,000,000*	\$0

* Includes the Bonds.

FINANCIAL STATEMENT

2003 Assessed Valuation.....	\$75,605,227(a)
District Debt:	
Outstanding Bonds (as of October 31, 2003)	\$1,375,000
The Bonds	<u>3,440,000</u>
Gross Debt Outstanding (after issuance of the Bonds)	\$4,815,000
Ratio of Gross Debt to 2003 Assessed Valuation.....	6.37%

Area of District -- 231 acres
Estimated 2003 Population -- 3,006 (b)

- (a) Includes \$70,343,390 of value certified by the Harris County Appraisal District (the "Appraisal District") and \$5,261,837 owner's opinion of value on properties in the District not yet certified by the Appraisal District for 2003. See "TAX PROCEDURES."
(b) Estimate based on 3.5 persons per occupied home and 2 persons per apartment unit.

Cash and Investment Balances (unaudited as of October 8, 2003)

General Fund	Cash and Temporary Investments	\$306,317
Capital Projects	Cash and Temporary Investments	\$ 100
Debt Service Fund	Cash and Temporary Investments	\$398,213 (a)

- (a) In addition, twelve months of capitalized interest will be deposited into such fund from Bond proceeds. Neither the Bond Resolution nor Texas law requires that the District maintain any particular balance in the Debt Service Fund.

Outstanding Bonds (as of October 31, 2003)

<u>Series</u>	<u>Original Principal Amount</u>	<u>Principal Amount Outstanding As of October 31, 2003</u>
1985	\$1,400,000	\$ 175,000
1993(a)	2,370,000	<u>1,200,000</u>
		\$1,375,000

- (a) Refunding Bonds.

ESTIMATED OVERLAPPING DEBT STATEMENT

Expenditures of the various taxing entities within the territory of the District are paid out of ad valorem taxes levied by such entities on properties within the District. Such entities are independent of the District and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax bonds ("Tax Debt") was developed from information contained in the "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional bonds since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined. The following table reflects the estimated share of the overlapping Tax Debt of the District.

<u>Taxing Jurisdiction</u>	<u>Outstanding Bonds</u>	<u>As of</u>	<u>Overlapping</u>	
			<u>Percent</u>	<u>Amount</u>
Harris County(a).....	\$1,008,848,774	02/28/02	0.04%	\$ 403,540
Harris County Flood Control District.....	90,703,728	02/28/02	0.04	36,281
Port of Houston Authority	314,233,000	12/31/01	0.04	125,693
Alief Independent School District.....	254,245,000	06/30/02	0.83	<u>2,110,234</u>
Total Estimated Overlapping Debt				\$2,675,748
The District.....	4,815,000(b)	11/01/03	100.00	<u>4,815,000</u>
Total Direct and Estimated Overlapping Debt				\$7,490,748
Ratio of Total Direct and Estimated Overlapping Debt to:				
2003 Assessed Valuation.....				9.91%

- (a) Excludes Harris County Toll Road Authority Bonds, which are considered self supporting.
(b) Includes the Bonds.

Overlapping Tax Rates for 2003

	<u>2003 Tax Rate per \$100 Assessed Valuation</u>
Harris County	\$0.64627 (a)
Alief Independent School District	1.67500
Harris Fort Bend ESD No. 100	0.09740
The District	<u>0.94000</u>
Total Overlapping Tax Rate	\$3.35867

- (a) Includes Harris County, Harris County Hospital District, Harris County Flood Control District and Port of Houston Authority.

TAX DATA

Tax Collections

The following statement of tax collections sets forth in condensed form the historical tax collection experience of the District. This summary has been prepared for inclusion herein, based upon information from District records and District audited financial statements. Reference is made to these records and statements for further and more complete information.

Tax Year	Assessed Valuation	Tax Rate	Levy	Current Collections		Total Collections		Tax Year Ending
				Amount	Percent	Amount	Percent	
1998	\$47,942,900	\$1.060	\$508,195	\$502,206	98.82%	\$503,401	99.06%	9/30/99
1999	50,999,740	1.024	522,237	517,602	99.11	522,723	100.09	9/30/00
2000	55,143,930	0.995	548,684	540,655	98.54	547,255	99.74	9/30/01
2001	60,898,860	0.990	602,898	591,957	98.19	598,735	99.31	9/30/02
2002	68,107,110	0.990	674,260	658,920(a)	97.72	671,988(a)	99.66	9/30/03
2003	75,605,227	0.940	710,689	(in process of collection)				9/30/04

(a) Collections as of August 31, 2003.

Taxes are due October 1 and become delinquent after January 31 of the following year. No split payments are allowed and no discounts are allowed.

Tax Rate Distribution

	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Debt Service Fund	\$0.69	\$0.74	\$0.74	\$0.794	\$0.826
Maintenance and Operations	<u>0.25</u>	<u>0.25</u>	<u>0.25</u>	<u>0.201</u>	<u>0.198</u>
Total	\$0.94	\$0.99	0.99	\$0.995	\$1.024

Tax Rate Limitations

Debt Service: Unlimited (no legal limit as to rate or amount).
 Maintenance: \$0.25 per \$100 Assessed Valuation

Maintenance Tax

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for maintenance of the District's improvements, if such maintenance tax is authorized by a vote of the District's electors. On August 13, 1977, voters in the District authorized the Board to levy such a maintenance tax in an amount not to exceed \$0.25 per \$100 assessed valuation. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds and any additional tax bonds which may be issued in the future. The District levied a maintenance tax for 2003 in the amount of \$0.25 per \$100 assessed valuation.

Tax Exemptions

As discussed in the section titled "TAX PROCEDURES" herein, certain property in the District may be exempt from taxation by the District. The District does not exempt any percentage of the market value of any residential homesteads from taxation. For 2003, the District has exempted \$5,000 of the appraised value of resident homesteads for persons who are disabled or over 65 years of age.

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

Principal Taxpayers

The following list of principal taxpayers was provided by the District's Tax Assessor/Collector based upon the 2003 and 2002 tax rolls which reflect ownership at January 1, 2003 and January 1, 2002, respectively.

<u>Taxpayer</u>	<u>Type of Property</u>	<u>2003 Assessed Valuation</u>	<u>2002 Assessed Valuation</u>
Stephen & Larry Wall	Land and improvements	\$1,525,930	\$1,262,230
Hamilton Family Trust	Land and improvements	1,280,000	(a)
Wingate Park Trust	Land and improvements	1,225,000	1,367,000
Laurel Point LP	Land and improvements	768,740	718,740
JR Southwest Precision	Land and improvements	720,260	642,300
Look GD Sonny	Land and improvements	682,530	646,100
Jose D Ramirez	Personal Property	608,920	608,920
Centerpoint Energy Houston	Electric Utility	605,170	490,110
Southwestern Bell	Phone Utility	475,120	751,150
Starwood Development Co	Land	(a)	372,530
Individual	Land and improvements	(a)	352,100
Individual	Land and improvements	181,900	(a)
Individual	Land and improvements	<u>179,980</u>	<u>(a)</u>
Total		\$8,253,550	\$7,211,180
Percentage of certified tax roll		11.73%	10.59%

(a) Not in top ten taxpayers for respective year.

Summary of Assessed Valuation

The following summaries of the 2003, 2002 and 2001 Assessed Valuations are provided by the District's Tax Assessor/Collector based on information contained in the respective tax rolls of the District. A breakdown of the owners' opinion of uncertified value for 2003 is not currently available from the Appraisal District. Differences in totals may vary slightly from other information herein due to differences in dates of data.

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Land	\$12,441,780	\$12,629,720	\$11,375,290
Improvements	56,158,530	53,506,890	48,162,960
Personal Property	2,196,120	2,525,260	1,969,320
Exemptions	<u>(453,040)</u>	<u>(544,760)</u>	<u>(546,240)</u>
Total	\$70,343,390 (a)	\$68,117,110	\$60,961,330

(a) Excludes \$5,261,837 owners' opinion of value on properties in the District not yet certified by the Harris County Appraisal District for 2003.

Tax Adequacy for Debt Service

The calculation shown below assumes, solely for purposes of illustration, no increase or decrease in assessed valuation over the 2003 Assessed Valuation and utilizes a tax rate necessary to pay the District's maximum annual debt service requirements on the District's Outstanding Bonds and the Bonds.

Maximum annual debt service requirements (2007)	\$443,169
\$0.62 tax rate on the 2003 Assessed Valuation of \$75,605,227 at a 95% collection rate produces	\$445,315

TAX 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 Outstanding Bonds, the 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 and Security for Payment." Under Texas law, the Board may also levy and collect an annual ad valorem tax for the operation and maintenance of the District and its water and wastewater system and for the payment of certain contractual obligations. See "TAX DATA."

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; travel trailers; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years or older and of certain disabled persons to the extent deemed advisable by the Board. The District may be required to offer such an exemption if a majority of voters approve it at an election. The District would be required to call such an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the preceding 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 \$5,000 and \$12,000 depending on the disability rating of the veteran. 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 Exemption: Freeport goods are goods, wares, merchandise, other tangible personal property and ores, other than oil, natural gas and other petroleum products, which have been acquired or brought into the state for assembling, storing, manufacturing, repair, maintenance, processing or fabricating purposes, or used to repair or maintain aircraft of a certified air carrier, and shipped out of the state within one hundred seventy-five (175) days. Freeport goods are exempt from taxation by the District.

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, Alief Independent School District, the District, and the City of Houston (after annexation of 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 10 percent annually regardless of the market value of the property.

The Property Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its 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. 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. For those taxes billed at a later date and that become delinquent on or after June 1, they will also incur an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. The delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, may be rejected.

Rollback of Operation and Maintenance Tax Rate

Beginning with taxes adopted after September 1, 2003, the qualified voters of the District have the right to petition for a rollback of the District's operation and maintenance tax rate only if the total tax bill on the average residence homestead increases by more than eight percent. If a rollback election is called and passes, the rollback tax rate is the current year's debt service and contract tax rates plus 1.08 times the previous year's operation and maintenance tax rate. Thus, debt service and contract tax rates cannot be changed by a rollback election.

District's Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State of Texas and each local taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of such other taxing units (see "ESTIMATED OVERLAPPING DEBT STATEMENT—Overlapping Tax Rates for 2002"). A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the 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. The District's ability to foreclose its tax lien or collect penalties or interest on delinquent taxes may be limited on property owned by a financial institution which is under receivership by the Federal Deposit Insurance Corporation pursuant to the Federal Deposit Insurance Act, 12 U.S.C. 1825, as amended. See "INVESTMENT CONSIDERATIONS."

