

## DISTRICT DEBT (a)

### General

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

2016 Assessed Valuation .....	\$564,758,564 (b)
(100% of market value as of January 1, 2016)	
See "TAX DATA" and "TAXING PROCEDURES."	
Estimated Taxable Valuation as of April 1, 2016 .....	\$589,098,902 (c)
See "TAX DATA" and "TAXING PROCEDURES."	
Direct Debt:	
Remaining Outstanding Bonds .....	\$14,660,000
The Bonds .....	\$ 4,800,000
Total .....	\$19,460,000
Estimated Overlapping Debt .....	\$32,597,465 (d)
Total Direct and Estimated Overlapping Debt .....	<u>\$52,057,465</u>
Direct Debt Ratio:	
: as a percentage of 2016 Assessed Valuation .....	3.45%
: as a percentage of the Estimated Taxable Valuation at April 1, 2016.....	3.30%
Direct and Estimated Overlapping Debt Ratio:	
: as a percentage of 2016 Assessed Valuation .....	9.22%
: as a percentage of the Estimated Taxable Valuation at April 1, 2016.....	8.84%
Debt Service Fund Balance as of September 19, 2016 (unaudited) .....	\$ 1,217,206 (e)
General Fund Balance as of September 19, 2016 (unaudited).....	\$ 2,775,979
Park Capital Projects Fund Balance as of September 19, 2016 (unaudited).....	\$ 433,733
Capital Projects Fund Balance as of September 19, 2016 (unaudited).....	\$ 343,837
2015 District Tax Rate Per \$100 of Assessed Valuation	
Debt Service .....	\$0.36
Maintenance & Operation .....	0.25
Total .....	<u>\$ 0.61</u>
Average Annual Debt Service Requirements	
of the Bonds and the Remaining Outstanding Bonds (2017-2040).....	\$1,111,922
Maximum Annual Debt Service Requirement	
of the Bonds and the Remaining Outstanding Bonds (2018).....	\$1,504,512
Tax Rate per \$100 of Assessed Valuation Required to Pay Average Annual	
Debt Service Requirements of the Bonds and the Remaining Outstanding Bonds	
(2017-2040) at 95% Tax Collections	
Based Upon 2016 Assessed Valuation .....	\$0.21
Based Upon April 1, 2016 Estimated Taxable Valuation .....	\$0.20
Tax Rate per \$100 of Assessed Valuation Required to Pay Maximum Annual	
Debt Service Requirements of the Bonds and the Remaining Outstanding Bonds	
(2018) at 95% Tax Collections	
Based Upon 2016 Assessed Valuation .....	\$0.29
Based Upon April 1, 2016 Estimated Taxable Valuation .....	\$0.27

(a) The District Debt information does not include any information about the Defined Area, or its taxable value, tax rate or bonds issued or expected to be issued. For a discussion of these matters, see "DEFINED AREA" herein.

(b) As certified by the Harris County Appraisal District (the "Appraisal District"). All property located in the District is valued on the tax rolls by the Appraisal District at 100% of estimated market value as of January 1 of each year. Includes \$43,175,025 in uncertified value.

(c) Provided by the HCAD for information purposes only. Represents new construction within the District from January 1, 2016 to April 1, 2016. This estimate is based upon the same unit value used in the assessed value. No taxes will be levied on this estimate. See "TAXING PROCEDURES."

(d) See "DISTRICT DEBT - Estimated Overlapping Debt Statement."

(e) Balance gives effect to payment of all debt service due on the Outstanding Bonds for 2016. Neither Texas law nor the Bond Order requires that any particular amount be maintained in the Debt Service Fund or General Fund at any time.

## Debt Service Requirements

The following schedule sets forth the principal and interest requirements on the Remaining Outstanding Bonds, less the debt service on the Refunded Bonds, and the principal and interest requirements for the Bonds.

Calendar Year	Outstanding Debt Service	Less: Refunded Debt Service	Plus: The Bonds		Total Debt Service
			Principal	Interest	
2017	\$ 1,539,009	\$ 218,081	\$ -	\$ 154,299	\$1,475,157
2018	1,534,543	218,081	20,000	168,050	1,504,512
2019	1,411,770	218,081	20,000	167,650	1,381,338
2020	1,410,448	218,081	20,000	167,250	1,379,617
2021	1,417,941	218,081	20,000	166,850	1,386,710
2022	1,423,899	438,425	245,000	164,200	1,394,674
2023	1,428,440	434,013	245,000	159,300	1,398,727
2024	1,436,714	434,300	250,000	154,350	1,406,764
2025	1,443,461	434,188	260,000	146,650	1,415,924
2026	1,267,342	355,275	190,000	137,650	1,239,717
2027	1,268,531	352,663	195,000	129,950	1,240,818
2028	1,141,123	339,644	190,000	122,250	1,113,729
2029	1,140,178	335,972	190,000	114,650	1,108,856
2030	1,147,943	331,831	195,000	106,950	1,118,062
2031	1,174,247	766,478	645,000	90,150	1,142,919
2032	1,173,822	769,181	675,000	63,750	1,143,391
2033	1,181,247	770,178	705,000	36,150	1,152,219
2034	1,185,844	773,875	735,000	11,025	1,157,994
2035	1,183,494	-	-	-	1,183,494
2036	1,194,638	-	-	-	1,194,638
2037	285,094	-	-	-	285,094
2038	285,688	-	-	-	285,688
2039	285,750	-	-	-	285,750
2040	290,344	-	-	-	290,344
Total	<u>\$27,251,508</u>	<u>\$7,626,428</u>	<u>\$4,800,000</u>	<u>\$2,261,054</u>	<u>\$26,686,134</u>

Average Annual Requirements (2017-2040)..... \$1,111,922

Maximum Requirement (2018)..... \$1,504,512

### Estimated Direct and Overlapping Debt Statement

Other governmental entities whose boundaries overlap the District have outstanding bonds payable from ad valorem taxes. The following statement of direct and estimated overlapping ad valorem tax debt was developed from information contained in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas, or other available information. Except for the amount relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person is entitled to rely upon such information as being accurate or complete. Furthermore, certain of the entities listed below may have issued additional bonds since the dates stated in this table, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot presently be determined.

Taxing Jurisdiction	Outstanding Debt as of August 31, 2016	Percent	Overlapping Amount
Harris County	\$2,421,235,464	0.13%	\$ 3,126,338
Harris County Department of Education	7,000,000	0.13%	9,035
Harris County Flood Control District	83,075,000	0.13%	110,644
Klein Independent School District	921,585,000	2.91%	26,811,466
Lone Star College System	548,875,000	0.30%	1,638,223
Port of Houston Authority	674,269,397	0.13%	<u>901,759</u>
Total Estimated Overlapping Debt			\$32,597,465
The District			<u>\$19,460,000(a)</u>
Total Direct & Estimated Overlapping Debt			<u>\$52,057,465</u>

(a) Includes the Bonds and excludes the Refunded Bonds.

### Debt Ratios

	% of 2016 Assessed Valuation	% of Estimated Valuation As of April 1, 2016
Direct Debt	3.45%	3.30%
Direct and Estimated Overlapping Debt	9.22%	8.84%

Under Texas law, ad valorem taxes levied by each taxing authority create lien which is on a parity with the lien in favor of the District on all taxable property within the District. In addition to the ad valorem taxes required to retire the foregoing direct and overlapping debt, the various taxing authorities mentioned above are also authorized by Texas law to assess, levy, and collect ad valorem taxes for operation, maintenance, administration and/or general revenue purposes. Certain of the jurisdictions have in the past levied such taxes. The District has the power to assess, levy, and collect ad valorem taxes for operation and maintenance purposes, and such taxes have been authorized by the duly qualified voters of the District in an amount not to exceed \$0.25 per \$100 of assessed valuation. The District levied a 2015 maintenance tax of \$0.25 per \$100 of assessed valuation. See "TAX DATA - Maintenance Tax."

## **TAXING PROCEDURES**

### **Authority to Levy Taxes**

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate and amount, on all taxable property within the District (including all taxable property within the Defined Area) in sufficient amount to pay the principal of and interest on the Bonds and the Outstanding Bonds and any additional bonds payable from taxes which the District may hereafter issue, and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Order to levy such a tax from year to year as described more fully above under the caption "THE BONDS - Source of Payment." The Board is also authorized to levy and collect annual ad valorem taxes for the administration and maintenance of the District and the System and for the payment of certain contractual obligations if such taxes are authorized by vote of the District's electors at an election. The District's electors have authorized the levy of such a maintenance tax in the maximum amount of \$0.25 per \$100 of assessed valuation for the entire District and an additional \$0.64 per \$100 of assessed valuation in the Defined Area. The District levied a maintenance tax in the amount of \$0.25 per \$100 of assessed valuation for the 2015 tax year. A maintenance tax has also been levied in the Defined Area at a rate of \$0.64 per \$100 assessed valuation for the 2015 tax year. See "TAX DATA" and "DEFINED AREA."

### **Property Tax Code and County-Wide Appraisal District**

The Texas Property Tax Code (the "Property Tax Code") requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas a single appraisal district with the responsibility for recording and appraising property for all taxing units within a county and a single appraisal review board with the responsibility for reviewing and equalizing the values established by the appraisal district. The Harris County Appraisal District (the "Appraisal District") has the responsibility for appraising property for all taxing units within Harris County, including the District. Such appraisal values are subject to review and change by the Harris County Appraisal Review Board (the "Appraisal Review Board"). Under certain circumstances, taxpayers and taxing units (such as the District) may appeal the orders of the Appraisal Review Board by filing a petition for review in State district court. In such event, the value of the property in question will be determined by the court or by a jury if requested by any party. Absent any such appeal, the appraisal roll, as prepared by the Appraisal District and approved by the Appraisal Review Board, must be used by each taxing jurisdiction in establishing its tax roll and tax rate. The District is eligible, along with all other conservation and reclamation districts within Harris County, to participate in the nomination of and vote for a member of the Board of Directors of the Appraisal District.

### **Property Subject to Taxation by the District**

Except for certain exemptions provided by Texas law, all real property and tangible personal property in the District is subject to taxation by the District; however, it is expected that no effort will be made by the District to collect taxes on personal property other than on personal property rendered for taxation, business inventories and the property of privately owned utilities. Principal categories of exempt property include: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; farm products owned by the producer; all oil, gas and mineral interests owned by an institution of higher education; certain property owned by charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; solar and wind-powered energy devices; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years or older and of certain disabled persons to the extent deemed advisable by the Board. For 2016, the District granted an over 65/disabled exemption of \$30,000. In addition, 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 District's preceding election and would be required to offer such an exemption if a majority of voters approve it at such election. The District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, to between \$5,000 and \$12,000 of assessed valuation depending upon the disability rating of the veteran. A veteran who receives a disability rating of 100% is entitled to an exemption for the full amount of the veteran's residence homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is

also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. Furthermore, qualifying surviving spouses of persons 65 years of age and older are entitled to receive a resident homestead exemption equal to the exemption received by the deceased spouse. A "Freeport Exemption" applies to goods, wares, ores, and merchandise other than oil, gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining petroleum or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A "Goods-in-Transit Exemption" may apply to certain tangible personal property that is acquired in or imported into Texas for assembling, storing, manufacturing or fabrication purposes which is destined to be forwarded to another location in Texas not later than 175 days after acquisition or importation, so long as the location where said goods are detained is not directly or indirectly owned by the owner of the goods. The District has taken action to allow taxation of goods-in-transit, and accordingly, the exemption is not available within the District. A taxpayer may not claim both a Freeport Goods Exemption and a Goods-in-Transit Exemption on the same property.

### **General Residential Homestead Exemption**

Texas law authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) of the market value of residential homesteads, but not less than \$5,000, if any exemption is granted, from ad valorem taxation. The law provides, however, that where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. For 2015, the District did not grant a general residential homestead exemption.

### **Valuation of Property for Taxation**

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

### **District and Taxpayer Remedies**

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

The Property Tax Code establishes a procedure for notice to property owners of reappraisals reflecting increased property values, appraisals that are higher than renditions and appraisals of property not previously on an appraisal roll.

### **Rollback of Operation and Maintenance Tax Rate**

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

### **Agricultural, Open Space, Timberland and Inventory Deferment**

The Property Tax Code permits land designated for agricultural use (including wildlife management), open space, or timberland to be appraised at its value based on the land's capacity to produce agriculture or timber products rather than at its fair market value. The Property Tax Code permits, under certain circumstances, that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Landowners wishing to avail themselves of any of such designations must apply for the designation, and the Appraisal District is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions and not as to others. If a claimant receives the designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including such taxes for a period of three (3) years to five (5) years for agricultural use, timberland or open space land prior to the loss of the designation. As of January 1, 2016, no land within the District was designated for agricultural use, open space or timberland.

### **Tax Abatement**

The City of Houston and Harris County may designate all or part of the District as a reinvestment zone, and the District, Harris County, and the City of Houston may thereafter enter into tax abatement agreements with the owners of property within the zone. The tax abatement agreements may exempt from ad valorem tax, by the applicable taxing jurisdictions, and by the District, for a period of up to ten years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with a comprehensive plan. To date, none of the area within the District has been designated as a reinvestment zone. Each taxing jurisdiction has discretion to determine terms for its tax abatement agreements without regard to the terms approved by other taxing jurisdictions.

### **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 February 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 twenty percent (20%) penalty for collection costs of 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. Further, a person who is 65 years of age or older or disabled is entitled by law to pay current taxes on his residential homestead in installments or to receive a deferral or abatement of delinquent taxes without penalty during the time he owns or occupies his property as his residential homestead.

## **District's Rights in the Event of Tax Delinquencies**

Taxes levied by the District are a personal obligation of the person who owns or acquires the property on 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 taxes, penalties, and interest ultimately imposed for the year upon the property. The District's tax lien is on a parity with the tax liens of the other state and local jurisdictions levying taxes on property within the District. 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. In the absence of such federal law, the District's tax lien takes priority over a lien of the United States. In the event a taxpayer fails to make timely payment of taxes due the District, the District may file suit at any time after taxes become delinquent to foreclose its 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 also be adversely affected by the amount of taxes owed to other federal, state and local taxing jurisdictions, by the effects of market conditions on the foreclosure sales price, by the taxpayer's right to redeem the property (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 restrain or stay the collection of a taxpayer's debts.