WATER AND SEWER OPERATIONS

General

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

Waterworks and Sewer System Operating Statement

The following statement sets forth in condensed form the historical results of operation of the District's General Fund. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Such summary is based upon information obtained from the District's audited financial statements and the District's bookkeeper. Reference is made to such records and statements for further and more complete information.

	9/30/2002 to 8/31/2003 (a)	Fiscal Year Ended September 30			
		2002	2001	2000	1999
REVENUES:					
Property Taxes	\$ 169,638	\$ 150,853	\$ 110,458	\$ 100,928	\$ 90,187
Water Service	186,904	162,115	164,746	171,250	147,245
Sewer Service	141,732	118,869	115,421	118,622	117,989
Regional Water Fee	36,248	12,169	-	-	-
Penalty and Interest	10,028	7,512	5,067	8,382	8,698
Tap Connection and Inspection Fees	115,610	60,185	2,941	-	-
Interest on Deposits	3,610	6,313	16,071	19,964	17,363
TOTAL REVENUES	\$ 663,770	\$ 518,016	\$ 414,704	\$ 419,146	\$ 381,482
EXPENDITURES:					
Purchased Services	\$ 81,877	\$ 88,366	\$ 76,649	\$ 61,545	\$ 73,998
Regional Water Fee	31,782	9,701	-	-	-
Professional Fees	79,981	86,555	80,300	57,834	59,880
Contracted Services	56,300	55,519	51,240	33,020	39,652
Utilities	30,308	23,062	19,073	21,639	15,206
Repairs and Maintenance	211,569	212,781	219,884	116,309	251,342
Other Expenditures	75,567	48,564	45,736	34,825	34,882
Capital Outlay	46,122	26,740	-	-	-
TOTAL EXPENDITURES	\$ 613,506	\$ 551,288	\$ 492,882	\$ 325,172	\$ 474,960
NET REVENUES	\$ 50,264	\$ (33,272)	\$ (78,178)	\$ 93,974	\$ (93,478)
FUND BALANCE, BEGINNING OF YEAR	\$ 313,739	\$ 347,011	\$ 425,189	\$ 331,215	\$ 424,693
FUND BALANCE, END OF YEA	\$ 364,003	\$ 313,739	\$ 347,011	\$ 425,189	\$ 331,215
	<u>8/31/2003</u>	<u>9/30/2002</u>	<u>9/30/2001</u>	<u>9/30/2000</u>	<u>9/30/1999</u>
Active Water Connections		776	731	728	732

(a) Unaudited.

DEBT SERVICE REQUIREMENTS

The following sets forth the debt service requirements for the Outstanding Bonds and the Bonds.

Year	Outstanding Bonds Debt Service Requirements	Plus: Debt Service on the Bonds			Debt Service Requirements
		Principal	Interest	Total	
2004	\$ 468,100	\$ -	\$ 97,331	\$ 97,331	\$ 565,431
2005	281,010	20,000	129,775	149,775	430,785
2006	283,635	20,000	129,175	149,175	432,810
2007	285,195	25,000	128,575	153,575	438,770
2008	285,660	25,000	127,825	152,825	438,485
2009	-	275,000	127,075	402,075	402,075
2010	-	275,000	118,825	393,825	393,825
2011	-	275,000	110,025	385,025	385,025
2012	-	275,000	100,400	375,400	375,400
2013	-	275,000	90,775	365,775	365,775
2014	-	275,000	80,600	355,600	355,600
2015	-	275,000	70,150	345,150	345,150
2016	-	275,000	59,425	334,425	334,425
2017	-	275,000	48,425	323,425	323,425
2018	-	275,000	37,425	312,425	312,425
2019	-	300,000	25,875	325,875	325,875
2020	-	300,000	13,125	313,125	313,125
Total	\$ 1,603,600	\$ 3,440,000	\$ 1,494,806	\$ 4,934,806	\$ 6,538,406

Maximum Annual Debt Service Requirements (2007) (after capitalized interest period)\$443,169

INVESTMENT CONSIDERATIONS

General

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

Factors Affecting Taxable Values and Tax Payments

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. The market value of such homes and lots is related to general economic conditions affecting the demand for residences. Demand for lots of this type and the construction of residential dwellings thereon can be significantly affected by factors such as interest rates, credit availability, construction costs, energy availability and the prosperity and demographic characteristics of the urban center toward which the marketing of lots is directed. Decreased levels of construction activity would tend to restrict the growth of property values in the District or could adversely impact such values.

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, the District is unable to assess the future availability of such funds for continued development and construction within the District.

Although located approximately 20 miles from the central downtown business district of the City, 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.

Competition: The demand for and construction of single-family homes in the District could be affected by competition from other residential developments in the general vicinity of the District. The competitive position of developers in the District or any other developer in the sale of developed lots and of prospective builders in the construction of single-family residential houses within the District is affected by most of the factors discussed in this section. Such a competitive position is directly related to the growth and maintenance of taxable values in the District and tax revenues to be received by the District. The District can give no assurance that building and marketing programs in the District by developers or landowners will be implemented or, if implemented, will be successful.

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 "ESTIMATED OVERLAPPING DEBT STATEMENT--Overlapping Taxes for 2002"), 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). 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.

Registered Owners' Remedies

Remedies available to Registered Owners of Bonds in the event of a default by the District in one or more of its obligations under the Bond Resolution are limited. Although state law and the Bond Resolution provide that the Registered Owners may obtain a writ of mandamus requiring performance of such obligations, such remedy must be exercised upon each default and may prove time-consuming, costly and difficult to enforce. The Bond Resolution does not provide for acceleration of maturity of the Bonds, appointment of a trustee to protect the interest of the Registered Owners or any other additional remedy in the event of a default by the District and consequently, the remedy of mandamus may have to be relied upon from year-to-year. Since there is no trust indenture or trustee, the Registered Owners would have to initiate and finance the legal process to enforce their remedies. The Bonds are not secured by an interest in the improvements financed with Bond proceeds or any other property of the District. No judgment against the District is enforceable by execution of a levy against the District's public purpose property. Further, the Registered Owners themselves cannot foreclose on property within the District or sell property within the District in order to pay the principal of and interest on the Bonds. See "Bankruptcy Limitation to Registered Owners' Rights" below.

Bankruptcy Limitation to Registered Owners' Rights

The enforceability of the rights and remedies of Bondholders may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. Texas law requires a municipal utility district such as the District to obtain the approval of the Commission as a condition to seeking relief under the Federal Bankruptcy Code.

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

Future Debt

After issuance of the Bonds, the District will not have any unlimited tax bonds authorized but unissued for facilities. However, additional bonds could be authorized in the future. The issuance of such future obligations may adversely affect the investment security of the Bonds. The District does not employ any formula with regard to assessed valuations or tax collections or otherwise to limit the amount of bonds which may be issued. Any bonds issued by the District, however, must be approved by the Commission, the Attorney General of Texas and the Board of the District. See "THE SYSTEM."

Continuing Compliance with Certain Covenants

Failure of the District to comply with certain covenants contained in the Bond Resolution on a continuing basis prior to the maturity of the Bonds could result in interest on the Bonds becoming taxable retroactive to the date of original issuance. See "LEGAL MATTERS."

Marketability of the Bonds

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

Environmental Regulation

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

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

Compliance with environmental laws and regulations can increase the cost of planning, designing, constructing and operating water production and wastewater treatment facilities. Sanctions against a municipal utility district 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 as to future compliance. Environmental laws and regulations can also impact an area's ability to grow and develop.

Air Quality

Air quality control measures required by the United States Environmental Protection Agency (the "EPA") and the Texas Commission on Environmental Quality ("TCEQ") may curtail new industrial, commercial and residential development in Houston and adjacent areas. Under the Clean Air Act Amendments of 1990, the eight-county Houston-Galveston Consolidated Metropolitan Statistical Area ("CMSA") has been designated by the EPA as a severe ozone nonattainment area. Such areas are required to demonstrate progress in reducing ozone concentrations each year until the EPA "1-hour" standard is met. Compliance with EPA's 1-hour standard must be achieved by 2007.

If the Houston-Galveston area fails to demonstrate progress in reducing ozone concentrations or fails to meet EPA's standards by 2007, 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. Many of these measures could impact how people travel, what distances people are willing to travel, where people choose to live and work, and what jobs are available in the Houston-Galveston area.

LEGAL MATTERS

Legal Proceedings

Delivery of the Bonds will be accompanied by the 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, 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, (ii) certain original issue discount on the Original Issue Discount Bonds (defined below) is excludable from gross income for federal income tax purposes under existing law as described more fully in "Tax Accounting Treatment of Original Issue Discount Bonds," and (iii) the Bonds are not "private activity bonds" under the Internal Revenue Code of 1986, as amended (the "Code"), and interest on the Bonds will not be subject to the alternative minimum tax on individuals and corporations, except as described below in the discussion regarding adjusted current earnings adjustments for corporations.

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

Allen Boone Humphries 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.

Tax Exemption

In the opinion of Allen Boone Humphries LLP, Bond Counsel, (i) interest on the Bonds is excludable from gross income for federal income tax purposes under existing law, (ii) "original issue discount" on certain of the Bonds is excludable from gross income for federal income tax purposes under existing law as described more fully in "Tax Accounting Treatment of Original Issue Discount Bonds" below, and (iii) the Bonds are not "private activity bonds" under the Internal Revenue Code of 1986, as amended (the "Code"), and interest on the Bonds will not be subject to the alternative minimum tax on individuals and corporations, except as described below in the discussion regarding the adjusted current earnings adjustments for corporations.

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 bond proceeds and the source of repayment of bonds, limitations on the investment of bond proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of bond proceeds be paid periodically to the United States and a requirement that the District file an information report with the Internal Revenue 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 that 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 Initial Purchaser with respect to matters solely within the knowledge of the District, the District's Financial Advisor, and the Initial Purchaser, respectively, which Bond Counsel has not independently verified. If the District should fail to comply with the covenants in the Bond Resolution or if the foregoing representations 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 twenty percent (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 an S corporation, regulated investment company, REIT, REMIC or FASIT) includes seventy-five (75%) of the amount by which a corporation's "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.

Except as stated above and as stated below in "Tax Accounting Treatment of Original Issue Discount Bonds" and "Qualified Tax-Exempt Obligations - Purchase of Bonds by Financial Institutions," Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership, 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 thereof. 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 results and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent Bond Counsel's legal judgement 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 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 initial public offering price for certain of the Bonds is less than the stated retirement price at maturity. Such Bonds are referred to as the "Original Issue Discount Bonds." Bond Counsel, under existing law and based upon the assumptions hereinafter stated, will render an opinion to the effect that:

- (a) The difference between (i) the amount payable at the maturity of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond in the initial public offering of the Bonds; 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 Original Issue Discount 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 Exemption" generally applies, except as otherwise provided below, to original issue discount on an 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.)

In rendering the foregoing opinion, Bond Counsel will assume, in reliance upon certain representations of the Initial Purchaser, that (a) the Initial Purchaser has purchased the Bonds for contemporaneous sale to the public and (b) all of the Original Issue Discount Bonds have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm's-length transactions for a price (and with no other consideration being included) not more than the initial offering prices thereof stated on the cover page of this Official Statement. Neither the District nor Bond Counsel warrants that the Original Issue Discount Bonds will be offered and sold in accordance with such assumptions. Certain of the representations of the Initial Purchaser, upon which Bond Counsel will rely in rendering the foregoing opinion, will be based upon records or facts the Initial Purchaser had no reason to believe were not correct.

Under existing law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and 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 Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

Qualified Tax-Exempt Obligations - Purchase of the Bonds by Financial Institutions

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

The District will designate the Bonds as "qualified tax-exempt obligations" and has represented that the aggregate amount of tax-exempt obligations (including the Bonds) issued by the District and entities aggregated with the District under the Code during calendar year 2003 is not expected to exceed \$10,000,000 and that the District and entities aggregated with the District under the Code have not designated more than \$10,000,000 in "qualified tax-exempt obligations" (including the Bonds) during calendar year 2003.

Based on the foregoing representations, Bond Counsel's opinion will state that the Bonds are "qualified tax-exempt obligations" under existing law.

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

No Material Adverse Change

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

No-Litigation Certificate

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

SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Bonds, the District accepted the bid resulting in the lowest net interest cost, which bid was tendered by Griffin, Kubik, Stephens & Thompson, Inc. (the "Initial Purchaser") bearing the interest rates shown on the cover page hereof, at a price of 97.0% of the principal amount thereof plus accrued interest to the date of delivery which resulted in a net effective interest rate of 4.178887% as calculated pursuant to Chapter 1204 of the Texas Government Code.

Prices and Marketability

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

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

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

Securities Laws

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

MUNICIPAL BOND INSURANCE

Bond Insurance

Concurrently with the issuance of the Bonds, Financial Guaranty Insurance Company ("Financial Guaranty") will issue its Municipal Bond New Issue Insurance Policy (the "Policy") for the Bonds described in the Policy (as used under the heading, the "Bonds"). The Policy unconditionally guarantees the payment of that portion of the principal or accreted value of and interest on the Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the issuer of the Bonds (the "Issuer"). Financial Guaranty will make such payments to U.S. Bank Trust National Association, or its successor as its agent (the "Fiscal Agent"), on the later of the date on which such principal or accreted value and interest is due or on the business day next following the day on which Financial Guaranty shall have received telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from an owner of Bonds or the Paying Agent of the nonpayment of such amount by the Issuer. The Fiscal Agent will disburse such amount due on any Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal, accreted value or interest due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal, accreted value or interest shall be vested in Financial Guaranty. The term "nonpayment" in respect of a Bond includes any payment of principal, accreted value or interest made to an owner of a Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

The Policy is non-cancellable and the premium will be fully paid at the time of delivery of the Bonds. The Policy covers failure to pay principal or accreted value of the Bonds on their respective stated maturity dates or dates on which the same shall have been duly called for mandatory sinking fund redemption, and not on any other date on which the Bonds may have been otherwise called for redemption, accelerated or advanced in maturity, and covers the failure to pay an installment of interest on the stated date for its payment.

This Official Statement contains a section regarding the ratings assigned to the Bonds and reference should be made to such section for a discussion of such ratings and the basis for their assignment to the Bonds. Reference should be made to the description of the District for a discussion of the ratings, if any, assigned to such entity's outstanding parity debt that is not secured by credit enhancement.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Guaranty is a wholly-owned subsidiary of FGIC Corporation (the "Corporation"), a Delaware holding company. The Corporation is a subsidiary of General Electric Capital Corporation ("GE Capital"). Neither the Corporation nor GE Capital is obligated to pay the debts of or the claims against Financial Guaranty. Financial Guaranty is a monoline financial guaranty insurer domiciled in the State of New York and subject to regulation by the State of New York Insurance Department. As of June 30, 2003, the total capital and surplus of Financial Guaranty was approximately \$1.014 billion. Financial Guaranty prepares financial statements on the basis of both statutory accounting principles and generally accepted accounting principles. Copies of such financial statements may be obtained by writing to Financial Guaranty at 125 Park Avenue, New York, New York 10017, Attention: Communications Department (telephone number: 212-312-3000) or to the New York State Insurance Department at 25 Beaver Street, New York, New York 10004-2319, Attention: Financial Condition Property/Casualty Bureau (telephone number: 212-480-5187).

On August 4, 2003, General Electric Company ("GE") announced that its indirect, wholly owned subsidiary, FGIC Holdings, Inc. ("Holdings"), had entered into an agreement to sell the Corporation (and Financial Guaranty) to Falcons Acquisition Corp. ("Newco"), a newly-formed Delaware corporation owned by a consortium of investors consisting of The PMI Group, Inc. and private equity funds affiliated with Blackstone Group, Cypress Group and CIVC Partners, subject to receipt of regulatory approvals, written confirmations from Moody's, Standard & Poor's and Fitch that Financial Guaranty's insurance financial strength rating will remain at Aaa, AAA and AAA, respectively, immediately following the closing of the contemplated transactions, and satisfaction of other closing conditions. Immediately following the closing, it is expected that Newco will be merged with and into the Corporation and that GE (through its subsidiaries) will retain \$234.6 million of preferred stock, and less than 5% of the common stock, of the Corporation.

MUNICIPAL BOND RATING

Standard & Poor's Ratings Services ("S&P") has assigned its municipal bond rating of "AAA" to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of principal of and interest on the Bonds will be issued by Financial Guaranty Insurance Company. See "MUNICIPAL BOND INSURANCE." An explanation of such rating may be obtained from Standard & Poor's Ratings Services, 55 Water Street, New York, New York 10041. The rating reflects only the view of S&P and the District makes no representation as to the appropriateness of the rating. S&P has assigned an underlying credit rating of "BBB" to the District.

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 Developers, the Engineer, the Tax Assessor/Collector, the Appraisal District and information from certain other sources. All of these sources are believed to be reliable, but no guarantee is made by the District as to the accuracy or completeness of the information derived from such sources, and its inclusion herein is not to be construed as a representation on the part of the District except as described below under "Certification of Official Statement." Furthermore, there is no guarantee that any of the assumptions or estimates contained herein will be realized. The summaries of the agreements, reports, statutes, resolutions, engineering and other related information set forth in this Official Statement are included herein subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents for further information.

Financial Advisor

First Southwest Company is employed as the Financial Advisor to the District to render certain professional services, including advising the District on a plan of financing and preparing the Official Statement, including the Official Notice Of Sale and the Official Bid Form for the sale of the Bonds. In its capacity as Financial Advisor, First Southwest Company has compiled and edited this Official Statement. In addition to compiling and editing, the Financial Advisor has obtained the information set forth herein under the caption indicated from the following sources:

"THE DISTRICT", Van DeWiele Engineering Incorporated ("Engineer"), and Records of the District ("Records"); "THE DEVELOPERS" - Records; "THE SYSTEM" - Engineer; "UNLIMITED TAX BONDS AUTHORIZED BUT UNISSUED" - District Records; "FINANCIAL STATEMENT" - Harris County Appraisal District and Bob Leared, Tax Assessor/Collector; "ESTIMATED OVERLAPPING DEBT STATEMENT" - Municipal Advisory Council of Texas and Financial Advisor; "TAX DATA" - Bob Leared, Tax Assessor/Collector; "MANAGEMENT" - District Directors; "DEBT SERVICE REQUIREMENTS" - Financial Advisor; "THE BONDS," "TAX PROCEDURES," and "LEGAL MATTERS" - Allen Boone Humphries LLP

The Financial Advisor has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as 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.

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

Appraisal District: The information contained in this Official Statement relating to the 2003 Assessed Valuation has been provided by the Harris County Appraisal District and has been included herein in reliance upon the authority of such entity as experts in assessing the values of property in Harris County, including the District.

Tax Assessor/Collector: The information contained in this Official Statement relating to the historical breakdown of the Assessed Valuations, principal taxpayers, and certain other historical data concerning tax rates and tax collections has been provided by Bob Leared Tax Assessor/Collector, and is included herein in reliance upon his authority as an expert in assessing and collecting taxes.

Auditor: The District's financial statements for the year ended September 30, 2002, were audited by BKD, LLP, Certified Public Accountants. The District has engaged BKD, LLP to audit the District's financial statements for the fiscal year ending September 30, 2003 and September 30, 2004. See "APPENDIX A" for a copy of the District's September 30, 2002 audited financial statements.

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 Initial Purchaser, of any adverse event which causes the Official Statement to be materially misleading, and unless the Initial Purchaser elects to terminate its obligation to purchase the Bonds, the District will promptly prepare and supply to the Initial Purchaser an appropriate amendment or supplement to the Official Statement satisfactory to the Initial Purchaser; provided, however, that the obligation of the District to so amend or supplement the Official Statement will terminate when the District delivers the Bonds to the Initial Purchaser, unless the Initial Purchaser notifies the District on or before such date that less than all of the Bonds have been sold to ultimate customers, in which case the District's obligations hereunder will extend for an additional period of time 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 of Directors 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 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

The offering of the Bonds qualifies for the Rule 15c2-12(d)(2) exemption from Rule 15c2-12(b)(5) regarding the District's continuing disclosure obligations because the District does not have more than \$10,000,000 in aggregate amount of bonds outstanding and no person is committed by contract or other arrangement with respect to payment of the Bonds. As required by the exemption, in the Bond Resolution, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the information vendors.