## **INVESTMENT CONSIDERATIONS**

### **General**

The Bonds, which are obligations of the District and not of the State of Texas, Harris County, Texas, the City of Houston, Texas, or any entity other than the District, are payable from an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District (including all taxable property within the Defined Area). See "THE BONDS - Source of Payment." Therefore, the ultimate security for payment of the principal of and interest on the Bonds depends upon the ability of the District to collect from the property owners within the District taxes levied against all taxable property located within the District, or, in the event taxes are not collected and foreclosure proceedings are instituted by the District, upon the value of the taxable property with respect to taxes levied by the District and by other taxing authorities. The District makes no representations that over the life of the Bonds the construction of improvements or continued development of taxable values will be sufficient to justify continued payment of taxes by property owners. Further, the District makes no representations that over the life of the Bonds the existing property within the District will maintain a value sufficient to justify continued payment of taxes by the property owners. The taxable valuation of District property is directly related to the economics of the residential housing industry, not only due to general economic conditions, but also due to the particular factors discussed below.

### **Factors Affecting Taxable Values and Tax Payments**

**Economic Factors:** The rate of development of the District is directly related to the vitality of the residential housing industry, both single-family and multi-family, and the commercial development industry. New residential housing construction can be significantly affected by factors such as general economic activity, interest rates, credit availability, energy costs, construction costs, the level of unemployment and consumer demand. Decreased levels of home construction activity would restrict the growth of property values in the District. Further declines in the price of oil could adversely affect the demand for houses as well as values of existing homes. Although as described in this Official Statement under the caption "STATUS OF DEVELOPMENT", (i) the development of a total of approximately 824 acres located within the District is complete, including the development of single-family residential building sites, and home construction is occurring on 146 acres, and the District cannot predict the pace or magnitude of any future development or home construction in the District other than that which has occurred to date.

**Location and Access:** The District is located in an outlying area of the Houston metropolitan area, approximately 30 miles from the central business district of the City of Houston. The Developers and homebuilders active within the District compete for the sale of developed lots and homes with numerous residential development projects located closer to major employment centers and closer to major freeways. In addition, many of the residential and commercial developments with which the District competes have lower overlapping taxes. As a result, particularly during times of increased competition, the Developers and homebuilders may find themselves at a competitive disadvantage to the developers and homebuilders in other residential projects located closer to major urban centers or with lower overlapping taxes. See "THE DISTRICT."

**Maximum Impact on District Tax Rate:** Assuming no further development or home construction, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of property owners to pay their taxes. The 2016 Assessed Valuation of property located within the District (see "TAX DATA") is \$564,758,564 and the Estimated Valuation as of April 1, 2016 of property located within the District is \$589,098,902. After issuance of the Bonds, the maximum annual debt service requirement will be \$1,504,512 (2018) and the average annual debt service requirements will be \$1,111,922 (2017-2040, inclusive). Assuming no increase to nor decrease from the 2016 Assessed Valuation of \$564,758,564, tax rates of \$0.29 and \$0.21 per \$100 of assessed valuation at a 95% tax collection rate would be necessary to pay the maximum annual debt service requirement and the average annual debt service requirement, respectively. Assuming no increase to nor decrease from the Estimated Valuation as of April 1, 2016 of \$589,098,902, tax rates of \$0.27 and \$0.20 per \$100 of assessed valuation at 95% tax collection rate would be necessary to pay the maximum annual debt service requirement and the average annual debt service requirements, respectively. (The discussion above does not include data about the Defined Area. See "DEFINED AREA.")

**Principal Landowners' Obligations to the District:** As reflected in this Official Statement under the caption "TAX DATA – Principal Taxpayers," the District's ten principal taxpayers in 2016 owned approximately 14.14% of the assessed value of property located in the District. Failure by any one or more of the District's principal property owners to make full and timely payments of taxes due may have an adverse effect on the investment quality or security of the Bonds. If any one or more of the principal District taxpayers did not pay taxes due, the District might need to levy additional taxes or use other debt service funds available to meet its debt service requirements.

**Developers' Obligations to the District:** There is no commitment by or legal requirement of the Developers or any other landowner to the District to proceed at any particular rate or according to any specified plan with the development of land in the District, or of any owner of commercial property to proceed at any particular pace with the construction of homes or commercial improvements in the District. Moreover, there is no restriction on any land owner's right to sell its land. Therefore, the District can make no representation about the probability of future development, if any, in the District. Failure to construct taxable improvements would restrict the rate of growth of taxable values in the District and result in higher tax rates.

### **Tax Collections Limitations**

The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other taxing authorities on the property against which taxes are levied, and such lien may be enforced by 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) market conditions limiting the proceeds from a foreclosure sale of taxable property, or (c) the taxpayer's right to redeem the property within six months (two years for residential homesteads or agricultural property) after the sheriff's deed issued at a foreclosure sale is filed in the county deed records. While the District has a lien on taxable property within the District for taxes levied against such property, such lien can be foreclosed only in a judicial proceeding. Finally, any bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes assessed against such taxpayer. In addition to



the automatic stay against collection of delinquent taxes afforded a taxpayer during the pendency of a bankruptcy, a bankruptcy could affect payment of taxes in two other ways: first, a debtor's confirmation plan may allow a debtor to make installment payments on delinquent taxes for up to six years; and second, a debtor may challenge, and a bankruptcy court may reduce, the amount of any taxes assessed against the debtor, including taxes that have already been paid.

### **Registered Owners' Remedies and Bankruptcy**

In the event of default in the payment of principal of or interest on the Bonds, the Registered Owners have a right to seek a writ of mandamus requiring the District to levy sufficient taxes each year to make such payments. Except for mandamus, the Bond Order does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Based on recent Texas court decisions, it is unclear whether, §49.066, Texas Water Code, effectively waives governmental immunity of a municipal utility district for suits for money damages. Even if Registered Owners could obtain a judgment against the District, such a judgment could not be enforced by a direct levy and execution against the District's public purpose property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property of the District in order to pay the principal of and interest on the Bonds. Since there is no trust indenture or trustee, the Registered Owners would have to initiate and finance the legal process to enforce their remedies.

The enforceability of the rights and remedies of the Registered Owners may be limited further by laws relating to bankruptcy, reorganization, or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. In this regard, should the District file a petition for protection from creditors under federal bankruptcy laws, the remedy of mandamus would be automatically stayed and could not be pursued unless authorized by a federal bankruptcy judge. See "THE BONDS - Bankruptcy Limitation to Registered Owners' Rights." In addition, a state, consistent with federal law, may in the exercise of its police power make such modifications in the terms and conditions of contractual covenants relating to the payment of indebtedness of a political subdivision as are reasonable and necessary for attainment of an important public purpose.

### **Marketability**

The District has no control over the trading of the Bonds in the secondary market. Moreover, there is no assurance that a secondary market will be made for the Bonds. If there is a secondary market, the difference between the bid and asked price of the Bonds may be greater than the bid and asked spread of other bonds generally bought, sold, or traded in the secondary market. See "SALE AND DISTRIBUTION OF THE BONDS."

### **Economic Factors**

Development within the District is directly related to the residential housing industry. The housing industry has historically been a cyclical industry affected by both short and long term interest rates, availability of mortgage and development funds, labor conditions, energy availability, and other general economic conditions.

### **Future Debt**

Additional bonds are expected to be issued from time to time as future development occurs. 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, tax collections or net revenues to limit the amount of parity bonds which may be issued.

Following issuance of the Bonds, there will be \$34,340,000 in principal amount of unlimited tax bonds authorized and unissued by the District's voters for the purpose of constructing and acquiring water, sewer and drainage facilities, all of which may also be used for refunding purposes. The District reserves in the Bond Order the right to issue the remaining authorized but unissued bonds and such additional bonds as may be hereafter authorized. The District has also reserved the right to issue certain other bonds and obligations described in the Bond Order. See "THE BONDS - Issuance of Additional Debt" and "DEFINED AREA" for a discussion of Defined Area Bonds.

Currently, the District owes approximately \$8,400,000 in developer reimbursement for water, sewer and drainage projects. The District has submitted its Bond Application No. 17 to the TCEQ in the amount of \$10,300,000 to provide improvements to the District's System, and to reimburse certain developers for a share of the wastewater treatment plant, which are expected to be issued in the fourth quarter of 2016 or first quarter of 2017. Additionally, the District owes approximately \$5,800,000 in developer reimbursement for Defined Area water, sewer and drainage projects and approximately \$350,000 for Defined Area road projects, which will be reimbursed by future Defined Area Bonds. See "DEFINED AREA" for a discussion of Defined Area Bonds.

### **Continuing Compliance with Certain Covenants**

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

### **Future and Proposed Legislation**

From time to time, there are Presidential proposals, proposals of various federal committees, and legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to herein or adversely affect the marketability or market value of the Bonds or otherwise prevent holders of the Bonds from realizing the full benefit of the tax exemption of interest on the Bonds. Further, such proposals may impact the marketability or market value of the Bonds simply by being proposed. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value, marketability or tax status of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds would be impacted thereby.

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

### **Bond Insurance Risk Factors**

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

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

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

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

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

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

## **LEGAL MATTERS**

### **Legal Opinions**

The District will furnish the Underwriter a transcript of certain certified proceedings held incident to the authorization and issuance of the Bonds. Such transcript will include a certified copy of the approving opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Bonds are valid and binding obligations of the District. The District also will furnish the approving legal opinion of Bacon & Wallace, L.L.P., Houston, Texas, Bond Counsel ("Bond Counsel"), to the effect that, based upon an examination of such transcript, the Bonds are valid and binding obligations of the District under the Constitution and laws of the State of Texas. The legal opinion of Bond Counsel will further state that the Bonds, including principal of and interest thereon, are payable from the levy of ad valorem taxes, without legal limitation as to rate or amount, upon all taxable property located within the District. Bond Counsel's opinion will also address the matters described below under "TAX MATTERS." The District will also furnish the legal opinion of McCall, Parkhurst & Horton L.L.P., Special Tax Counsel to the District, to the effect that interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes under existing law and not subject to the alternative minimum income tax on individuals or, except as described therein, corporations.

In capacity as Bond Counsel, Bacon & Wallace, L.L.P., has reviewed the information appearing in this Official Statement under the captions "THE BONDS (except for the information found under the subcaption "Book-Entry Only System," "TAXING PROCEDURES," "THE DISTRICT - Authority," "DEFINED AREA" and "THE DISTRICT - Management of the District - Bond Counsel," "LEGAL MATTERS," and "CONTINUING DISCLOSURE OF INFORMATION" to determine whether such information fairly summarizes the procedures, law and documents referred to therein. Bond Counsel has not, however, independently verified any of the other factual information contained in this Official Statement nor has he 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 of the information contained herein. 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. Bond Counsel acts as general counsel for the District on matters other than the issuance of bonds.

**No Arbitrage**

The District will certify on 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, 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 Section 148 of the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations prescribed from time to time 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 have been authorized to certify to the facts, 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 will covenant in the Bond Order that it will make such use of the proceeds of the Bonds, regulate investments of proceeds of the Bonds and take such other and further actions and follow such procedures, including without limitation, calculation of the yield on the Bonds, as may be required so that the Bonds will not become "arbitrage bonds" under the Code and the regulations prescribed from time to time thereunder.

**No-Litigation Certificate**

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

**No Material Adverse Change**

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

**TAX MATTERS**

On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Special Tax Counsel, will render the opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), interest on the Bonds (1) will be excludable from the "gross income" of the holders thereof and (2) will not be treated as "specified private activity bonds," the interest on which would be excluded as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Special Tax Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds.

In rendering the opinion, Special Tax Counsel will rely upon (a) the opinion of Bacon & Wallace, L.L.P., Bond Counsel that the Bonds are valid and binding obligations of the District payable from the proceeds of a generally applicable ad-valorem tax, (b) the Issuer's federal tax certificate, (c) the Verification Report of Grant Thornton, certified public accountants, and (d) covenants of the Issuer with respect to arbitrage, the application of the proceeds to be received from the issuance and sale of the Bonds and certain other matters. Failure of the Issuer to comply with these representations or covenants could cause the interest on the Bonds to become includable in gross income retroactively to the date of issuance of the Bonds.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Special Tax Counsel is conditioned on compliance by the District with such

requirements, and Special Tax Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

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

A ruling was not sought from the Internal Revenue Service by the District with respect to the Bonds or the property financed or refinanced with proceeds of the Bonds. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Special Tax Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the District as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

### **Federal Income Tax Accounting Treatment of Original Issue Discount**

The initial public offering price to be paid for certain of the Bonds maturing is less than the maturity amount thereof (the "Original Issue Discount Bonds"). In such event, the difference between the amount payable at the maturity of each Original Issue Discount Bond, and 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. Under existing law, such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

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

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

## **Collateral Federal Income Tax Consequences**

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with accumulated earnings and profits and excess passive investment income and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

Interest on the Bonds will be includable as an adjustment for "adjusted current earnings" to calculate the alternative minimum tax imposed on corporations by section 55 of the Code.

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

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

## **State, Local and Foreign Taxes**

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

## **Information Reporting and Backup Withholding**

Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Bonds will be sent to each registered holder and to the IRS. Payments of interest and principal may be subject to backup withholding under section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

## **Not Qualified Tax-Exempt Obligations**

The Bonds have NOT been designated as "qualified tax-exempt obligations" within the meaning of Section 265(a) of the Code.

## **VERIFICATION OF MATHEMATICAL CALCULATIONS**

The arithmetical accuracy of certain computations included in the schedules provided by the Financial Advisor on behalf of the District relating to (a) computation of the adequacy of the maturing principal amounts of and interest on the Escrowed Obligations to be held by the Escrow Agent and certain available funds (if any) to pay, when due, the principal or redemption price of and interest on the Refunded Bonds, (b) the computation of the yields on the Bonds and the Escrowed Obligations, and (c) certain requirements of the City of Houston ordinances relating to the refunding of indebtedness was verified by Grant Thornton LLP. The computations were independently verified by Grant Thornton LLP, based upon certain assumptions and information supplied by the Financial Advisor on behalf of the District, and the District. Grant Thornton LLP has restricted its procedures to verifying the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information upon which the computations are based and accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions or the achievability of future events.

## **CONTINUING DISCLOSURE OF INFORMATION**

In the Bond Order, the District has made the following agreement for the benefit of the Registered Owners 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 subject to amendment to or repeal of same as set forth below. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access ("EMMA") System.