Annual Reports

The District will provide certain financial information and operating data which is customarily prepared by the District and is publicly available, annually to the appropriate state information depository. The financial information and operating data which will be provided with respect to the District will be the District's audited financial statements and supplemental schedules as found in "APPENDIX A—District Audited Financial Statements." The District will update and provide this information to any state information depository ("SID") that is designated by the State of Texas and approved by the staff of the United States Securities and Exchange Commission ("SEC") within six months after the end of each of its fiscal years ending in or after 2003. Any information concerning the District so provided shall be prepared in accordance with generally accepted auditing standards or other such principles as the District may be required to employ from time to time pursuant to state law or regulation, and audited if the audit report is completed within the period during which it must be provided. If the audit report of the District is not complete within such period, then the District shall provide unaudited financial statements for the District to the SID within such six month period, and audited financial statements when the audit report becomes available.

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

Material Event Notices

The District will also provide timely notices of certain events to any SID and to either each nationally recognized municipal securities information repository ("NRMSIR") or the Municipal Securities Rulemaking Board ("MSRB"). The District will provide notice of any of the following events with respect to the Bonds, if such event is material to a decision to purchase or sell Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (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 or events affecting the tax-exempt status of the Bonds; (7) modifications to rights of holders of the Bonds; (8) Bond calls; (9) defeasance; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes. Neither the Bonds nor the Bond Resolution makes any provision for debt service reserves, credit enhancement or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information From NRMSIRs, SID, and MSRB

The District has agreed to provide the foregoing updated information only to the information vendors described above. The information will be available to holders of Bonds only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

The Municipal Advisory Council of Texas has been designated by the State of Texas as a SID and has received a no-action letter from the SEC dated August 29, 1995 that recognizes the Municipal Advisory Council of Texas as a SID. The address of the Municipal Advisory Council is 600 West 8th Street, P.O. Box 2177, Austin, Texas 78768-2177, and its telephone number is 512/476-6947.

Limitations and Amendments

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

The District may amend its continuing disclosure agreement from time to time to adapt 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 Initial Purchaser from lawfully purchasing the Bonds in the initial offering. If the District so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance with Prior Undertakings

The District has not previously made a continuing disclosure agreement in accordance with SEC Rule 15c2-12.

MISCELLANEOUS

All estimates, statements and assumptions in this Official Statement and the Appendix 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.

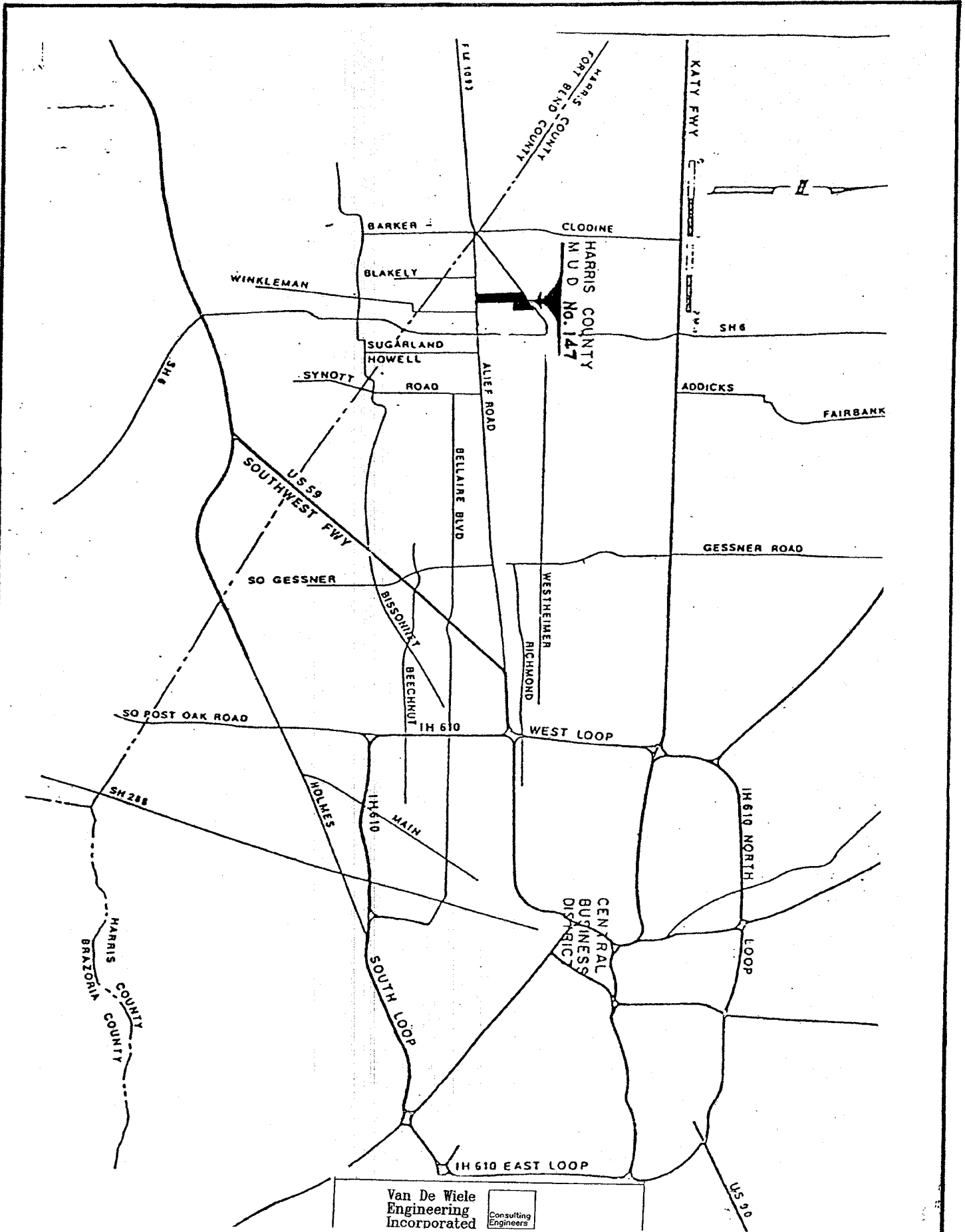
This Official Statement was approved by the Board of Directors of Harris County Municipal Utility District No. 147, as of the date shown on the cover page.

/s/ David E. Bugyi
President, Board of Directors
Harris County Municipal Utility District No. 147

ATTEST:

/s/ Mary L. Purzer
Secretary, Board of Directors
Harris County Municipal Utility District No. 147

LOCATION MAP



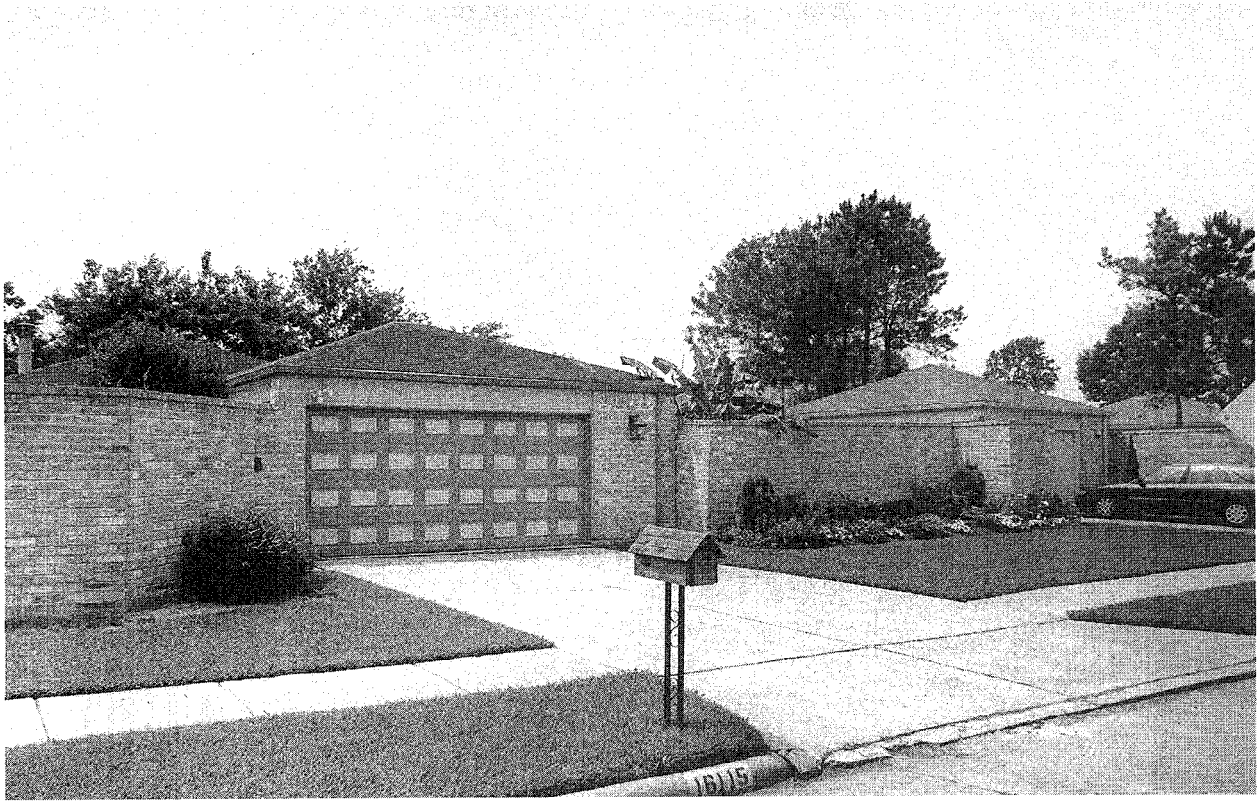
Van De Wiele
Engineering
Incorporated
Consulting
Engineers