### **Annual Reports**

The District will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement under the headings "TAX DATA," and "APPENDIX A." The District will update and provide this information within six months after the end of each fiscal year ending in or after 2016.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by Rule 15c2-12 of the SEC (the "Rule"). The updated information will include audited financial statements, if the District commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the District will provide audited financial statements when and if the audit report becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in "APPENDIX A" or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

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

### **Event Notices**

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other events affecting the tax-exempt status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the

meaning of the Rule; (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material. The term “material” when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Order makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under “Annual Reports.”

### **Availability of Information**

The District has agreed to provide the foregoing information only to the MSRB. Investors will be able to access, without charge from the MSRB, continuing disclosure information files with the MSRB at [www.emma.msrb.org](http://www.emma.msrb.org).

### **Limitations and Amendments**

The District has agreed to update information and to provide notices of material events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although registered 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 in the Bond Order to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or operations or business of the District, 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 and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent 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 beneficial owners of the Bonds. The District may also amend or repeal the agreement in the Bond Order 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 in either case only to the extent that its right to do so would not prevent the Underwriter from lawfully purchasing the Bonds in the offering described herein.

### **Compliance with Prior Undertakings**

The District did not file its operating data for the fiscal years ending December 31, 2009, December 31, 2011, and December 31, 2014 which the District had agreed to file under previous continuing disclosure undertaking agreements as described in the Rule, within the time specified in such undertakings. Such filings, together with notices of late filing, have subsequently been made. Further, the District failed to timely file notice of a downgrade of its underlying rating by Moody's. Except to the extent the preceding is deemed to be material, in the previous five years, the District has not failed to comply in all material respects with any previous undertakings under the Rule. The District has reviewed its continuing disclosure responsibilities and has engaged McCall, Parkhurst & Horton L.L.P. as Disclosure Counsel to assist the District in making its future filings of financial statements and operating data to the MSRB in a timely manner.



## **OFFICIAL STATEMENT**

### **General**

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

### **Experts**

The information contained in this Official Statement relating to engineering and to the description of the System, and, in particular, that engineering information included in the sections entitled "THE DISTRICT" and "THE SYSTEM" has been provided by Jones & Carter, Inc.

The information contained in this Official Statement relating to assessed valuations of property generally and, in particular, that information concerning collection rates and valuations contained in the sections captioned "TAX DATA" was provided by Esther Flores and the Appraisal District. Such information has been included herein in reliance upon Ms. Flores' authority as an expert in the field of tax collection and the Appraisal District's authority in the field of tax assessing.

### **Auditor**

The District's audited financial statements for the year ended December 31, 2015 were prepared by McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountant, Houston, Texas and have been included herein as "APPENDIX A". McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountant, has consented to the publication of such financial statements in this Official Statement.

### **Certification as to Official Statement**

The District, acting by and through its Board of Directors in its official capacity and in reliance upon the persons listed above, hereby certifies, as of the date hereof, that to the best of its knowledge and belief, the information, statements, and descriptions pertaining to the District and its affairs herein contain no untrue statements 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 were made, not misleading. The information, descriptions, and statements concerning entities other than the District, including particularly other governmental entities, have been obtained from sources believed to be reliable, but the District has made no independent investigation or verification of such matters and makes no representation as to the accuracy or completeness thereof.

### **Updating of Official Statement**

If, subsequent to the date of the Official Statement, the District learns, through the ordinary course of business and without undertaking any investigation or examination for such purposes or is notified by the Underwriter, of any adverse event which causes the Official Statement to be materially misleading, and unless the Underwriter elects to terminate its obligation to purchase the Bonds, the District will promptly prepare and supply to the Underwriter an appropriate amendment or supplement to the Official Statement satisfactory to the Underwriter; provided, however, that the obligation of the District to so amend or supplement the Official Statement will terminate when the District delivers the Bonds to the Underwriter, or as otherwise required by SEC Rule.

This Official Statement was approved by the Board of Directors of Northampton Municipal Utility District, as of the date shown on the first page thereof.

/s/ E.C. Thomas  
President, Board of Directors  
Northampton Municipal Utility District

ATTEST:

/s/ Scott Kirkpatrick  
Secretary, Board of Directors  
Northampton Municipal Utility District

**APPENDIX A**  
**FINANCIAL STATEMENTS OF THE DISTRICT**

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**HARRIS COUNTY, TEXAS**  
**ANNUAL FINANCIAL REPORT**  
**DECEMBER 31, 2015**

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**

**HARRIS COUNTY, TEXAS**

**ANNUAL FINANCIAL REPORT**

**DECEMBER 31, 2015**

## TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-8
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET	9-14
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION	15
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES	16-19
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES	20
NOTES TO FINANCIAL STATEMENTS	21-40
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE- BUDGET AND ACTUAL-GENERAL FUND	42
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE- BUDGET AND ACTUAL-SPECIAL REVENUE FUND	43
SUPPLEMENTARY INFORMATION REQUIRED BY THE WATER DISTRICT FINANCIAL MANAGEMENT GUIDE	
NOTES REQUIRED BY THE WATER DISTRICT FINANCIAL MANAGEMENT GUIDE (Included in the notes to financial statements)	
SERVICES AND RATES	45-47
GENERAL FUND EXPENDITURES	48-49
INVESTMENTS	50
TAXES LEVIED AND RECEIVABLE	51-52
LONG-TERM DEBT SERVICE REQUIREMENTS	53-60
CHANGE IN LONG-TERM BOND DEBT	61-63
COMPARATIVE SCHEDULES OF REVENUES AND EXPENDITURES GENERAL FUND AND DEBT SERVICE FUND - FIVE YEARS	64-67
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS	68-69

**McCALL GIBSON SWEDLUND BARFOOT PLLC**  
*Certified Public Accountants*

13100 Wortham Center Drive  
Suite 235  
Houston, Texas 77065-5610  
(713) 462-0341  
Fax (713) 462-2708  
E-Mail: [mgswb@mgswbpllc.com](mailto:mgswb@mgswbpllc.com)

111 Congress Avenue  
Suite 400  
Austin, Texas 78701  
(512) 610-2209  
[www.mgswbpllc.com](http://www.mgswbpllc.com)

**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Northampton Municipal  
Utility District  
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Northampton Municipal Utility District (the "District"), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

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

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

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

Board of Directors  
Northampton Municipal  
Utility District

**Opinions**

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

**Other Matters**

*Required Supplementary Information*

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

*Other Information*

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

McCall Gibson Swedlund Barfoot PLLC  
Certified Public Accountants  
Houston, Texas

April 25, 2016

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

Management's discussion and analysis of Northampton Municipal Utility District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2015. Please read it in conjunction with the District's financial statements.

**USING THIS ANNUAL REPORT**

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

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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

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

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



**NORTHAMPTON MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

**FUND FINANCIAL STATEMENTS**

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

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

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

**NOTES TO FINANCIAL STATEMENTS**

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

**OTHER INFORMATION**

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

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities and deferred inflows of resources by \$2,456,271 as of December 31, 2015.

A portion of the District's net position reflects its net investment in capital assets (land, buildings and equipment as well as water, wastewater and drainage systems and recreation facilities less any debt used to acquire those assets that is still outstanding).

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

<u>Summary of Changes in the Statement of Net Position</u>			
	<u>2015</u>	<u>2014</u>	<u>Change Positive (Negative)</u>
Current and Other Assets	\$ 9,376,080	\$ 10,235,332	\$ (859,252)
Capital Assets (Net of Accumulated Depreciation)	<u>29,291,480</u>	<u>21,142,128</u>	<u>8,149,352</u>
Total Assets	<u>\$ 38,667,560</u>	<u>\$ 31,377,460</u>	<u>\$ 7,290,100</u>
Developer Advances	\$ 11,598,930	\$ 3,905,259	\$ (7,693,671)
Long-Term Liabilities	19,324,667	15,658,664	(3,666,003)
Other Liabilities	<u>1,859,433</u>	<u>5,018,984</u>	<u>3,159,551</u>
Total Liabilities	<u>\$ 32,783,030</u>	<u>\$ 24,582,907</u>	<u>\$ (8,200,123)</u>
Deferred Inflows of Resources	<u>\$ 3,428,259</u>	<u>\$ 2,426,479</u>	<u>\$ (1,001,780)</u>
Net Position:			
Net Investment in Capital Assets	\$ (507,068)	\$ 2,056,291	\$ (2,563,359)
Restricted	960,486	994,920	(34,434)
Unrestricted	<u>2,002,853</u>	<u>1,316,863</u>	<u>685,990</u>
Total Net Position	<u>\$ 2,456,271</u>	<u>\$ 4,368,074</u>	<u>\$ (1,911,803)</u>

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)**

The following table provides a summary of the District's operations for the years ended December 31, 2015, and December 31, 2014.

	<u>Summary of Changes in the Statement of Activities</u>		
	<u>2015</u>	<u>2014</u>	<u>Change Positive (Negative)</u>
Revenues:			
Property Taxes	\$ 2,439,012	\$ 2,307,720	\$ 131,292
Charges for Services	3,306,119	3,449,932	(143,813)
Other Revenues	<u>108,737</u>	<u>228,470</u>	<u>(119,733)</u>
Total Revenues	\$ 5,853,868	\$ 5,986,122	\$ (132,254)
Expenses for Services	<u>(7,765,671)</u>	<u>(5,599,763)</u>	<u>(2,165,908)</u>
Change in Net Position	\$ (1,911,803)	\$ 386,359	\$ (2,298,162)
Net Position, Beginning of Year	<u>4,368,074</u>	<u>3,981,715</u>	<u>386,359</u>
Net Position, End of Year	<u>\$ 2,456,271</u>	<u>\$ 4,368,074</u>	<u>\$ (1,911,803)</u>

**FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS**

The District's combined fund balances as of December 31, 2015, were \$4,883,615, an increase of \$3,560,612 from the prior year.

The General Fund fund balance increased by \$695,281 primarily due to service revenues exceeding operating expenditures.

The Debt Service Fund fund balance increased by \$33,042, primarily due to the timing difference between actual property tax collections and debt service payments.

The Capital Projects Fund fund balance increased by \$2,832,289, primarily due the sale of Series 2015 bonds.

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The Board of Directors did not amend the budget during the fiscal year. Actual revenues were \$250,448 more than budgeted revenues. Actual expenditures were \$91,036 less than budgeted expenditures.

**CAPITAL ASSETS**

Capital assets as of December 31, 2015, total \$29,291,480 (net of accumulated depreciation) and include land, buildings and equipment as well as the water, wastewater and drainage systems and recreation facilities.

Capital asset events during the current fiscal year included the following:

Completed Projects:	
Hampton Creek Section 1, 2, 4, 5, and 6 water, sewer and drainage	\$ 2,420,940
Wastewater Treatment Plant No. 2 Phase I Detention and Mitigation Ponds	357,532
Water Plant No. 2 Hydro Tank Addition	251,755
Lift Station Improvements	12,101
Northcrest Pool Replaster	38,470
Inway Clubhouse Roof	12,858
Land for Water Plant No. 3	<u>160,573</u>
Total Completed Projects	<u>\$ 3,254,229</u>
Construction in Progress:	
Water Plant No. 3	\$ 29,174
Wastewater Treatment Plant No. 2 Phase 1	7,331,304
Splash Pad Conversions - Plans	4,000
New Pump House	<u>6,287</u>
Total Construction in Progress	<u>\$ 7,370,765</u>

**Capital Assets At Year-End, Net of Accumulated Depreciation**

	2015	2014	Change Positive (Negative)
<b>Capital Assets Not Being Depreciated:</b>			
Land and Land Improvements	\$ 1,936,448	\$ 1,775,875	\$ 160,573
Construction in Progress	7,370,765	1,496,183	5,874,582
<b>Capital Assets, Net of Accumulated Depreciation:</b>			
Meeting and Recreation Facilities	1,916,506	2,122,066	(205,560)
Water System	4,412,430	3,891,029	521,401
Wastewater System	10,319,793	9,930,494	389,299
Drainage System	3,334,763	1,921,564	1,413,199
Equipment	<u>775</u>	<u>4,917</u>	<u>(4,142)</u>
Total Net Capital Assets	<u>\$ 29,291,480</u>	<u>\$ 21,142,128</u>	<u>\$ 8,149,352</u>

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

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

**LONG-TERM DEBT ACTIVITY**

At the end of the current fiscal year, the District had total long-term debt payable of \$20,040,000.

The changes in the debt position of the District during the fiscal year ended December 31, 2015, are summarized as follows:

Bond Debt Payable, January 1, 2015	\$ 16,505,000
Add: Series 2015 Bond Sale	4,460,000
Less: Bond Principal Paid	<u>925,000</u>
Bond Debt Payable, December 31, 2015	<u>\$ 20,040,000</u>

The Series 2006 Bonds, Series 2006 Park Bonds and Series 2010 Refunding Bonds carry on underlying rating of "A2" from Moody's Investor Service. The Series 2010 Bonds, Series 2012 Bonds and Series 2015 Bonds carry an underlying rating of "A-" from Standard & Poor's.

The Series 2006 Park Bonds, Series 2010 Refunding Bonds and Series 2012 Bonds carry insured ratings of "A2", "AA", and "AA" respectively, by virtue of bond insurance issued by Assured Guaranty Municipal Corp. The Series 2006 bonds carry an insured rating of "AA-/A3" by virtue of bond insurance issued by National Public Finance Guaranty Corporation. The Series 2015 Bonds carry insured rating of "AA" by virtue of bond insurance issued by Build America Mutual Assurance. Credit enhanced ratings provided through bond policies are subject to change based on the rating of the bond insurance company.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Northampton Municipal Utility District, c/o Bacon & Wallace, L.L.P., 6363 Woodway, Suite 800, Houston, TX 77057.