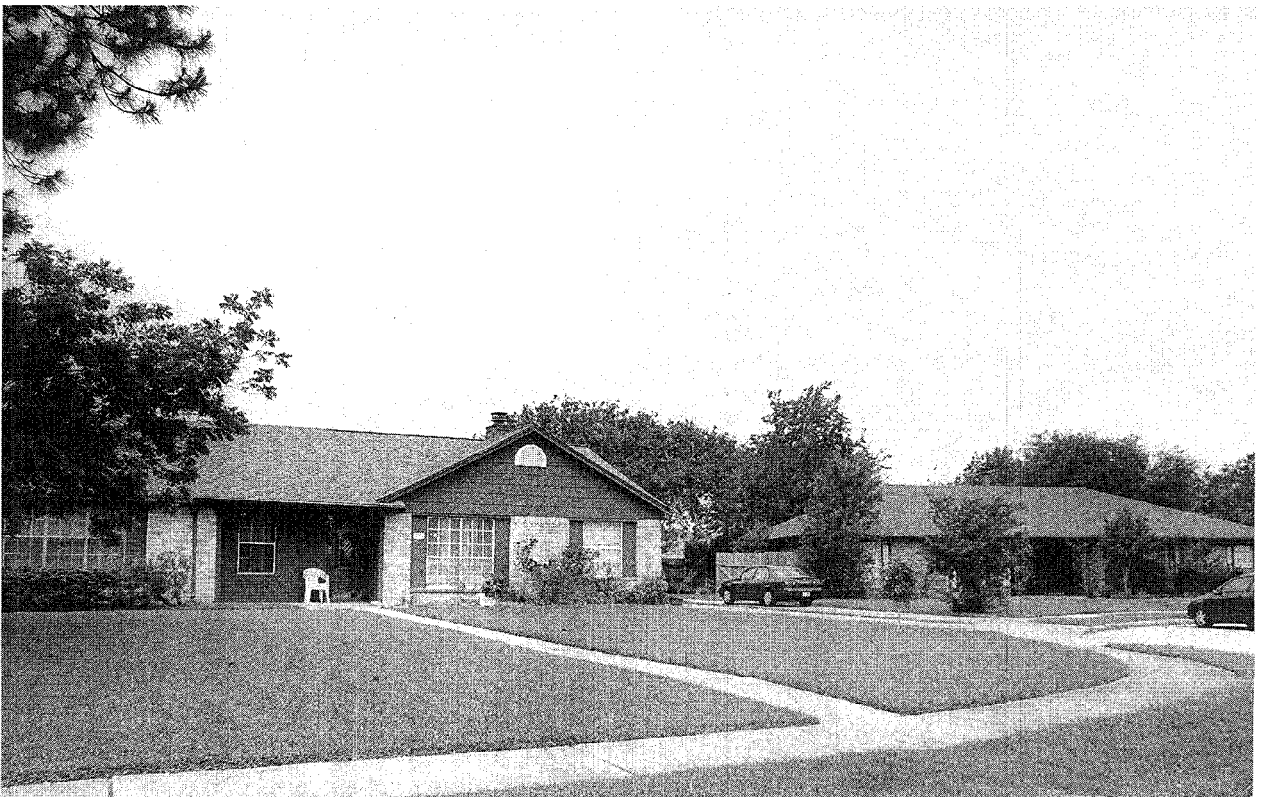
AERIAL PHOTOGRAPH
(July, 2003)

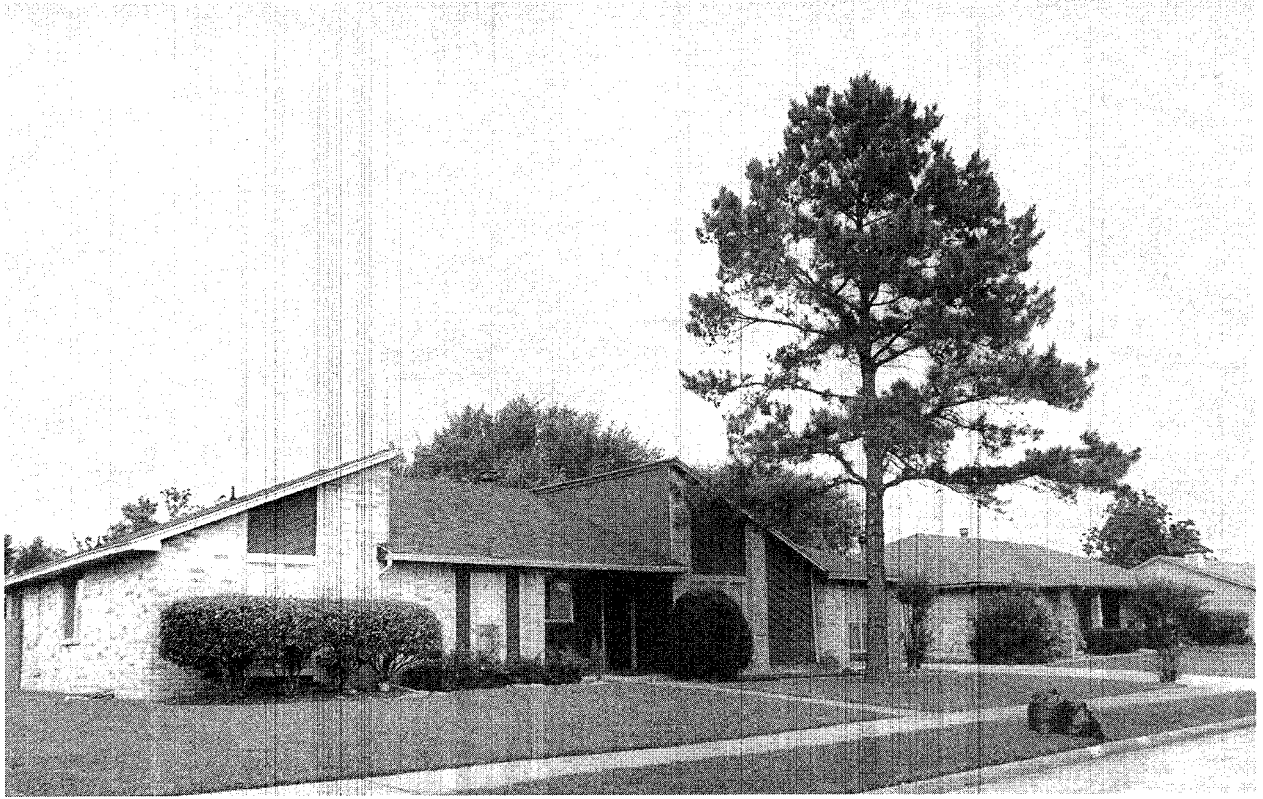


PHOTOGRAPHS

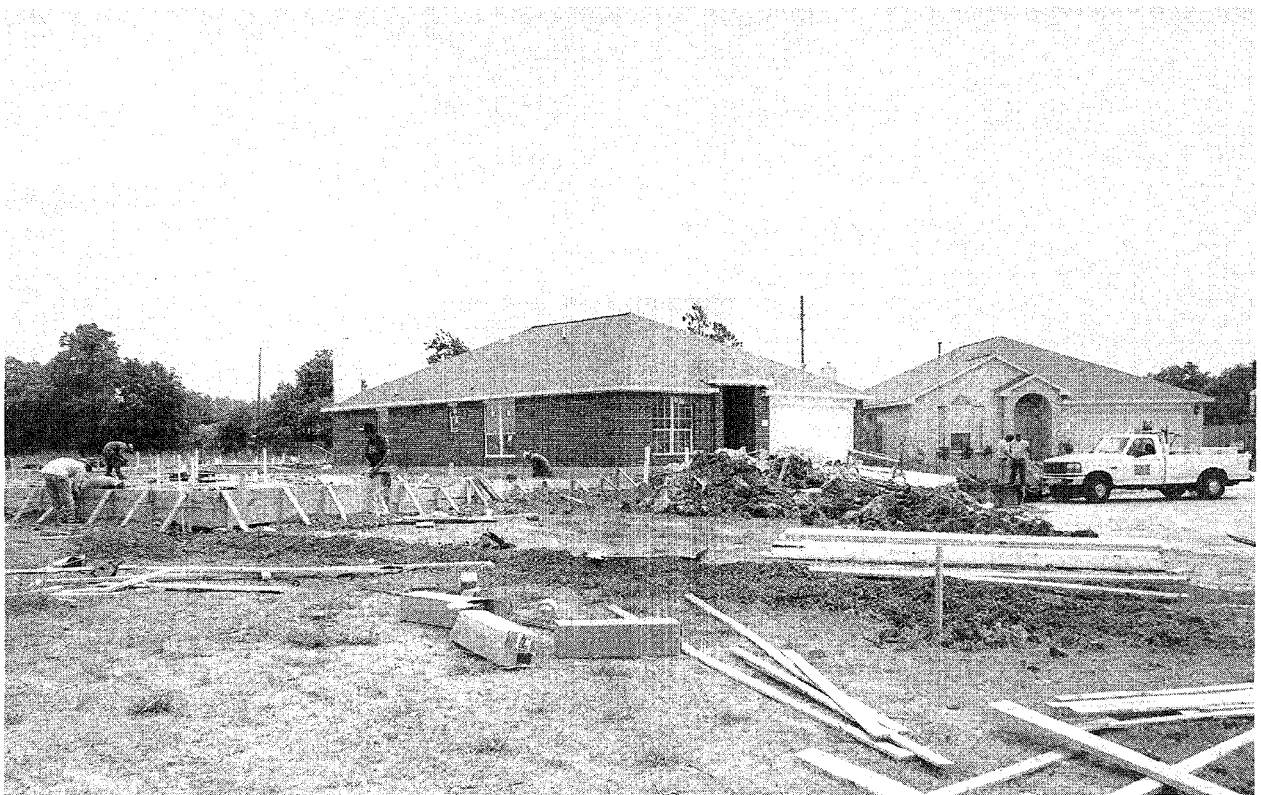
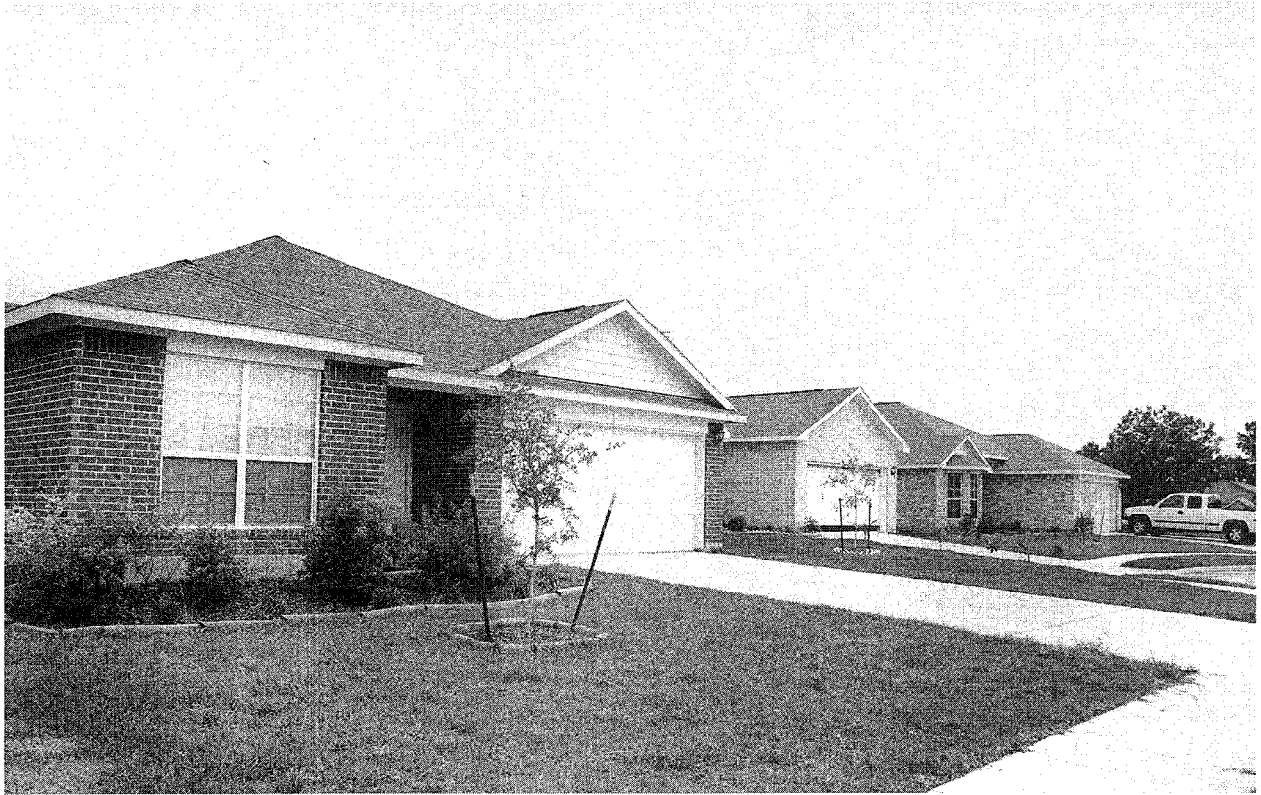
The following photographs were taken in the District in July 2003, solely to illustrate the type of improvements which have been constructed in the District. The District cannot predict if any additional improvements will be constructed in the future.











APPENDIX A

District Audited Financial Statements for the fiscal year ended September 30, 2002

The information contained in this appendix includes the Audited Financial Statements of Harris County Municipal Utility District No. 147 and certain supplemental information for the fiscal year ended September 30, 2002. Other supplemental information not considered relevant to this financing has been omitted; however, complete audit reports and supplemental information are available from the District upon payment of the cost of duplication.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 147

**HARRIS COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
SEPTEMBER 30, 2002**

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Independent Accountants' Report

Board of Directors
Harris County Municipal
Utility District No. 147
Harris County, Texas

We have audited the accompanying general purpose financial statements of **HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 147** as of and for the year ended September 30, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the District's management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of **HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 147** as of September 30, 2002, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

We previously expressed unqualified opinions on the 1998 through 2001 general purpose financial statements. The accompanying supplemental information is presented for purposes of additional analysis and is not a required part of the general purpose financial statements. Such information has been subjected to the procedures applied in the audit of the general purpose financial statements, and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

Solutions
or
Success

BKD, LLP

December 3, 2002

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HARRIS COUNTY MUNICIPAL
UTILITY DISTRICT NO. 147

COMBINED BALANCE SHEET, ALL FUND
TYPES AND ACCOUNT GROUPS

SEPTEMBER 30, 2002

	<u>Governmental</u>
ASSETS	<u>General</u>
Cash	\$ 47,636
Short-term investments	292,213
Receivables:	
Property taxes	3,184
Service accounts	62,959
Other	900
Operating advance	14,661
Interfund receivable	432
General fixed assets	-
Amount available in debt service fund	-
Amount to be provided for retirement of general long-term debt	<u>-</u>
TOTAL ASSETS	\$ <u>421,985</u>

See Notes to Financial Statements

<u>Fund Types</u>	<u>Account Groups</u>		<u>Reporting Entity Totals (Memorandum Only)</u>
	<u>General Fixed Assets</u>	<u>General Long-Term Debt</u>	
\$ 42,464	\$ -	\$ -	\$ 90,100
339,539	-	-	631,752
9,930	-	-	13,114
-	-	-	62,959
-	-	-	900
-	-	-	14,661
-	-	-	432
-	4,678,354	-	4,678,354
-	-	379,600	379,600
-	-	<u>1,348,450</u>	<u>1,348,450</u>
<u>\$ 391,933</u>	<u>\$ 4,678,354</u>	<u>\$ 1,728,050</u>	<u>\$ 7,220,322</u>

HARRIS COUNTY MUNICIPAL
UTILITY DISTRICT NO. 147

COMBINED BALANCE SHEET, ALL FUND
TYPES AND ACCOUNT GROUPS (Continued)

SEPTEMBER 30, 2002

	<u>Governmental</u>
LIABILITIES AND FUND EQUITY	<u>General</u>
LIABILITIES	
Accounts payable	\$ 69,319
Taxpayer overpayments	-
Customer deposits	31,368
Due to developer	850
Deferred revenues:	
Property taxes	3,184
Tap connections	3,525
Interfund payable	-
Accrued interest on compound interest bonds	-
Bonds payable	-
TOTAL LIABILITIES	<u>108,246</u>
FUND EQUITY	
Investment in general fixed assets	-
Fund balances:	
Reserved for future calendar years debt service	-
Unreserved, undesignated	<u>313,739</u>
TOTAL FUND EQUITY	<u>313,739</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 421,985</u>

See Notes to Financial Statements

<u>Fund Types</u>	<u>Account Groups</u>		<u>Reporting Entity Totals (Memorandum Only)</u>
	<u>General Fixed Assets</u>	<u>General Long-Term Debt</u>	
<u>Debt Service</u>			
\$ 212	\$ -	\$ -	\$ 69,531
1,759	-	-	1,759
-	-	-	31,368
-	-	-	850
9,930	-	-	13,114
-	-	-	3,525
432	-	-	432
-	-	158,050	158,050
-	-	<u>1,570,000</u>	<u>1,570,000</u>
<u>12,333</u>	<u>0</u>	<u>1,728,050</u>	<u>1,848,629</u>
-	4,678,354	-	4,678,354
379,600	-	-	379,600
-	-	-	<u>313,739</u>
<u>379,600</u>	<u>4,678,354</u>	<u>0</u>	<u>5,371,693</u>
<u>\$ 391,933</u>	<u>\$ 4,678,354</u>	<u>\$ 1,728,050</u>	<u>\$ 7,220,322</u>

**HARRIS COUNTY MUNICIPAL
UTILITY DISTRICT NO. 147**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES, ALL GOVERNMENTAL FUND TYPES**

YEAR ENDED SEPTEMBER 30, 2002

	General	Debt Service	Reporting Entity Totals (Memorandum Only)
REVENUES			
Property taxes	\$ 150,853	\$ 447,882	\$ 598,735
Water service	162,115	-	162,115
Sewer service	118,869	-	118,869
Regional water fee	12,169	-	12,169
Penalty and interest	7,512	9,810	17,322
Tap connection and inspection fees	60,185	-	60,185
Interest on deposits	<u>6,313</u>	<u>12,074</u>	<u>18,387</u>
TOTAL REVENUES	<u>518,016</u>	<u>469,766</u>	<u>987,782</u>
EXPENDITURES			
Current:			
Purchased services	88,366	-	88,366
Regional water fee	9,701	-	9,701
Professional fees	86,555	2,704	89,259
Contracted services	55,519	15,502	71,021
Utilities	23,062	-	23,062
Repairs and maintenance	212,781	-	212,781
Other expenditures	48,564	3,873	52,437
Capital outlay	26,740	-	26,740
Debt service:			
Principal retirement	-	175,000	175,000
Interest and fees	<u>-</u>	<u>282,550</u>	<u>282,550</u>
TOTAL EXPENDITURES	<u>551,288</u>	<u>479,629</u>	<u>1,030,917</u>
EXCESS EXPENDITURES	(33,272)	(9,863)	(43,135)
FUND BALANCES, BEGINNING OF YEAR	<u>347,011</u>	<u>389,463</u>	<u>736,474</u>
FUND BALANCES, END OF YEAR	<u>\$ 313,739</u>	<u>\$ 379,600</u>	<u>\$ 693,339</u>

See Notes to Financial Statements

**HARRIS COUNTY MUNICIPAL
UTILITY DISTRICT NO. 147**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE, BUDGET AND ACTUAL, GENERAL FUND**

YEAR ENDED SEPTEMBER 30, 2002

	<u>Budget</u>	<u>Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
REVENUES			
Property taxes	\$ 145,000	\$ 150,853	\$ 5,853
Water and sewer service	287,600	280,984	(6,616)
Regional water fee	8,000	12,169	4,169
Penalty and interest	5,500	7,512	2,012
Tap connection and inspection fees	30,000	60,185	30,185
Interest on deposits	<u>9,000</u>	<u>6,313</u>	<u>(2,687)</u>
TOTAL REVENUES	<u>485,100</u>	<u>518,016</u>	<u>32,916</u>
EXPENDITURES			
Current:			
Purchased services	75,000	88,366	(13,366)
Regional water fee	8,000	9,701	(1,701)
Professional fees	72,550	86,555	(14,005)
Contracted services	53,300	55,519	(2,219)
Utilities	18,000	23,062	(5,062)
Repairs and maintenance	182,800	212,781	(29,981)
Other expenditures	50,500	48,564	1,936
Capital outlay	<u>11,000</u>	<u>26,740</u>	<u>(15,740)</u>
TOTAL EXPENDITURES	<u>471,150</u>	<u>551,288</u>	<u>(80,138)</u>
EXCESS REVENUES (EXPENDITURES)	<u>\$ 13,950</u>	(33,272)	<u>\$(47,222)</u>
FUND BALANCE, BEGINNING OF YEAR		<u>347,011</u>	
FUND BALANCE, END OF YEAR		<u>\$ 313,739</u>	

See Notes to Financial Statements

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 147

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2002

NOTE 1: CREATION OF DISTRICT

Harris County Municipal Utility District No. 147 (the District) was created by an order of the Texas Water Rights Commission, now known as the Texas Commission on Environmental Quality (the Commission), effective March 10, 1977, in accordance with the Texas Water Code, Chapter 54. The Board of Directors held its first meeting on June 23, 1977, and the first bonds were sold on October 17, 1979. The District operates in accordance with Chapters 49 and 54 of the Texas Water Code and is subject to the continuing supervision of the Commission. The principal functions of the District are to finance, construct, own, and operate waterworks, wastewater, and drainage facilities and to provide such facilities and services to the customers of the District.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

The accompanying general purpose financial statements and accounting policies of the District are prepared in conformity with generally accepted accounting principles for local governmental units as prescribed by the Governmental Accounting Standards Board, which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's significant accounting policies are described below.