**THIS PAGE INTENTIONALLY LEFT BLANK**

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**STATEMENT OF NET POSITION AND**  
**GOVERNMENTAL FUNDS BALANCE SHEET**  
**DECEMBER 31, 2015**

	<u>General Fund</u>	<u>Special Revenue Fund</u>
<b>ASSETS</b>		
Cash	\$ 2,885,593	\$ 68,124
Investments	490,000	
Receivables:		
Property Taxes	1,254,139	
Penalty and Interest on Delinquent Taxes		
Service Accounts (Net of Allowance for Doubtful Accounts of \$5,000)	215,263	
Accrued Interest	263	
Builder Damages	7,666	
Other	3,726	
Due from Other Funds		27,659
Prepaid Costs	30,888	
Due from Other Governments	10,399	19,325
Advance for Regional Wastewater Treatment Plant Operations	67,900	
Land		
Construction in Progress		
Capital Assets (Net of Accumulated Depreciation)		
<b>TOTAL ASSETS</b>	<u>\$ 4,965,837</u>	<u>\$ 115,108</u>

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

<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 645,409	\$ 1,630,517	\$ 5,229,643	\$	\$ 5,229,643
490,000		980,000		980,000
1,528,337		2,782,476		2,782,476
			16,419	16,419
		215,263		215,263
		263		263
		7,666		7,666
		3,726		3,726
117,998	798,283	943,940	(943,940)	
		30,888	80,012	110,900
		29,724		29,724
		67,900	(67,900)	
			1,936,448	1,936,448
			7,370,765	7,370,765
			19,984,267	19,984,267
<u>\$ 2,781,744</u>	<u>\$ 2,428,800</u>	<u>\$ 10,291,489</u>	<u>\$ 28,376,071</u>	<u>\$ 38,667,560</u>

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



**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**STATEMENT OF NET POSITION AND**  
**GOVERNMENTAL FUNDS BALANCE SHEET**  
**DECEMBER 31, 2015**

	<u>General Fund</u>	<u>Special Revenue Fund</u>
<b>LIABILITIES</b>		
Accounts Payable	\$ 129,820	\$ 23,708
Due to Other Governments	32,090	
Accrued Interest Payable		
Developer Advances	23,561	
Retainage Payable		
Due to Other Funds	943,940	
Due to Taxpayers		
Due to Homeowners Association	1,192	
Unearned User Fees	11,300	
Security Deposits	287,165	
Reserved for Wastewater Treatment Plant Operations		91,400
Long-Term Liabilities:		
Due Within One Year		
Due After One Year		
<b>TOTAL LIABILITIES</b>	<u>\$ 1,429,068</u>	<u>\$ 115,108</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred Inflows:		
Property Taxes	<u>\$ 1,632,220</u>	<u>\$</u>

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

<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$	\$ 51,454	\$ 204,982	\$	\$ 204,982
		32,090		32,090
			239,852	239,852
		23,561	11,575,369	11,598,930
	331,409	331,409		331,409
		943,940	(943,940)	
7,943		7,943		7,943
		1,192		1,192
		11,300		11,300
		287,165		287,165
		91,400	(67,900)	23,500
			720,000	720,000
			19,324,667	19,324,667
<u>\$ 7,943</u>	<u>\$ 382,863</u>	<u>\$ 1,934,982</u>	<u>\$ 30,848,048</u>	<u>\$ 32,783,030</u>
 <u>\$ 1,840,672</u>	 <u>\$</u>	 <u>\$ 3,472,892</u>	 <u>\$ (44,633)</u>	 <u>\$ 3,428,259</u>

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

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**STATEMENT OF NET POSITION AND**  
**GOVERNMENTAL FUNDS BALANCE SHEET**  
**DECEMBER 31, 2015**

	<u>General Fund</u>	<u>Special Revenue Fund</u>
<b>FUND BALANCES</b>		
Nonspendable:		
Advance for Wastewater Treatment Plant Operations	\$ 67,900	\$
Prepaid Costs	30,888	
Restricted for Authorized Construction:		
Bond Proceeds		
Net Investment Revenues		
Restricted for Debt Service		
Unassigned	<u>1,805,761</u>	
<b>TOTAL FUND BALANCES</b>	<u>\$ 1,904,549</u>	<u>\$ - 0 -</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<u>\$ 4,965,837</u>	<u>\$ 115,108</u>
<b>NET POSITION</b>		
Net Investment in Capital Assets		
Restricted for:		
Debt Service		
Capital Projects		
Unrestricted		
<b>TOTAL NET POSITION</b>		

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

<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$	\$	\$ 67,900	\$ (67,900)	\$
		30,888	(30,888)	
	1,821,488	1,821,488	(1,821,488)	
	224,449	224,449	(224,449)	
933,129		933,129	(933,129)	
		1,805,761	(1,805,761)	
<u>\$ 933,129</u>	<u>\$ 2,045,937</u>	<u>\$ 4,883,615</u>	<u>\$ (4,883,615)</u>	<u>\$ - 0 -</u>
 <u>\$ 2,781,744</u>	 <u>\$ 2,428,800</u>	 <u>\$ 10,291,489</u>		
			\$ (507,068)	\$ (507,068)
			736,037	736,037
			224,449	224,449
			2,002,853	2,002,853
			<u>\$ 2,456,271</u>	<u>\$ 2,456,271</u>

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

**NORTHHAMPTON MUNICIPAL UTILITY DISTRICT**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS**  
**BALANCE SHEET TO THE STATEMENT OF NET POSITION**  
**DECEMBER 31, 2015**

Total Fund Balances - Governmental Funds	\$	4,883,615
------------------------------------------	----	-----------

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

80,012

Bond insurance premiums paid at closing are amortized over the term of the refunding bonds.

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

29,291,480

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

61,052

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

Due to Developers	\$ (11,575,369)	
Accrued Interest Payable	(239,852)	
Bonds Payable Within One Year	(720,000)	
Bonds Payable After One Year	<u>(19,324,667)</u>	<u>(31,859,888)</u>

Total Net Postion - Governmental Activities

\$ 2,456,271

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

**THIS PAGE INTENTIONALLY LEFT BLANK**

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT OF**  
**REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>General Fund</u>	<u>Special Revenue Fund</u>
<b>REVENUES</b>		
Property Taxes	\$ 1,042,385	\$
Water Service	1,001,460	
Wastewater Service	1,126,294	475,459
Penalty and Interest	37,948	
Tap Connection and Inspection Fees	90,906	
Facility Use Fees	109,162	
Regional Water Authority Fees	737,987	
Investment Revenues	3,173	69
Miscellaneous Revenues	95,683	
<b>TOTAL REVENUES</b>	<u>\$ 4,244,998</u>	<u>\$ 475,528</u>
<b>EXPENDITURES/EXPENSES</b>		
Service Operations:		
Professional Fees	\$ 301,728	\$ 3,122
Contracted Services	528,368	48,632
Purchased Wastewater Service	300,073	
Utilities	106,945	84,314
Repairs and Maintenance	213,767	98,545
Regional Water Authority Assessments	652,924	
Parks and Recreation	1,104,432	
Depreciation		
Other	250,970	240,915
Conveyance of Streets		
Capital Outlay		
Parks and Recreation	61,614	
Other Facilities	21,975	
Debt Service:		
Bond Principal		
Bond Interest		
BAN Interest		
Bond Issuance Costs	32,948	
<b>TOTAL EXPENDITURES/EXPENSES</b>	<u>\$ 3,575,744</u>	<u>\$ 475,528</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>\$ 669,254</u>	<u>\$ -0-</u>

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

<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
\$ 1,401,822	\$	\$ 2,444,207	\$ (5,195)	\$ 2,439,012
		1,001,460		1,001,460
		1,601,753	(300,073)	1,301,680
27,695		65,643	(719)	64,924
		90,906		90,906
		109,162		109,162
		737,987		737,987
2,904	6,833	12,979		12,979
75		95,758		95,758
<u>\$ 1,432,496</u>	<u>\$ 6,833</u>	<u>\$ 6,159,855</u>	<u>\$ (305,987)</u>	<u>\$ 5,853,868</u>
\$ 6,246	\$	\$ 311,096	\$	\$ 311,096
51,194		628,194		628,194
		300,073	(300,073)	
		191,259		191,259
		312,312		312,312
		652,924		652,924
		1,104,432		1,104,432
			979,460	979,460
11,899	576	504,360		504,360
			2,101,912	2,101,912
		61,614	(61,614)	
	6,624,282	6,646,257	(6,646,257)	
925,000		925,000	(925,000)	
615,399		615,399	80,429	695,828
	7,388	7,388		7,388
	243,558	276,506		276,506
<u>\$ 1,609,738</u>	<u>\$ 6,875,804</u>	<u>\$ 12,536,814</u>	<u>\$ (4,771,143)</u>	<u>\$ 7,765,671</u>
<u>\$ (177,242)</u>	<u>\$ (6,868,971)</u>	<u>\$ (6,376,959)</u>	<u>\$ 6,376,959</u>	<u>\$ -0-</u>

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



**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT OF**  
**REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>General Fund</u>	<u>Special Revenue Fund</u>
<b>OTHER FINANCING SOURCES (USES)</b>		
Transfers In (Out)	\$ 26,027	\$
Long-Term Debt Issued		
Bond Discount		
Developer Advances		
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>\$ 26,027</u>	<u>\$ -0-</u>
<b>NET CHANGE IN FUND BALANCES</b>	\$ 695,281	\$ -0-
<b>CHANGE IN NET POSITION</b>		
<b>FUND BALANCES(DEFICIT)/NET POSITION -</b>		
<b>JANUARY 1, 2015</b>	<u>1,209,268</u>	<u></u>
<b>FUND BALANCES/NET POSITION -</b>		
<b>DECEMBER 31, 2015</b>	<u><u>\$ 1,904,549</u></u>	<u><u>\$ -0-</u></u>

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

<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
\$	\$	\$	\$	\$
210,284	(26,027)			
	4,249,716	4,460,000	(4,460,000)	
	(77,317)	(77,317)	77,317	
	5,554,888	5,554,888	(5,554,888)	
<u>\$ 210,284</u>	<u>\$ 9,701,260</u>	<u>\$ 9,937,571</u>	<u>\$ (9,937,571)</u>	<u>\$ -0-</u>
\$ 33,042	\$ 2,832,289	\$ 3,560,612	\$ (3,560,612)	\$
			(1,911,803)	(1,911,803)
<u>900,087</u>	<u>(786,352)</u>	<u>1,323,003</u>	<u>3,045,071</u>	<u>4,368,074</u>
<u>\$ 933,129</u>	<u>\$ 2,045,937</u>	<u>\$ 4,883,615</u>	<u>\$ (2,427,344)</u>	<u>\$ 2,456,271</u>

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

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF  
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2015**

Net Change in Fund Balances - Governmental Funds	\$	3,560,612
--------------------------------------------------	----	-----------

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

Governmental funds report tax revenues when collected. However, in the government-wide financial statements, revenues are recorded in the accounting period for which the taxes are levied.		(5,195)
---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--	---------

Governmental funds report penalty and interest on delinquent property taxes when collected. However, in the government-wide financial statements, revenues are recorded when the penalty and interest are assessed.		(719)
---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--	-------

Governmental funds do not account for depreciation. However, in the government-wide financial statements, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.		(979,460)
---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--	-----------

Governmental funds report capital asset costs as expenditures in the period purchased. However, in the government-wide financial statements, capital assets are increased by new purchases that meet the District's threshold for capitalization, and are owned and maintained by the District. All other capital assets purchases are expensed in the Statement of Activities.		4,605,959
---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--	-----------

Governmental funds report principal payments on long-term debt as expenditures. However, in the government-wide financial statements, principal payments decrease long-term liabilities and the Statement of Activities is not affected.		925,000
------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--	---------

Governmental funds report interest payments on long-term debt as expenditures in the year paid. However, in the government-wide financial statements, interest is accrued on the long-term debt through fiscal year-end and the current amortization of bond discounts and bond premiums is added to interest expense.		(80,429)
------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--	----------

Governmental funds report bond proceeds as other financing sources. Issued bonds increase long-term liabilities in the government-wide financial statements and the Statement of Activities is not affected.		(4,460,000)
--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--	-------------

Governmental funds report developer advances as other financing sources. However, in the Statement of Net Position, developer advances, net any amount paid to the developer, are recorded as a liability.		(5,554,888)
------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--	-------------

Governmental funds report bond discounts as other financing uses in the year paid. However, in the government-wide statements, bond discounts are amortized over the life of the bonds and the current year amortized portion is added to interest expense.		77,317
-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--	--------

Change in Net Position - Governmental Activities	\$	(1,911,803)
--------------------------------------------------	----	-------------

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

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**NOTE 1. CREATION OF DISTRICT**

Norchester Municipal Utility District, located in Harris County, Texas (the "District"), was created by Acts of the 60th Legislature of the State of Texas, Regular Session, 1967 under Chapter 51 of the Texas Water Code. On June 6, 1979, the District was converted to a municipal utility district and became Northampton Municipal Utility District by order of the Texas Department of Water Resources, currently the Texas Commission on Environmental Quality (the "Commission"). Pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, wastewater service, storm sewer drainage, irrigation, solid waste collection and disposal, including recycling, and to construct and maintain parks and recreational facilities for the residents of the District. The District is also empowered to contract for or employ its own peace officers with powers to make arrests and to establish, operate and maintain a fire department to perform all fire-fighting activities within the District. The Board of Directors held its first meeting in 1967, and the first bonds were sold on March 1, 1968.

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES**

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

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

The District has entered into an agreement with Oakmont Public Utility District for the expansion and operation of a wastewater treatment plant. The District has oversight responsibility for the wastewater treatment plant. Additional disclosure is provided in Note 9.

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**NOTE 2.      SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Financial Statement Presentation

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

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

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

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

Government-Wide Financial Statements

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

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

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**NOTE 2.      SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Financial Statement Presentation (Continued)

Government-Wide Financial Statements (Continued)

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

Fund Financial Statements

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

Governmental Funds

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

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

Special Revenue Fund - To account for the financial activities of the jointly-owned wastewater treatment plant.

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

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

Basis of Accounting

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

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**NOTE 2.      SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Basis of Accounting (Continued)

Property taxes considered available by the District and included in revenue include the 2014 tax levy collections during the period October 1, 2014, to December 31, 2015, and taxes collected from January 1, 2015, to December 31, 2015, for all prior tax levies. The 2015 tax levy has been fully deferred to meet the District's planned expenditures in the 2016 fiscal year.

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

Capital Assets

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

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

	<u>Years</u>
Buildings	40
Water System	7-45
Wastewater System	10-45
Drainage System	15-45
Recreation Facilities	10-40
All Other Equipment	3-20

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**NOTE 2.      SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Budgeting

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

Pensions

Payments are made into the social security system for the employees. See Note 11 for the District's defined contribution plan.

Measurement Focus

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

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

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

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

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



**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**NOTE 2.      SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Measurement Focus (Continued)

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

*Unassigned:* all other spendable amounts in the General Fund.