Reporting Entity

The District has adopted Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity." In accordance with this statement, a financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The District is governed by a Board of Directors consisting of five individuals who are residents or owners of property within the District and are elected by voters within the District. As required by generally accepted accounting principles, these financial statements present the activities of the District, which is considered to be the primary government as well as the reporting entity. There are no other organizations which meet the criteria for inclusion herein as part of the financial reporting entity.

NOTES TO FINANCIAL STATEMENTS (Continued)

The District is a participant in the Chelford City Regional Wastewater Treatment Plant (the Plant) which was formed to maintain and operate wastewater treatment facilities on behalf of all participants, as further described in Note 7. The Plant is governed by the Board of Directors of Chelford City Municipal Utility District. The Board has the responsibility of approving budgets, setting rates, and determining the day-to-day operations. The District retains an ongoing financial interest and responsibility. The District's net investment in and operating transactions with the Plant are reported in the general fund. Complete financial information for the Plant may be obtained from Coats, Rose, Yale, Holm, Ryman & Lee, P.C., 1001 Fannin, Suite 800, Houston, Texas 77002-6760.

Basis of Presentation

The accounts of the District are organized on the basis of funds and account groups, each of which is considered to be a separate accounting entity. The operations and financial position of each fund are accounted for by providing a separate set of self-balancing accounts which are comprised of assets, liabilities, fund equity, revenues, and expenditures. Account groups are used to establish accounting control and accountability for the District's general fixed assets and general long-term liabilities. The transactions of the District are accounted for in the following fund types and account groups:

Governmental Fund Types

General fund--To account for all revenues and expenditures not required to be accounted for in other funds. The primary sources of revenue are customer service fees and property taxes.

Debt service fund--To account for the accumulation of financial resources for, and the payment of, general long-term debt principal, interest, and other costs. The primary source of revenue is property taxes.

Account Groups

General fixed assets--To account for the facilities of the District.

General long-term debt--To account for the outstanding principal balance of general long-term debt obligations.

Memorandum Totals

The memorandum totals represent the aggregate amount of all fund types and account groups included in the statements. No eliminations have been made, and these totals do not represent consolidated financial information.

Basis of Accounting

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles included in the Codification of Governmental Accounting and Financial Reporting Standards and other statements issued by the Governmental Accounting Standards Board. All governmental fund types are accounted for using the modified accrual basis of accounting. Under this basis of accounting, revenues are recognized when they become measurable and available to finance expenditures of the current period. In addition, expenditures are recognized when the liability is incurred, with the exception of unmatured principal and interest on general long-term debt, which is recognized when due. Specific policies include the following:

- A. Property taxes are recorded when levied with the uncollected balance recorded as deferred revenue.

An appraisal district annually prepares appraisal records listing all property within the District and the appraised value of each parcel or item as of January 1. Additionally, on January 1, a tax lien attaches to property to secure the payment of all taxes, penalty, and interest ultimately imposed for the year on the property. After the District receives its certified appraisal roll, the rate of taxation is set by the Board of Directors of the District based upon the aggregate appraisal value. Taxes are due on receipt of the tax bill and become delinquent after January 31 of the following year.

- B. Property tax revenue is recorded when received. Collections within sixty days subsequent to year-end, if any, are not material in amount and have not been recorded.

Measurement Focus

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 are included on the balance sheet as follows:

Reserved:

To indicate fund equity which is legally segregated for a specific future use.

Unreserved:

Designated--To indicate fund equity for which the District has made tentative plans.

Undesignated--To indicate fund equity which is available for use in future periods.

General Fixed Assets

General fixed assets are stated at the full cost of assets owned by the District, and any contribution by others is recorded in fund equity in the general fixed assets account group. The cost of the general fixed assets includes all costs associated with the creation of the District, the sale of bonds, and the construction of facilities including infrastructure (immovable) assets which are of value only to the District. Interest during the construction period, net of applicable interest earnings, is capitalized. Repairs are not capitalized, and replacements of general fixed assets are capitalized only to the extent that they materially exceed the cost of the original assets. Depreciation is not recorded on general fixed assets.

Investments

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

The District also has investments in an "external investment pool" (pool) as defined by Statement No. 31. TexPool is organized by the state of Texas. The Comptroller of Public Accounts of the state of Texas oversees the operation of the pool. The District's position in the pool is recorded at cost which approximates the pool's share price and fair value. Information regarding share price and fair value is provided by the pool.

Interfund Transactions

Transfers from one fund to another fund are reported as interfund receivables and payables if there is intent to repay the amount and if there is the ability to repay the advance on a timely basis. Operating transfers represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

Budget

The Board of Directors adopts an annual nonappropriated budget for the general fund. The budget is prepared on a basis consistent with generally accepted accounting principles and may be amended during the fiscal year. The budget was amended during the current fiscal year.

NOTES TO FINANCIAL STATEMENTS (Continued)

Pension Costs

The District does not participate in a pension plan and, therefore, has no pension costs.

Use of 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 amounts 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: BONDS PAYABLE

	<u>Series 1985</u>	<u>Refunding Series 1993</u>
Amounts outstanding, September 30, 2002	\$325,000	\$1,245,000
Interest rates:		
Current interest bonds	8.00% to 9.50%	3.25% to 5.80%
Premium compound interest bonds**		5.60% to 5.80%
Maturity dates, serially beginning/ending	September 1, 2003/2004	September 1, 2003/2008
Interest payment dates	March 1/ September 1	March 1/ September 1
Callable dates*	September 1, 1999	September 1, 2003

*Or any date thereafter; callable at par plus accrued interest to the date of redemption. The premium compound interest bonds are not subject to redemption prior to maturity.

**Interest is paid at maturity on the premium compound interest bonds. Accrued interest on these bonds is recorded annually in the general long-term debt account group.

Bonded debt payable, beginning of year	\$ 1,745,000
Bonds paid	<u>(175,000)</u>
Bonded debt payable, end of year	\$ <u>1,570,000</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

Bonds voted	\$ 8,000,000
Bonds sold	4,560,000

As of September 30, 2002, the debt service requirements on the bonds outstanding are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 195,000	\$ 266,600	\$ 461,600
2004	385,000	83,100	468,100
2005	225,000	56,010	281,010
2006	240,000	43,635	283,635
2007	255,000	30,195	285,195
Thereafter	<u>270,000</u>	<u>15,660</u>	<u>285,660</u>
	<u>\$ 1,570,000</u>	<u>\$ 495,200</u>	<u>\$ 2,065,200</u>

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

NOTE 4: SIGNIFICANT BOND RESOLUTION AND LEGAL REQUIREMENTS

- A. The Bond Resolutions require that the District levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due. During the year ended September 30, 2002, the District levied an ad valorem debt service tax at the rate of \$0.740 per \$100 of assessed valuation, which resulted in a tax levy of \$450,651 on the taxable valuation of \$60,898,860 for the 2001 tax year. The interest and principal requirements paid from the tax revenues were \$454,760. The District utilized available debt service fund resources to satisfy the requirements.
- B. State statutes authorize the District to invest in certificates of deposit of financial institutions domiciled in Texas. State statutes also require that the District obtain a valid pledge of securities for any deposits in financial institutions in excess of federal insurance. During the year, the District was under collateralized. At September 30, 2002, the carrying amount of the District's time and demand deposits with financial institutions was \$90,100, and the bank balances were \$95,841. The bank balances were fully covered by federal depository insurance.

The District may also invest in certain obligations of the United States or its agencies and certain bankers' acceptances, commercial paper, and external investment pools. At September 30, 2002, the District had \$631,752 invested in TexPool.

NOTES TO FINANCIAL STATEMENTS (Continued)

- C. The Bond Resolutions state that so long as any of the bonds or coupons remain outstanding, the District covenants that it will at all times keep insured such parts of the system as are customarily insured by municipal corporations and political subdivisions in Texas operating like properties in similar locations under the same circumstances with a responsible insurance company or companies against risk, accidents, or casualties against which and to the extent insurance is customarily carried by such municipal corporations and political subdivisions; provided, however, that at any time while any contractor engaged in construction work shall be fully responsible therefor, the District shall not be required to carry such insurance. At September 30, 2002, the District had physical damage insurance coverage in the amount of \$925,000, which includes boiler and machinery coverage, comprehensive general liability insurance with an aggregate limit of \$3,000,000, and pollution liability coverage of \$1,000,000.

NOTE 5: CHANGES IN INVESTMENT IN GENERAL FIXED ASSETS

The changes in general fixed assets for the current year are as follows:

	<u>Balances, Beginning of Year</u>	<u>Additions</u>	<u>Balances, End of Year</u>
Land and easements	\$ 30,863	\$ -	\$ 30,863
Water, sewer, and drainage facilities	<u>4,620,751</u>	<u>26,740</u>	<u>4,647,491</u>
Totals	<u>\$ 4,651,614</u>	<u>\$ 26,740</u>	<u>\$ 4,678,354</u>

NOTE 6: MAINTENANCE TAXES

At an election held August 13, 1977, voters authorized a maintenance tax not to exceed \$0.25 per \$100 valuation on all property within the District subject to taxation. During the year ended September 30, 2002, the District levied an ad valorem maintenance tax at the rate of \$0.250 per \$100 of assessed valuation, which resulted in a tax levy of \$152,247 on the taxable valuation of \$60,898,860 for the 2001 tax year. The maintenance tax is being used by the general fund to pay expenditures of operating the District.

NOTE 7: FINANCING AND OTHER OPERATION OF REGIONAL FACILITIES

Chelford City Municipal Utility District (Chelford City) entered into 40-year contracts whereby Chelford City agreed to provide or cause to be provided the regional wastewater treatment and disposal facilities necessary to serve the participating districts. The agreements are shown on the next page.

NOTES TO FINANCIAL STATEMENTS (Continued)

<u>Participants</u>	<u>Date of Agreement</u>
Chelford One Municipal Utility District	May 9, 1978
City of Houston (formerly Harris County Municipal Utility District No. 98)	May 9, 1978
Harris County Municipal Utility District No. 120	May 9, 1978
Harris County Municipal Utility District No. 147	May 9, 1978
Mission Bend Municipal Utility District No. 1	May 9, 1978
Mission Bend Municipal Utility District No. 2	June 19, 1979
City of Houston (formerly West Houston Municipal Utility District)	August 12, 1981
Alief Church of the Nazarene (formerly United Savings of Texas)	May 9, 1978

On January 26, 1982, Chelford City entered into a supplemental agreement with the participants to share the cost of expanding the treatment facilities. Costs of construction are shared based on percentage of capacity acquired. The District's share of total construction and related costs is approximately \$640,000.

Each participant's capacity and percent of ownership is as follows:

<u>Participants</u>	<u>Gallons-Per-Day Capacity</u>	<u>Percent</u>
Chelford One Municipal Utility District	1,100,000	7.10
Chelford One Municipal Utility District	750,000	4.85
City of Houston (formerly Harris County Municipal Utility District No. 98)	1,531,840	9.88
Harris County Municipal Utility District No. 120	4,360,755	28.13
Harris County Municipal Utility District No. 147	690,080	4.45
Mission Bend Municipal Utility District No. 1	1,468,125	9.47
Mission Bend Municipal Utility District No. 2	3,512,360	22.66
City of Houston (formerly West Houston Municipal Utility District)	2,075,840	13.39
Alief Church of the Nazarene (formerly United Savings of Texas)	<u>11,000</u>	<u>0.07</u>
Totals	<u>15,500,000</u>	<u>100.00</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

Chelford City operates the regional facilities and holds title for the benefit of the participants. Participants are billed monthly based on \$1.50 per 1,000 gallons-per-day capacity acquired in the treatment facilities plus a pro rata share of budgeted costs in excess of this amount based on number of equivalent connections. In addition, each participant has paid for its pro rata share of an operating and maintenance reserve equivalent to three months' average budgeted operation and maintenance expenses. During the current year, the District incurred \$88,366 for its share of operating costs. At September 30, 2002, the District has recorded advances to Chelford City Regional Wastewater Treatment Plant (the Plant) of \$18,067 as its share of the operating reserve and \$11,781 which is its share of the Plant's undesignated fund balance.

The following represents condensed audited financial information of the Plant as of and for the year ended September 30, 2002:

	<u>General Fund</u>	<u>The District's Proportionate Share</u>
TOTAL ASSETS	\$ <u>741,778</u>	\$ <u>33,009</u>
Total Liabilities	\$ 99,298	\$ 4,419
Total Fund Balance	<u>642,480</u>	<u>28,590</u>
TOTAL LIABILITIES AND FUND BALANCE	\$ <u>741,778</u>	\$ <u>33,009</u>
Total Revenues	\$ 1,612,238	\$ 71,745
Total Expenditures	<u>1,439,926</u>	<u>64,077</u>
EXCESS REVENUES	\$ <u>172,312</u>	\$ <u>7,668</u>

NOTE 8: CONTRIBUTION BY DEVELOPER

The Series 1979 and 1985 bonds were approved by the Commission subject to contribution by the District's developer of 30 percent of certain construction and related engineering costs. As of September 30, 2002, the developer has contributed a total of \$714,127 during prior years which is included in general fixed assets.

NOTE 9: CONTINGENCIES

The developers of the District have constructed water, sewer, and drainage facilities within the boundaries of the District. The District has agreed to reimburse the developers for a portion of these costs plus interest from the proceeds of future bond sales. These amounts are to be reimbursed from bond proceeds to the extent approved by the Commission. The District's engineer estimates that unreimbursed costs incurred at September 30, 2002, approximate \$395,000. This amount has not been recorded in the financial statements.

NOTE 10: RISK MANAGEMENT

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

**SUPPLEMENTAL
INFORMATION**

HARRIS COUNTY MUNICIPAL
UTILITY DISTRICT NO. 147

SUPPLEMENTAL SCHEDULES INCLUDED WITHIN THIS REPORT
SEPTEMBER 30, 2002

(Schedules included are checked or explanatory notes provided for omitted schedules.)

- [X] D. Notes Required by the Water District Accounting Manual
See "Notes to Financial Statements," Pages 8-17
- [X] E. Schedule of Services and Rates
- [X] F. Schedule of General Fund Expenditures
- [X] G. Schedule of Temporary Investments
- [X] H. Analysis of Taxes Levied and Receivable
- [X] I. Analysis of Changes in General Fixed Assets and Organizational Costs
- [X] J. General Long-Term Debt Service Requirements, by Years
- [X] K. Analysis of Changes in General Long-Term Debt
- [X] L. Statement of Revenues and Expenditures, General Fund and Debt Service Fund -
Five Years
- [X] M. Insurance Coverage
- [X] N. Board Members, Key Personnel, and Consultants

HARRIS COUNTY MUNICIPAL
UTILITY DISTRICT NO. 147

ANALYSIS OF TAXES LEVIED AND RECEIVABLE
YEAR ENDED SEPTEMBER 30, 2002

	<u>Maintenance Taxes</u>	<u>Debt Service Taxes</u>
RECEIVABLE, BEGINNING OF YEAR	\$ <u>1,790</u>	\$ <u>7,161</u>
2001 ORIGINAL TAX LEVY	141,908	420,048
Additions and corrections	<u>10,339</u>	<u>30,603</u>
Adjusted tax levy	<u>152,247</u>	<u>450,651</u>
Total to be accounted for	154,037	457,812
Tax collections: Current year	(149,484)	(442,473)
Prior years	<u>(1,369)</u>	<u>(5,409)</u>
RECEIVABLE, END OF YEAR	<u>\$ 3,184</u>	<u>\$ 9,930</u>
 RECEIVABLE, BY YEARS		
2001	\$ 2,763	\$ 8,178
2000	253	998
1999	109	455
1998	41	187
1997	<u>18</u>	<u>112</u>
RECEIVABLE, END OF YEAR	<u>\$ 3,184</u>	<u>\$ 9,930</u>

**HARRIS COUNTY MUNICIPAL
UTILITY DISTRICT NO. 147**

ANALYSIS OF TAXES LEVIED AND RECEIVABLE *(Continued)*

YEAR ENDED SEPTEMBER 30, 2002

	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
PROPERTY VALUATIONS				
Land	\$ 11,346,290	\$ 11,147,290	\$ 9,783,790	\$ 9,492,620
Improvements	48,140,960	42,208,570	39,552,120	37,153,730
Personal property	1,957,850	2,163,720	2,013,830	1,638,060
Exemptions	(546,240)	(375,650)	(350,000)	(341,510)
TOTAL PROPERTY VALUATIONS	<u>\$ 60,898,860</u>	<u>\$ 55,143,930</u>	<u>\$ 50,999,740</u>	<u>\$ 47,942,900</u>
 TAX RATES PER \$100 VALUATION				
Debt service tax rates	\$ 0.740	\$ 0.794	\$ 0.826	\$ 0.870
Maintenance tax rates	<u>0.250</u>	<u>0.201</u>	<u>0.198</u>	<u>0.190</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.990</u>	<u>\$ 0.995</u>	<u>\$ 1.024</u>	<u>\$ 1.060</u>
 TAX LEVY	 <u>\$ 602,898</u>	 <u>\$ 548,684</u>	 <u>\$ 522,237</u>	 <u>\$ 508,195</u>
 PERCENT OF TAXES COLLECTED TO TAXES LEVIED	 <u>98%</u>	 <u>99%</u>	 <u>99%</u>	 <u>99%</u>

**HARRIS COUNTY MUNICIPAL
UTILITY DISTRICT NO. 147**

ANALYSIS OF TAXES LEVIED AND RECEIVABLE *(Continued)*

YEAR ENDED SEPTEMBER 30, 2002

Tax rate for any other special districts which (a) encompass less than a county, (b) provide water, wastewater collection, drainage, or roads to property in the District, and (c) tax property in the District.

<u>NAME OF SPECIAL DISTRICT(S)</u>	<u>SERVICE PROVIDED</u>	<u>TAX RATE</u>
		\$ _____

TOTAL RATE(S) OF SPECIAL DISTRICT(S)		\$ _____

Tax rate for all overlapping jurisdictions. Include any taxing entities which overlap 10 percent or more of the District.

<u>TAXING JURISDICTION</u>	<u>TAX RATE</u>
a. County <u>Harris</u>	\$ 0.64627
b. City _____	-
c. School district <u>Alief Independent School District</u>	1.67500
d. Special districts not included above:	
<u>Harris/Fort Bend Emergency Services District No. 100</u>	0.09900
	-
	-
e. Total special district (from top of this page)	-
f. Total District tax rate (from previous page)	<u>0.99000</u>
g. TOTAL OVERLAPPING TAX RATE (sum of a. - f.)	\$ <u>3.41027</u>

APPENDIX B

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

Exhibit A

Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
(212) 312-3000
(800) 352-0001



**Municipal Bond
New Issue Insurance Policy**

Issuer:	Policy Number:
	Control Number: 0010001
Bonds:	Premium:

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to U.S. Bank Trust National Association or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, 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 and means, when referring to interest on a Bond, the stated date

Financial Guaranty Insurance
Company
125 Park Avenue
New York, NY 10017
(212) 312-3000
(800) 352-0001



Municipal Bond New Issue Insurance Policy

for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

Richard M. Reif

President

Effective Date:

Authorized Representative

U.S. Bank Trust National Association acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

A handwritten signature in black ink, appearing to be "M. B.", written over a horizontal line.

Authorized Officer

Financial Guaranty Insurance
Company
125 Park Avenue
New York, NY 10017
(212) 312-3000
(800) 352-0001



Endorsement
To Financial Guaranty Insurance Company
Insurance Policy

Policy Number:

Control Number: 0010001

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

Deborah M. Reif

President

Effective Date:

Authorized Representative

Acknowledged as of the Effective Date written above:

Authorized Officer

U.S. Bank Trust National Association, as Fiscal Agent

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**Financial Advisory Services
Provided By**



INVESTMENT BANKERS