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

Accounting Estimates

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

**NOTE 3.      LONG-TERM DEBT**

	Series 2006	Park Series 2006
Amount Outstanding - December 31, 2015	\$ 300,000	\$ 135,000
Interest Rates	4.000%	3.900%
Maturity Dates - Beginning/Ending	March 1, 2016/2017	March 1, 2016/2017
Interest Payment Dates	March 1/September 1	March 1/September 1
Callable Dates	March 1, 2015*	March 1, 2015*
	Series 2010	Refunding Series 2010
Amount Outstanding - December 31, 2015	\$ 3,875,000	\$ 4,835,000
Interest Rates	3.250% - 5.000%	3.50% - 4.00%
Maturity Dates - Beginning/Ending	March 1, 2016/2018, 2021, 2025, 2028, 2030, 2031/2034	March 1, 2016/2027
Interest Payment Dates	March 1/September 1	March 1/September 1
Callable Dates	March 1, 2018*	March 1, 2018*

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**NOTE 3. LONG-TERM DEBT (Continued)**

	Series 2012	Refunding Series 2014	Series 2015
Amount Outstanding - December 31, 2015	\$ 2,175,000	\$ 4,260,000	\$ 4,460,000
Interest Rates	2.75% - 3.50%	2.7281%	2.00% - 3.75%
Maturity Dates – Beginning/Ending	March 1, 2028/2034, 2036	March 1, 2016/2030	March 1, 2017/2026, 2029, 2031, 2037, 2040
Interest Payment Dates	March 1/September 1	March 1/September 1	March 1/September 1
Callable Dates	March 1, 2020*	March 1, 2023*	March 1, 2023*

\* On any date thereafter, at a price equal to the principal amount thereof plus accrued interest to the date fixed for redemption, in whole or in part, at the option of the District, in such manner as the District may determine.

The Series 2010 term bonds maturing on March 1, 2021, 2025, 2028 and 2030 are subject to mandatory redemption by lot or other customary random selection method beginning March 1, 2019, 2022, 2026, and 2029, respectively.

The Series 2012 term bonds maturing on March 1, 2036 are subject to mandatory redemption by lot or other customary random selection methods beginning March 1, 2035.

The Series 2015 term bonds maturing on March 1, 2029, 2031, 2037, and 2040 are subject to mandatory redemption by lot or other customary random selection methods beginning March 1, 2027, 2030, 2036, and 2038, respectively.

The following is a summary of transactions regarding the changes in the long-term liabilities for the year ended December 31, 2015:

	January 1, 2015	Additions	Retirements	December 31, 2015
Bonds Payable	\$ 16,505,000	\$ 4,460,000	\$ 925,000	\$ 20,040,000
Unamortized Discounts	(273,988)	(77,317)	(32,291)	(319,014)
Unamortized Premiums	352,652		28,971	323,681
Bonds Payable, Net	<u>\$ 16,583,664</u>	<u>\$ 4,382,683</u>	<u>\$ 921,680</u>	<u>\$ 20,044,667</u>
		Amount Due Within One Year		\$ 720,000
		Amount Due After One Year		<u>19,324,667</u>
		Bonds Payable, Net		<u>\$ 20,044,667</u>

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**NOTE 3. LONG-TERM DEBT (Continued)**

As of December 31, 2015, the District had authorized but unissued bonds in the amount of \$34,480,000 for utility facilities and refundings; \$41,000,000 for utility facilities and refundings in the defined area; and \$17,000,000 for roads in the defined area.

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 720,000	\$ 706,593	\$ 1,426,593
2017	860,000	679,009	1,539,009
2018	885,000	649,545	1,534,545
2019	790,000	621,769	1,411,769
2020	815,000	595,449	1,410,449
2021-2025	4,615,000	2,535,455	7,150,455
2026-2030	4,180,000	1,785,115	5,965,115
2031-2035	4,975,000	923,653	5,898,653
2036-2040	2,200,000	141,514	2,341,514
	<u>\$ 20,040,000</u>	<u>\$ 8,638,102</u>	<u>\$ 28,678,102</u>

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

During the year ended December 31, 2015, the District levied a District-wide ad valorem debt service tax at the rate of \$0.36 per \$100 of assessed valuation, which resulted in a tax levy of \$1,814,331 on the adjusted taxable valuation of \$503,980,879 for the 2015 tax year. The bond orders require the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. See Note 7 for maintenance tax levy.

Defined Area

Pursuant to the provisions of Subchapter J of Chapter 54 of the Texas Water Code, as amended, the District is authorized to define areas or designate certain property of the District to pay for improvements, facilities or services that primarily benefit that area. On August 20, 2012, the District approved the creation of a defined area encompassing approximately 439.69 acres (the "Defined Area").

At an election within the District on November 6, 2012 the voters authorized \$41,000,000 principal amount of bonds to finance water, wastewater and drainage improvements within the Defined Area and \$17,000,000 principal amount of bonds to finance road improvements within the Defined Area. The District currently levies a maintenance tax of \$0.64 per \$100 of assessed valuation for property within the Defined Area, in addition to the District's debt service and maintenance tax rates applicable to the remainder of the District. None of the Defined Area bonds have been issued to date. Any bonds issued for the Defined Area shall be payable solely from a tax levied within the boundaries of the Defined Area and not on any other part of the District.

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**NOTE 3. LONG-TERM DEBT (Continued)**

The District's tax calendar is as follows:

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

**NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS**

- A. The District shall maintain insurance on the system of a kind and in an amount which usually would be carried by municipal corporations and political subdivisions in Texas operating facilities, but considering any governmental immunities to which the District may be entitled. The District has property coverage of \$18,587,000, scheduled equipment coverage of \$27,000 and boiler and machinery coverage of \$18,587,000. In addition, the District has \$3,000,000 of general liability coverage, \$1,000,000 of automobile liability coverage, \$1,000,000 of commercial umbrella liability and \$1,000,000 of pollution liability coverage.
- B. The bond orders state that any profits realized from or interest accruing on investments shall belong to the fund from which the monies for such investments were taken; provided, however, that at the discretion of the Board of Directors the profits realized from and interest accruing on investments made from any fund may be transferred to the Debt Service Fund.
- C. The bond orders state that the District is required by the Securities and Exchange Commission to provide annual continuing disclosure of certain general financial information and operating data to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system. This information, along with the audited annual financial statements, is to be provided within six months after the end of each fiscal year.
- D. The District has covenanted that it will take all necessary steps to comply with the requirement that rebatable arbitrage earnings on the investment of the gross proceeds of the bonds, within the meaning of section 148(f) of the Internal Revenue Code, be rebated to the federal government. The minimum requirement for determination of the rebatable amount is on each 5<sup>th</sup> year anniversary of each issue.

In compliance with this covenant, the 5<sup>th</sup> year arbitrage rebate reports were completed for the Series 2006 Bonds, the Series 2006 Park Bonds, the Series 2010 Bonds, and the Series 2010 Refunding Bonds. The reports reflect that the District did not have a rebate obligation to the federal government on these issues.

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

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

- E. In accordance with the Series 2015 bond order, a portion of the bond proceeds were deposited into the Debt Service Fund and reserved for the payment of bond interest during the construction period. This bond interest reserved is reduced as the interest is paid. Transactions for the current year are summarized as follows:

Bond Interest Reserve – January 1, 2015	\$ -0-
Add: Series 2015 Capitalized Interest	210,284
Less: Series 2015 Interest	<u>52,096</u>
Bond Interest Reserve – December 31, 2015	<u>\$ 158,188</u>

**NOTE 5. DEPOSITS AND INVESTMENTS**

Deposits

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

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District's bank deposits was \$6,209,643 and the bank balance was \$6,411,212. Of the bank balance, \$1,925,159 was covered by federal depository insurance and the balance was covered by collateral pledged in the name of the District and held in a third-party depository.

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

	Cash	Certificates of Deposit	Total
GENERAL FUND	\$ 2,885,593	\$ 490,000	\$ 3,375,593
SPECIAL REVENUE FUND	68,124		68,124
DEBT SERVICE FUND	645,409	490,000	1,135,409
CAPITAL PROJECTS FUND	<u>1,630,517</u>		<u>1,630,517</u>
TOTAL DEPOSITS	<u>\$ 5,229,643</u>	<u>\$ 980,000</u>	<u>\$ 6,209,643</u>

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**NOTE 5. DEPOSITS AND INVESTMENTS (Continued)**

Investments

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

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

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**NOTE 5. DEPOSITS AND INVESTMENTS (Continued)**

Investments (Continued)

All investments are recorded at cost, which the District considers to be fair value. As of December 31, 2015, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities in Years		
		Less Than 1	1-5	6-10
<u>GENERAL FUND</u>				
Certificates of Deposit	\$ 490,000	\$ 490,000	\$	\$
<u>DEBT SERVICE FUND</u>				
Certificates of Deposit	<u>490,000</u>	<u>490,000</u>		
TOTAL INVESTMENTS	\$ 980,000	\$ 980,000	\$ - 0 -	\$ - 0 -

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At December 31, 2015, the District managed credit risk by investing in certificates of deposit with balances below FDIC coverage.

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

Restrictions

All cash and investments of the Special Revenue Fund are restricted for wastewater treatment plant operations. All cash and investments of the Debt Service Fund are restricted for the payment of debt service and the cost of assessing and collecting taxes. All cash and investments of the Capital Projects Fund are restricted for the purchase or construction of capital assets.

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**NOTE 6. CAPITAL ASSETS**

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

	January 1, 2015	Increases	Decreases	December 31, 2015
<b>Capital Assets Not Being Depreciated</b>				
Land and Land Improvements	\$ 1,775,875	\$ 163,173	\$ 2,600	\$ 1,936,448
Construction in Progress	1,496,183	9,128,811	3,254,229	7,370,765
<b>Total Capital Assets Not Being Depreciated</b>	<b>\$ 3,272,058</b>	<b>\$ 9,291,984</b>	<b>\$ 3,256,829</b>	<b>\$ 9,307,213</b>
<b>Capital Assets Subject to Depreciation</b>				
Meeting and Recreation Facilities	\$ 4,252,536	\$ 51,328	\$	\$ 4,303,864
Water System	7,759,046	802,531		8,561,577
Wastewater System	13,857,518	754,230		14,611,748
Drainage	2,250,224	1,485,568		3,735,792
Equipment	99,392			99,392
<b>Total Capital Assets Subject to Depreciation</b>	<b>\$ 28,218,716</b>	<b>\$ 3,093,657</b>	<b>\$ - 0 -</b>	<b>\$ 31,312,373</b>
<b>Less Accumulated Depreciation</b>				
Meeting and Recreation Facilities	\$ 2,130,470	\$ 256,888	\$	\$ 2,387,358
Water System	3,868,017	281,130		4,149,147
Wastewater System	3,927,024	364,931		4,291,955
Drainage	328,660	72,369		401,029
Equipment	94,475	4,142		98,617
<b>Total Accumulated Depreciation</b>	<b>\$ 10,348,646</b>	<b>\$ 979,460</b>	<b>\$ - 0 -</b>	<b>\$ 11,328,106</b>
<b>Total Depreciable Capital Assets, Net of Accumulated Depreciation</b>	<b>\$ 17,870,070</b>	<b>\$ 2,114,197</b>	<b>\$ - 0 -</b>	<b>\$ 19,984,267</b>
<b>Total Capital Assets, Net of Accumulated Depreciation</b>	<b>\$ 21,142,128</b>	<b>\$ 11,406,181</b>	<b>\$ 3,256,829</b>	<b>\$ 29,291,480</b>

**NOTE 7. MAINTENANCE TAX**

The voters of the District have approved the levy and collection of a maintenance tax not to exceed \$0.25 per \$100 of assessed valuation of taxable property within the District. During the fiscal year ended December 31, 2015, the District levied an ad valorem maintenance tax at the rate of \$0.25 per \$100 of assessed valuation, which resulted in a tax levy of \$1,259,952 on the adjusted taxable valuation of \$503,980,879 for the 2015 tax year. This maintenance tax is to be used by the General Fund to pay expenditures of operating the District's waterworks and wastewater system.

Defined Area

Pursuant to the provisions of Subchapter J of Chapter 54 of the Texas Water Code, as amended, the District is authorized to define areas or designate certain property of the District to pay for improvements, facilities or services that primarily benefit that area. On August 20, 2012, the District approved the creation of a defined area encompassing approximately 439.69 acres (the "Defined Area") (See Note 3).



**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**NOTE 7. MAINTENANCE TAX (Continued)**

Defined Area (Continued)

The District is authorized to levy a maintenance tax of \$0.64 per \$100 of assessed valuation for property within the Defined Area, in addition to the District's debt service and maintenance tax rates applicable to the remainder of the District. During the fiscal year ended December 31, 2015, the District levied an ad valorem maintenance tax of \$0.64 per \$100 of assessed valuation for the Defined Area, which resulted in a tax levy of \$353,976 on the adjusted valuation of \$55,308,676 for the 2015 tax year. These funds are deposited into a special interest and sinking fund account to be used for future debt service on Defined Area Bonds to be issued by the District in the future.

**NOTE 8. WATER SUPPLY AGREEMENTS**

Encanto Real Utility District

On September 24, 1985, the District entered into an agreement with Encanto Real Utility District ("Encanto") to provide emergency water supply services. All necessary costs of constructing the interconnect, including a two-way meter for the purpose of measuring the water provided, shall be borne by Encanto. Each district is responsible for maintaining the respective interconnect lines within their boundaries. The agreement was amended on August 21, 2000, and December 20, 2011. The charge for service to either district is \$1.25 per thousand gallons of water delivered plus the North Harris County Regional Water Authority pumpage fee. During the current fiscal year, the District billed Encanto \$19,573 for water used plus \$31,316 for regional water authority fees. The agreement shall be in force until September 24, 2020.

Oakmont Public Utility District

On February 17, 1992, the District entered into an emergency water supply agreement with Oakmont Public Utility District ("Oakmont") so that each district will have an alternative water supply available for emergencies commencing at the time each district has its own operational water production and distribution system. The receiving district will pay the supplying district for the water supplied, as estimated by the providing district's operator, at a rate equal to 150 percent of the supplying districts direct cost of producing water. Each district is responsible for maintaining that segment of the interconnect line that is located within its boundaries. The agreement was amended on November 13, 2008, to change the point of connection between the districts. The term of this agreement commenced in February of 2009 and continues for a term of 20 years.

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**NOTE 8. WATER SUPPLY AGREEMENTS (Continued)**

Harris County Municipal Utility District No. 1

On April 9, 2013, the District entered into an agreement with Harris County Municipal Utility District No. 1 ("MUD 1") to provide emergency water supply services. All necessary costs of constructing the interconnect shall be the sole responsibility of MUD 1. The parties agree that a two-way meter will not be necessary at this time and that the interconnection will be controlled by a valve and lock box which the operators for both parties will have a key. Each district is responsible for maintaining the respective interconnect lines within their boundaries. The charge for service to either district is \$1.00 per thousand gallons of water delivered plus the North Harris County Regional Water Authority pumpage fee. This agreement shall be in force for a period of 40 years.

**NOTE 9. WASTEWATER TREATMENT CONTRACTS**

On January 20, 2014, the District entered into a utility development and service agreement with Klein Independent School District ("Klein ISD"). The District agreed to furnish wastewater treatment capacity not to exceed 70,000 gallons per day average daily flow, to be charged pursuant to the District's rate order. The term of the contract is 40 years, expiring on January 20, 2054.

On July 2, 1984, the District entered into an agreement, and an amended agreement, with Oakmont Public Utility District ("Oakmont") whereby the District agreed to expand the capacity in its existing permanent sewage treatment plant to provide 232,220 gallons per day capacity to Oakmont. Each district agreed to pay its share of construction costs for expanding the plant based upon its pro-rata share of reserved capacity in the total capacity in the expansion. On June 15, 1993, the districts entered into a waste disposal contract whereby Oakmont agreed to sell the District an additional 97,220 gpd capacity in the permanent wastewater treatment plant for \$279,994. The First Amendment to the contract was entered into as of October 8, 2009, to provide for the capacity owned by each participant after the completion of the 400,000 gallon per day expansion. The plant was expanded from 750,000 gallons per day to 1,150,000 gallons per day. The Second Amendment to the contract was entered into as of February 16, 2015, to re-rate the existing 1,150,000 gallons per day to 950,000 gallons per day. The District will cause to be constructed a 450,000 gallon per day expansion thus increasing the capacity in the plant from 950,000 gallons per day to 1,400,000 gallons per day.

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**NOTE 9. WASTEWATER TREATMENT CONTRACTS (Continued)**

The District exercises oversight responsibility for the operations of the plant. Fixed operational costs such as electricity, property insurance, permit renewal fees and costs, capital costs and laboratory testing fees are allocated based upon each district's pro-rata share of reserved capacity. All other costs of operations are allocated based upon the volume of wastewater delivered to the plant for treatment (measured according to the total water usage by each district as calculated based upon meter readings). Billings are issued on a monthly basis. In addition, the contract requires the establishment of an operating reserve equal to two month's operation and maintenance costs; such reserve is allocated based upon the existing budget and each district's estimated pro-rata share of such budget. The term of the agreement is 40 years.

	Owned Capacity in Gallons Per Day	Owned Capacity Percentage
Northampton Municipal Utility District	590,000	62.17
Oakmont Public Utility District	<u>360,000</u>	<u>37.83</u>
<b>TOTAL</b>	<u>950,000</u>	<u>100.00</u>

The financial activities of the joint venture are accounted for in the Special Revenue Fund of the District. Separate financial statements are not issued on the joint venture. The following is a summary of the billing activity.

	The District	Oakmont	Total
Due (to) from Participants			
at January 1, 2015	\$ 35,956	\$ 14,141	\$ 50,097
Operating Costs	300,118	175,410	475,528
Receipts and Credits	(321,015)	(163,926)	(484,941)
Change in Reserve	<u>12,600</u>	<u>(6,300)</u>	<u>6,300</u>
Due (to) from Participants			
at December 31, 2015	<u>\$ 27,659</u>	<u>\$ 19,325</u>	<u>\$ 46,984</u>
Two Month Reserve	<u>\$ 67,900</u>	<u>\$ 23,500</u>	<u>\$ 91,400</u>

The District is in the process of expanding its wastewater treatment capacity to serve a number of new developments within its boundaries. However, the need for additional capacity is expected to precede the completion of the expansion. On July 1, 2013, the District entered into a lease agreement with Oakmont, in which Oakmont agrees to lease the District 42,000 gallons per day of wastewater treatment capacity until completion of the expansion or July 1, 2016, (whichever occurs first) at which time this agreement will terminate. The District will make monthly lease payments to Oakmont in the amount of \$946. In addition to the monthly lease payment, the District will pay monthly operating charges attributable to the leased capacity. During the current fiscal year the District recorded an expenditure of \$11,355 for monthly lease payments.

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**NOTE 10. ESCROW REQUIREMENTS**

In compliance with the Commission's order dated May 2, 2006, the District placed \$1,375,030 from the Series 2006 Bond proceeds into an escrow account. On August 21, 2006, the Commission approved the release of \$75,000 from escrow for financial advisor fees. On June 16, 2009, the Commission approved the release of \$58,080 from escrow to partially reimburse Oakmont Public Utility District for costs associated with the existing water line interconnect. The Commission also approved a change in project scope of \$437,020 to fund the District's water well no. 2 project and the balance of the costs associated with the existing water line interconnect. On October 29, 2009, the Commission approved the release of \$1,236,950 from escrow: \$1,064,800 for wastewater treatment plant modifications and improvements and \$172,150 for the Ditch M-102 channel improvements. At December 31, 2015, \$5,000 of surplus funds is required to remain in escrow.

In compliance with the Commission's order dated July 21, 2006, the District placed \$1,488,675 from the Series 2006 Park Bond proceeds into an escrow account. On February 26, 2007, the Commission approved the release of \$44,375 from escrow for legal fees. On November 12, 2008, the Commission approved the release of \$150,000 from escrow for land acquisition for a general expansion of the District's Inway recreational facility which includes additional parking, greenspace, trails, etc. On July 15, 2010, the Commission approved the release of \$291,500 for Inway Park Improvements, and a change in project scope to reallocate \$40,610 to finance a portion of the Inway Park Improvements. On January 26, 2012, the Commission approved the release of \$464,286 from escrow and a change in project scope: \$269,500 plus \$81,357 for Northcrest Park Improvements and \$113,429 for West Park Improvements. On June 11, 2013, the Commission approved the release of \$105,513 from escrow for Northcrest Park improvements. On July 12, 2013, the Commission approved the release of \$24,250 from escrow for the West Park improvements. At December 31, 2015, \$368,141 remains in escrow from the 2006 Park Bonds.

The total escrow requirement at December 31, 2015, is \$373,141.

**NOTE 11. DEFINED CONTRIBUTION PLAN**

The District has established a SIMPLE Individual Retirement Account ("IRA") plan for its employees. The plan became effective April 1, 2000, and is currently managed by AIM Management. Eligible employees may contribute up to the maximum amount allowed by the Internal Revenue Service for any calendar year through salary reduction elections. For each calendar year, the District will contribute a matching contribution to each eligible employee's IRA account equal to the employee's salary reduction contributions up to a limit of 3% of the employee's compensation for the calendar year. All contributions to the plan are immediately vested with the employee. For the year ended December 31, 2015, the eligible employees contributed \$14,765 to the plan and the District contributed \$6,771.

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**NOTE 12. NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY**

The District is located within the boundaries of the North Harris County Regional Water Authority (the "Authority"). The Authority was created under Article 16, Section 59 of the Texas Constitution by House Bill 2965 (the "Act"), as passed by the 75<sup>th</sup> Texas Legislature, in 1999. The Act empowers the Authority to provide for the conservation, preservation, protection, recharge and prevention of waste of groundwater, and for the reduction of groundwater withdrawals. The Authority is overseeing that its participants comply with the Harris-Galveston Subsidence District pumpage requirements.

The Authority charges a fee, based on the amount of water pumped from a well, to the owner of wells located within the boundaries of the Authority, unless exempted. This fee enables the Authority to fulfill its purpose and regulatory functions. The fee for 2015 was \$2.00 per 1,000 gallons of water pumped from each well. The District recorded an expenditure of \$652,924 for fees assessed by the Authority during the current fiscal year. The District collects fees from its customers as a part of its monthly billings to cover this regulatory assessment.

**NOTE 13. AGREEMENT FOR MANAGEMENT AND OPERATION OF OAKMONT PARKS AND RECREATIONAL FACILITIES**

On December 9, 2006, the District entered into an agreement with Oakmont Public Utility District ("Oakmont") to manage the Oakmont recreational facilities. Oakmont shall impose and collect the same recreation fee set by the District and shall make the recreation fee mandatory for each occupied resident in Oakmont. Oakmont will furnish all consumable supplies needed to operate the facilities. The District will furnish all equipment, tools, appliances and labor necessary for proper maintenance and repairs. The term of this agreement was for one year, subject to renewal. On October 13, 2007, the agreement was amended to extend the term of the agreement for one year, and to provide for automatic renewal of the agreement on the effective date for successive one year terms unless terminated earlier by written notice of either party at least 60 days prior to the anniversary of the effective date. The second amendment effective January 1, 2012 and the third amendment, effective January 1, 2015, set the fees to be paid by Oakmont. During the current fiscal year, the District recorded \$78,248 of revenue related to this agreement.

**NOTE 14. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, and natural disasters. The District participates in the Texas Municipal League Intergovernmental Risk Pool ("TML") to provide automobile liability, automobile physical damage coverage and workers compensation coverage. The District, along with other participating entities, contributes annual amounts determined by TML's management. As claims arise they are submitted and paid by TML. The District purchased commercial insurance for all other coverage. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**NOTE 15. INTERFUND PAYABLES AND RECEIVABLES**

The General Fund owes the Debt Service Fund (Tax Account) \$117,998 for maintenance tax collections. The General Fund fund owes the Special Revenues Fund \$27,659 for wastewater treatment plant operations. The General Fund owes the Capital Projects Fund \$798,283 for Water Plant No. 3 construction costs pending the expenditures of these funds.

**NOTE 16. USE OF SURPLUS FUNDS AND TRANSFERS**

On September 23, 2015, the Commission approved a change in project scope to relocate a total of \$696,000 originally designated for construction costs associated with Wastewater Treatment Plant No. 2 – Phase 1 and Water Plant No. 2 Hydropneumatic Tank Addition, and the use of \$274,966 in surplus funds for costs associated with Water Plant No. 3 land purchase, engineering, design fees and a portion of construction contingency for Water Plant No. 3.

The District transferred \$26,027 of Series 2015 bond proceeds from the Capital Projects Fund to the General Fund for amounts paid in prior years for bond issuance costs.

**NOTE 17. ENFORCEMENT ACTION**

The District received a notice of violation from the Commission on or about December 20, 2010, for failure to comply with permitted effluent limits and failure to submit a complete discharge monitoring report for the period ended June 30, 2010. The District was assessed an administrative penalty of \$36,465 by the Commission. The penalty amount was shared with Oakmont pursuant to the ownership percentages. The Commission agreed to offset the penalty by the District's completion of a Supplemental Environmental Project for the Spring Creek Greenway Project. In 2011, the Commission accepted the Supplemental Environmental Project and the Agreed Order administrative penalty was satisfied. The Agreed Order will expire August 13, 2016.

**NOTE 18. BOND ANTICIPATION NOTE**

On August 18, 2014, the District issued a bond anticipation note in a private placement to Regions Bank in the amount of \$2,930,000. The note carried an interest rate of 0.885%. Proceeds were used for the funding of the Wastewater Treatment Plant expansion and Water Plant No. 2 hydro tank projects. The note was fully retired on April 14, 2015 from proceeds of the Series 2015 bond issue.

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**NOTE 19. BOND SALE**

On April 14, 2015, the District issued \$4,460,000 of Series 2015 Unlimited Tax Bonds. Proceeds from the bonds were used to redeem a bond anticipation note (BAN), the proceeds of which were used to pay for the expansion of the District's Wastewater Treatment Plant; the addition of a hydropneumatic tank to Water Plant No. 2 and costs for engineering fees and contingencies associated with these projects. In addition, the proceeds of the bonds include 18 months of capitalized interest and costs of issuing the BAN and the bonds.

**NOTE 20. UNREIMBURSED COSTS**

The District has entered into development financing agreements with developers within the District. The agreements call for the developers to fund costs associated with water, sewer, and drainage facilities until such time as the District can sell bonds. As of December 31, 2015, the District recorded an estimated liability of \$6,020,481 for completed projects and \$5,554,888 for advances for Wastewater Treatment Plant No. 2.

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2015**



**NORTHAMPTON MUNICIPAL UTILITY DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Original and Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>			
Property Taxes	\$ 900,000	\$ 1,042,385	\$ 142,385
Water Service	900,000	1,001,460	101,460
Wastewater Service	990,000	1,126,294	136,294
Penalty and Interest	27,000	37,948	10,948
Tap Connection and Inspection Fees	215,650	90,906	(124,744)
Facility Use Fees	109,200	109,162	(38)
Regional Water Authority Fees	750,000	737,987	(12,013)
Investment Revenues	2,100	3,173	1,073
Miscellaneous Revenues	100,600	95,683	(4,917)
<b>TOTAL REVENUES</b>	<u>\$ 3,994,550</u>	<u>\$ 4,244,998</u>	<u>\$ 250,448</u>
<b>EXPENDITURES</b>			
Services Operations:			
Professional Fees	\$ 234,750	\$ 301,728	\$ (66,978)
Contracted Services	556,020	528,368	27,652
Purchased Wastewater Service	331,800	300,073	31,727
Utilities	123,060	106,945	16,115
Repairs and Maintenance	243,000	213,767	29,233
Regional Water Authority Assessments	750,000	652,924	97,076
Parks and Recreation	1,094,960	1,104,432	(9,472)
Other	293,190	250,970	42,220
Capital Outlay:			
Parks and Recreation	40,000	61,614	(21,614)
Other		21,975	(21,975)
Debt Service:			
Bond Issuance Costs		32,948	(32,948)
<b>TOTAL EXPENDITURES</b>	<u>\$ 3,666,780</u>	<u>\$ 3,575,744</u>	<u>\$ 91,036</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>\$ 327,770</u>	<u>\$ 669,254</u>	<u>\$ 341,484</u>
<b>OTHER FINANCING SOURCES(USES)</b>			
Transfers In (Out)	<u>\$</u>	<u>\$ 26,027</u>	<u>\$ 26,027</u>
<b>NET CHANGE IN FUND BALANCE</b>	\$ 327,770	\$ 695,281	\$ 367,511
<b>FUND BALANCE - JANUARY 1, 2015</b>	<u>1,209,268</u>	<u>1,209,268</u>	
<b>FUND BALANCE - DECEMBER 31, 2015</b>	<u>\$ 1,537,038</u>	<u>\$ 1,904,549</u>	<u>\$ 367,511</u>

See accompanying independent auditor's report.

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
SPECIAL REVENUE FUND – WASTEWATER TREATMENT PLANT  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Original and Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>			
Wastewater Service	\$ 510,505	\$ 475,459	\$ (35,046)
Investment Revenues		69	69
<b>TOTAL REVENUES</b>	<u>\$ 510,505</u>	<u>\$ 475,528</u>	<u>\$ (34,977)</u>
<b>EXPENDITURES</b>			
Services Operations:			
Professional Fees	\$ 16,800	\$ 3,122	\$ 13,678
Contracted Services	51,000	48,632	2,368
Utilities	85,200	84,314	886
Repairs and Maintenance	96,000	98,545	(2,545)
Other	261,505	240,915	20,590
Capital Outlay			
<b>TOTAL EXPENDITURES</b>	<u>\$ 510,505</u>	<u>\$ 475,528</u>	<u>\$ 34,977</u>
<b>NET CHANGE IN FUND BALANCE</b>	\$ -0-	\$ -0-	\$ -0-
<b>FUND BALANCE - JANUARY 1, 2015</b>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>FUND BALANCE - DECEMBER 31, 2015</b>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

See accompanying independent auditor's report.

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**SUPPLEMENTARY INFORMATION REQUIRED BY THE**  
**WATER DISTRICT FINANCIAL MANAGEMENT GUIDE**  
**DECEMBER 31, 2015**

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**SERVICES AND RATES**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

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

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

**2. RETAIL SERVICE PROVIDERS**

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

Based on the rate order approved October 20, 2014.

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons over Minimum Use</u>	<u>Usage Levels</u>
WATER:	\$ 20.00	7,000	N	\$ 1.50 \$ 2.00 \$ 2.50 \$ 3.50 \$ 5.00	7,001 to 12,000 12,001 to 20,000 20,001 to 30,000 30,001 to 75,000 75,001 and over
WASTEWATER:	\$ 44.85 *		Y		
SURCHARGE:					
Regional Water Authority Fees				\$ 2.40	1,000 and over

District employs winter averaging for wastewater usage?          X    
Yes      No

Total monthly charges per 10,000 gallons usage: Water: \$24.50 Wastewater: \$44.85 Surcharge: \$24.00 Total: \$93.35

\* Includes garbage fee of \$17.50 and recycling fee of \$3.00.

See accompanying independent auditor's report.

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**SERVICES AND RATES**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

**2. RETAIL SERVICE PROVIDERS (Continued)**

**b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)**

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered			x 1.0	
≤¾"	<u>1,768</u>	<u>1,753</u>	x 1.0	<u>1,753</u>
1"	<u>93</u>	<u>92</u>	x 2.5	<u>230</u>
1½"	<u>1</u>	<u>1</u>	x 5.0	<u>5</u>
2"	<u>30</u>	<u>30</u>	x 8.0	<u>240</u>
3"			x 15.0	
4"	<u>1</u>	<u>1</u>	x 25.0	<u>25</u>
6"	<u>2</u>	<u>2</u>	x 50.0	<u>100</u>
8"	<u>3</u>	<u>3</u>	x 80.0	<u>240</u>
10"			x 115.0	
Total Water Connections	<u><u>1,898</u></u>	<u><u>1,882</u></u>		<u><u>2,593</u></u>
Total Wastewater Connections	<u><u>1,841</u></u>	<u><u>1,825</u></u>	x 1.0	<u><u>1,825</u></u>

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

Gallons pumped into system:	336,251,000	Water Accountability Ratio: 92.5% (Gallons billed and sold/Gallons pumped and purchased)
Gallons billed to customers:	296,065,000	
Gallons sold to Encanto Real	15,074,000	

See accompanying independent auditor's report.

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**SERVICES AND RATES**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

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

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

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

**5. LOCATION OF DISTRICT:**

Is the District located entirely within one county?

Yes ☒ No ☐

County or Counties in which District is located:

Harris County, Texas

Is the District located within a city?

Entirely ☐ Partly ☐ Not at all ☒

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

Entirely ☒ Partly ☐ Not at all ☐

ETJ's in which District is located:

City of Houston, Texas

Are Board Members appointed by an office outside the District?

Yes ☐ No ☒

See accompanying independent auditor's report.

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**GENERAL FUND EXPENDITURES**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

<b>PROFESSIONAL FEES:</b>	
Auditing	\$ 23,500
Engineering	141,271
Legal	<u>136,957</u>
<b>TOTAL PROFESSIONAL FEES</b>	<b>\$ 301,728</b>
 <b>PURCHASED SERVICES FOR RESALE:</b>	
Purchased Wastewater Service	<u>\$ 300,073</u>
 <b>CONTRACTED SERVICES:</b>	
Bookkeeping	\$ 28,601
Operations and Billing	<u>92,323</u>
<b>TOTAL CONTRACTED SERVICES</b>	<b>\$ 120,924</b>
 <b>UTILITIES:</b>	
Electricity	\$ 105,047
Telephone	<u>1,898</u>
<b>TOTAL UTILITIES</b>	<b>\$ 106,945</b>
 <b>REPAIRS AND MAINTENANCE</b>	<b>\$ 213,767</b>
 <b>ADMINISTRATIVE EXPENDITURES:</b>	
Community Education	\$ 5,381
Director Fees	22,200
Dues and Registration Fees	2,059
Insurance	47,716
Office Supplies and Postage	7,890
Travel and Meetings	5,248
Website	1,521
Other	<u>10,739</u>
<b>TOTAL ADMINISTRATIVE EXPENDITURES</b>	<b>\$ 102,754</b>
 <b>CAPITAL OUTLAY:</b>	
Capitalized Assets	\$ 21,975
Expenditures Not Capitalized	<u>          </u>
<b>TOTAL CAPITAL OUTLAY</b>	<b>\$ 21,975</b>

See accompanying independent auditor's report.

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**GENERAL FUND EXPENDITURES**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

TAP CONNECTIONS	\$	<u>49,351</u>		
SOLID WASTE DISPOSAL	\$	<u>407,444</u>		
SECURITY	\$	<u>-0-</u>		
PARKS AND RECREATION				
Personnel (Including Benefits)	\$	876,899		
Repairs and Maintenance		152,707		
Truck		8,642		
Utilities		66,184		
Capital Outlay		<u>61,614</u>		
TOTAL PARKS AND RECREATION	\$	<u>1,166,046</u>		
OTHER EXPENDITURES:				
Chemicals	\$	29,584		
Laboratory Fees		18,818		
Permit Fees		3,676		
Reconnection Fees		11,932		
Inspection Fees		13,090		
Regional Water Authority Assessments		652,924		
TCEQ Regulatory Assessment		10,410		
Wastewater Treatment Capacity Lease		<u>11,355</u>		
TOTAL OTHER EXPENDITURES	\$	<u>751,789</u>		
DEBT SERVICE:				
Bond Issuance Costs		<u>32,948</u>		
TOTAL EXPENDITURES	\$	<u><u>3,575,744</u></u>		
Number of persons employed by the District	<u>11</u>	Full-Time	<u>11</u>	Part-Time*

\* During the summer months, part-time employees may be as many as 47.

See accompanying independent auditor's report.



**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**INVESTMENTS**  
**DECEMBER 31, 2015**

<u>Fund</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at End of Year</u>
<u>GENERAL FUND</u>					
Certificate of Deposit	XXXX5780	0.500%	04/19/16	\$ 245,000	\$ 245
Certificate of Deposit	XXXX0340	0.300%	06/21/16	245,000	18
TOTAL GENERAL FUND				<u>\$ 490,000</u>	<u>\$ 263</u>
<u>DEBT SERVICE FUND</u>					
Certificate of Deposit	XXXX1910	0.350%	02/24/16	\$ 245,000	\$
Certificate of Deposit	XXXX1535	0.400%	02/24/16	245,000	
TOTAL DEBT SERVICE FUND				<u>\$ 490,000</u>	<u>\$ - 0 -</u>
TOTAL - ALL FUNDS				<u>\$ 980,000</u>	<u>\$ 263</u>

See accompanying independent auditor's report.

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**TAXES LEVIED AND RECEIVABLE**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Maintenance Taxes</u>		<u>Debt Service Taxes</u>	
TAXES RECEIVABLE -				
JANUARY 1, 2015	\$ 837,222		\$ 1,162,889	
Adjustments to Beginning				
Balance	<u>5,136</u>	\$ 842,358	<u>7,396</u>	\$ 1,170,285
Original 2015 Tax Levy	\$ 1,269,910		\$ 1,566,535	
Adjustment to 2015 Tax Levy	<u>344,018</u>	<u>1,613,928</u>	<u>247,796</u>	<u>1,814,331</u>
TOTAL TO BE				
ACCOUNTED FOR		\$ 2,456,286		\$ 2,984,616
TAX COLLECTIONS:				
Prior Years	\$ 824,066		\$ 1,143,944	
Current Year	<u>378,081</u>	<u>1,202,147</u>	<u>312,335</u>	<u>1,456,279</u>
TAXES RECEIVABLE -				
DECEMBER 31, 2015		<u>\$ 1,254,139</u>		<u>\$ 1,528,337</u>
TAXES RECEIVABLE BY				
YEAR:				
2015	\$ 1,235,847		\$ 1,501,996	
2014	5,853		8,429	
2013	2,241		3,226	
2012	1,763		2,539	
2011	1,460		2,102	
2010	1,587		2,285	
2009	1,585		2,283	
2008	1,699		2,447	
2007	866		1,248	
2006	506		728	
2005	366		527	
2004	<u>366</u>		<u>527</u>	
TOTAL		<u>\$ 1,254,139</u>		<u>\$ 1,528,337</u>

See accompanying independent auditor's report.

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**TAXES LEVIED AND RECEIVABLE**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	2015	2014	2013	2012
<b>DISTRICT WIDE:</b>				
Land	\$ 127,603,417	\$ 79,957,275	\$ 57,926,244	\$ 58,607,793
Improvements	433,454,831	361,292,832	333,894,721	320,651,863
Personal Property	5,658,875	4,854,864	4,958,049	4,654,557
Exemptions	<u>(62,736,244)</u>	<u>(59,616,162)</u>	<u>(58,366,932)</u>	<u>(56,595,208)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 503,980,879</u>	<u>\$ 386,488,809</u>	<u>\$ 338,412,082</u>	<u>\$ 327,319,005</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.36	\$ 0.36	\$ 0.36	\$ 0.36
Maintenance ***	<u>0.25</u>	<u>0.25</u>	<u>0.25</u>	<u>0.25</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.61</u>	<u>\$ 0.61</u>	<u>\$ 0.61</u>	<u>\$ 0.61</u>
ADJUSTED TAX LEVY*	<u>\$ 3,074,284</u>	<u>\$ 2,357,582</u>	<u>\$ 2,064,314</u>	<u>\$ 1,996,646</u>
<b>DEFINED AREA :</b>				
PROPERTY VALUATIONS	<u>\$ 55,308,676</u>	<u>\$ 10,765,269</u>	<u>\$ 683,460</u>	<u>\$ - 0 -</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Maintenance***	<u>0.64</u>	<u>0.64</u>	<u>0.64</u>	<u></u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.64</u>	<u>\$ 0.64</u>	<u>\$ 0.64</u>	<u>\$ - 0 -</u>
ADJUSTED TAX LEVY*	<u>\$ 353,976</u>	<u>\$ 68,898</u>	<u>\$ 4,374</u>	<u>\$ - 0 -</u>
PERCENTAGE OF TOTAL TAXES COLLECTED TO TOTAL TAXES LEVIED	<u>20.14 %</u> **	<u>99.41 %</u>	<u>99.75 %</u>	<u>99.78 %</u>

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

\*\* The District is in the process of collecting.

\*\*\* District Wide – Maximum tax rate of \$0.25 approved by voters.  
Defined Area – Maximum tax rate of \$0.64 approved by voters on November 6, 2012.

See accompanying independent auditor's report.

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**DECEMBER 31, 2015**

S E R I E S - 2 0 0 6			
Due During Fiscal Years Ending December 31	Principal Due March 1	Interest Due March 1/ September 1	Total
2016	\$ 145,000	\$ 9,100	\$ 154,100
2017	155,000	3,100	158,100
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
	<u>\$ 300,000</u>	<u>\$ 12,200</u>	<u>\$ 312,200</u>

See accompanying independent auditor's report.

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**DECEMBER 31, 2015**

P A R K S E R I E S - 2 0 0 6			
Duc During Fiscal Years Ending December 31	Principal Duc March 1	Interest Duc March 1/ September 1	Total
2016	\$ 65,000	\$ 3,998	\$ 68,998
2017	70,000	1,365	71,365
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
	<u>\$ 135,000</u>	<u>\$ 5,363</u>	<u>\$ 140,363</u>

See accompanying independent auditor's report.

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**DECEMBER 31, 2015**

S E R I E S - 2 0 1 0			
Duc During Fiscal Years Ending December 31	Principal Duc March 1	Interest Duc March 1/ September 1	Total
2016	\$ 25,000	\$ 186,462	\$ 211,462
2017	25,000	185,619	210,619
2018	25,000	184,713	209,713
2019	50,000	183,150	233,150
2020	50,000	180,963	230,963
2021	50,000	178,775	228,775
2022	50,000	176,525	226,525
2023	50,000	174,212	224,212
2024	50,000	171,900	221,900
2025	50,000	169,588	219,588
2026	50,000	167,275	217,275
2027	50,000	164,962	214,962
2028	180,000	159,644	339,644
2029	185,000	150,971	335,971
2030	190,000	141,831	331,831
2031	645,000	121,478	766,478
2032	680,000	89,181	769,181
2033	715,000	55,178	770,178
2034	755,000	18,875	773,875
2035			
2036			
2037			
2038			
2039			
2040			
	<u>\$ 3,875,000</u>	<u>\$ 2,861,302</u>	<u>\$ 6,736,302</u>

See accompanying independent auditor's report.

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**DECEMBER 31, 2015**

REFUNDING SERIES - 2010			
Due During Fiscal Years Ending December 31	Principal Due March 1	Interest Due March 1/ September 1	Total
2016	\$ 460,000	\$ 180,700	\$ 640,700
2017	470,000	164,425	634,425
2018	485,000	146,500	631,500
2019	345,000	129,900	474,900
2020	365,000	115,700	480,700
2021	380,000	100,800	480,800
2022	400,000	85,200	485,200
2023	420,000	68,800	488,800
2024	440,000	51,600	491,600
2025	460,000	33,600	493,600
2026	300,000	18,400	318,400
2027	310,000	6,200	316,200
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
	<u>\$ 4,835,000</u>	<u>\$ 1,101,825</u>	<u>\$ 5,936,825</u>

See accompanying independent auditor's report.

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**DECEMBER 31, 2015**

S E R I E S - 2 0 1 2			
Duc During Fiscal Years Ending December 31	Principal Duc March 1	Interest Duc March 1/ September 1	Total
2016	\$	\$ 73,563	\$ 73,563
2017		73,562	73,562
2018		73,563	73,563
2019		73,562	73,562
2020		73,563	73,563
2021		73,562	73,562
2022		73,563	73,563
2023		73,562	73,562
2024		73,563	73,563
2025		73,562	73,562
2026		73,563	73,563
2027		73,562	73,562
2028	60,000	72,738	132,738
2029	55,000	71,156	126,156
2030	60,000	69,575	129,575
2031	60,000	67,850	127,850
2032	60,000	66,050	126,050
2033	65,000	64,175	129,175
2034	65,000	62,225	127,225
2035	855,000	46,287	901,287
2036	895,000	15,663	910,663
2037			
2038			
2039			
2040			
	<u>\$ 2,175,000</u>	<u>\$ 1,418,469</u>	<u>\$ 3,593,469</u>

See accompanying independent auditor's report.



**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**DECEMBER 31, 2015**

REFUNDING SERIES - 2014			
Due During Fiscal Years Ending December 31	Principal Due March 1	Interest Due March 1/ September 1	Total
2016	\$ 25,000	\$ 115,876	\$ 140,876
2017	25,000	115,194	140,194
2018	255,000	111,375	366,375
2019	270,000	104,213	374,213
2020	275,000	96,779	371,779
2021	290,000	89,073	379,073
2022	295,000	81,093	376,093
2023	305,000	72,908	377,908
2024	320,000	64,383	384,383
2025	335,000	55,449	390,449
2026	345,000	46,174	391,174
2027	355,000	36,625	391,625
2028	370,000	26,735	396,735
2029	390,000	16,368	406,368
2030	405,000	5,524	410,524
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
	<u>\$ 4,260,000</u>	<u>\$ 1,037,769</u>	<u>\$ 5,297,769</u>

See accompanying independent auditor's report.

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**DECEMBER 31, 2015**

S E R I E S - 2 0 1 5			
Duc During Fiscal Years Ending December 31	Principal Duc March 1	Interest Duc March 1/ September 1	Total
2016	\$	\$ 136,894	\$ 136,894
2017	115,000	135,744	250,744
2018	120,000	133,394	253,394
2019	125,000	130,944	255,944
2020	125,000	128,444	253,444
2021	130,000	125,731	255,731
2022	140,000	122,519	262,519
2023	145,000	118,956	263,956
2024	150,000	115,269	265,269
2025	155,000	111,262	266,262
2026	160,000	106,931	266,931
2027	170,000	102,181	272,181
2028	175,000	97,006	272,006
2029	180,000	91,681	271,681
2030	190,000	86,013	276,013
2031	200,000	79,919	279,919
2032	205,000	73,591	278,591
2033	215,000	66,894	281,894
2034	225,000	59,744	284,744
2035	230,000	52,206	282,206
2036	240,000	43,975	283,975
2037	250,000	35,094	285,094
2038	260,000	25,688	285,688
2039	270,000	15,750	285,750
2040	285,000	5,344	290,344
	<u>\$ 4,460,000</u>	<u>\$ 2,201,174</u>	<u>\$ 6,661,174</u>

See accompanying independent auditor's report.

**THIS PAGE INTENTIONALLY LEFT BLANK**

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**DECEMBER 31, 2015**

**ANNUAL REQUIREMENTS**  
**FOR ALL SERIES**

Due During Fiscal Years Ending December 31	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2016	\$ 720,000	\$ 706,593	\$ 1,426,593
2017	860,000	679,009	1,539,009
2018	885,000	649,545	1,534,545
2019	790,000	621,769	1,411,769
2020	815,000	595,449	1,410,449
2021	850,000	567,941	1,417,941
2022	885,000	538,900	1,423,900
2023	920,000	508,438	1,428,438
2024	960,000	476,715	1,436,715
2025	1,000,000	443,461	1,443,461
2026	855,000	412,343	1,267,343
2027	885,000	383,530	1,268,530
2028	785,000	356,123	1,141,123
2029	810,000	330,176	1,140,176
2030	845,000	302,943	1,147,943
2031	905,000	269,247	1,174,247
2032	945,000	228,822	1,173,822
2033	995,000	186,247	1,181,247
2034	1,045,000	140,844	1,185,844
2035	1,085,000	98,493	1,183,493
2036	1,135,000	59,638	1,194,638
2037	250,000	35,094	285,094
2038	260,000	25,688	285,688
2039	270,000	15,750	285,750
2040	285,000	5,344	290,344
	<u>\$ 20,040,000</u>	<u>\$ 8,638,102</u>	<u>\$ 28,678,102</u>

See accompanying independent auditor's report.

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**CHANGES IN LONG-TERM BOND DEBT**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

Description	Original Bonds Issued	Bonds Outstanding January 1, 2015
Northampton Municipal Utility District Waterworks and Sewer System Unlimited Tax Bonds - Series 2006	\$ 4,000,000	\$ 440,000
Northampton Municipal Utility District Unlimited Tax Park Bonds - Series 2006	1,775,000	195,000
Northampton Municipal Utility District Unlimited Tax Bonds - Series 2010	4,000,000	3,900,000
Northampton Municipal Utility District Unlimited Tax Refunding Bonds - Series 2010	6,965,000	5,475,000
Northampton Municipal Utility District Unlimited Tax Bonds - Series 2012	2,175,000	2,175,000
Northampton Municipal Utility District Unlimited Tax Bonds - Refunding Bonds - Series 2014	4,320,000	4,320,000
Northampton Municipal Utility District Unlimited Tax Bonds - Series 2015	<u>4,460,000</u>	<u>                    </u>
<b>TOTAL</b>	<u><u>\$ 27,695,000</u></u>	<u><u>\$ 16,505,000</u></u>

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

See accompanying independent auditor's report.

<u>Current Year Transactions</u>					
<u>Bonds Sold</u>	<u>Retirements</u>		<u>Bonds Outstanding December 31, 2015</u>	<u>Paying Agent</u>	
	<u>Principal</u>	<u>Interest</u>			
\$	\$ 140,000	\$ 15,675	\$ 300,000	Wells Fargo Bank N.A. Houston, TX	
	60,000	6,465	135,000	Wells Fargo Bank N.A. Houston, TX	
	25,000	187,244	3,875,000	Wells Fargo Bank N.A. Houston, TX	
	640,000	198,350	4,835,000	Wells Fargo Bank N.A. Houston, TX	
		73,562	2,175,000	Regions Bank Houston, TX	
	60,000	82,007	4,260,000	Regions Bank Birmingham, AL	
<u>4,460,000</u>		<u>52,096</u>	<u>4,460,000</u>	Regions Bank Houston, TX	
<u>\$ 4,460,000</u>	<u>\$ 925,000</u>	<u>\$ 615,399</u>	<u>\$ 20,040,000</u>		

See accompanying independent auditor's report.

**THIS PAGE INTENTIONALLY LEFT BLANK**

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**CHANGES IN LONG-TERM BOND DEBT**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

<b>District Wide:</b>	<b>Tax and Revenue Bonds</b>	<b>Tax Bonds and Refunding Bonds</b>	<b>Park Bonds</b>
Bond Authority:			
Authorized by Voters	\$ 10,600,000	\$ 54,700,000	\$ 1,775,000
Amount Issued	<u>10,600,000</u>	<u>20,220,000</u>	<u>1,775,000</u>
Remaining to be Issued	<u>\$ - 0 -</u>	<u>\$ 34,480,000</u>	<u>\$ - 0 -</u>
<b>Defined Area:</b>		<b>Tax Bonds and Refunding Bonds</b>	<b>Road Bonds</b>
Bond Authority:			
Authorized by Voters		\$ 41,000,000	\$ 17,000,000
Amount Issued		<u></u>	<u></u>
Remaining to be Issued		<u>\$ 41,000,000</u>	<u>\$ 17,000,000</u>
Debt Service Fund cash and investment balances as of December 31, 2015:			<u>\$ 1,135,409</u>
Average annual debt service payment (principal and interest) for remaining term of all debt:			<u>\$ 1,147,124</u>

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

See accompanying independent auditor's report.



**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES**  
**GENERAL FUND - FIVE YEARS**

	<u>Amounts</u>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>REVENUES</b>			
Property Taxes	\$ 1,042,385	\$ 975,998	\$ 821,340
Water Service	1,001,460	846,002	728,175
Wastewater Service	1,126,294	949,019	875,255
Penalty and Interest	37,948	25,950	31,472
Tap Connection and Inspection Fees	90,906	653,447	1,420
Facility Use Fees	109,162	94,057	101,633
Regional Water Authority Fees	737,987	690,512	666,239
Investment Revenues	3,173	1,996	1,137
Miscellaneous Revenues	95,683	98,989	77,571
<b>TOTAL REVENUES</b>	<u>\$ 4,244,998</u>	<u>\$ 4,335,970</u>	<u>\$ 3,304,242</u>
<b>EXPENDITURES</b>			
Professional Fees	\$ 301,728	\$ 263,237	\$ 289,276
Contracted Services	528,368	512,900	497,542
Purchased Wastewater Service	300,073	306,971	328,594
Utilities	106,945	99,271	109,439
Repairs and Maintenance	213,767	234,968	237,242
Regional Water Authority Assessments	652,924	616,980	641,190
Parks and Recreation	1,104,432	1,030,122	1,024,236
Other	250,970	427,836	189,231
Capital Outlay:			
Parks and Recreation	61,614	32,589	
Other Facilities	21,975		87,997
Debt Service:			
Bond Issuance Costs	32,948	26,027	
<b>TOTAL EXPENDITURES</b>	<u>\$ 3,575,744</u>	<u>\$ 3,550,901</u>	<u>\$ 3,404,747</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>\$ 669,254</u>	<u>\$ 785,069</u>	<u>\$ (100,505)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In (Out)	<u>\$ 26,027</u>	<u>\$ 64,007</u>	<u>\$ 157,614</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ 695,281</u>	<u>\$ 849,076</u>	<u>\$ 57,109</u>
<b>BEGINNING FUND BALANCE</b>	<u>1,209,268</u>	<u>360,192</u>	<u>303,083</u>
<b>ENDING FUND BALANCE</b>	<u>\$ 1,904,549</u>	<u>\$ 1,209,268</u>	<u>\$ 360,192</u>

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2012	2011	2015	2014	2013	2012	2011
\$ 842,121	\$ 845,835	24.4 %	22.4 %	24.9 %	26.9 %	23.9 %
562,595	651,036	23.6	19.5	22.0	18.0	18.4
874,541	879,248	26.5	21.9	26.5	27.9	24.9
25,382	28,356	0.9	0.6	1.0	0.8	0.8
950	10,500	2.1	15.1			0.3
89,388	111,381	2.6	2.2	3.1	2.9	3.2
654,750	826,349	17.4	15.9	20.2	20.9	23.4
2,265	3,917	0.1			0.1	0.1
78,434	177,939	2.4	2.4	2.3	2.5	5.0
<u>\$ 3,130,426</u>	<u>\$ 3,534,561</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 249,791	\$ 215,763	7.1 %	6.1 %	8.8 %	8.0 %	6.0 %
541,377	595,775	12.4	11.8	15.1	17.3	16.9
290,491	299,627	7.1	7.1	9.9	9.3	8.5
104,107	128,970	2.5	2.3	3.3	3.3	3.6
288,313	231,620	5.0	5.4	7.2	9.2	6.6
653,541	847,613	15.4	14.2	19.4	20.9	24.0
1,061,096	932,341	26.0	23.8	31.0	33.9	26.4
180,969	169,458	5.9	9.9	5.7	5.8	4.8
150,698	374,603	1.5	0.8		4.8	10.6
101,055	212,490	0.5		2.7	3.2	6.0
		0.8	0.6			
<u>\$ 3,621,438</u>	<u>\$ 4,008,260</u>	<u>84.2 %</u>	<u>82.0 %</u>	<u>103.1 %</u>	<u>115.7 %</u>	<u>113.4 %</u>
<u>\$ (491,012)</u>	<u>\$ (473,699)</u>	<u>15.8 %</u>	<u>18.0 %</u>	<u>(3.1) %</u>	<u>(15.7) %</u>	<u>(13.4) %</u>
<u>\$ 606,692</u>	<u>\$ - 0 -</u>					
\$ 115,680	\$ (473,699)					
187,403	661,102					
<u>\$ 303,083</u>	<u>\$ 187,403</u>					

See accompanying independent auditor's report.

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES**  
**DEBT SERVICE FUND - FIVE YEARS**

	Amounts		
	2015	2014	2013
<b>REVENUES</b>			
Property Taxes	\$ 1,401,822	\$ 1,318,900	\$ 1,182,729
Penalty and Interest	27,695	14,583	22,686
Investment Revenues	2,904	4,484	4,092
Miscellaneous Revenues	<u>75</u>	<u>25</u>	<u>1,605</u>
<b>TOTAL REVENUES</b>	<u>\$ 1,432,496</u>	<u>\$ 1,337,992</u>	<u>\$ 1,211,112</u>
<b>EXPENDITURES</b>			
Tax Collection Expenditures	\$ 66,533	\$ 51,544	\$ 48,659
Debt Service Principal	925,000	830,000	815,000
Debt Service Interest and Fees	618,205	679,172	687,835
Bond Issuance Costs	<u></u>	<u>106,157</u>	<u></u>
<b>TOTAL EXPENDITURES</b>	<u>\$ 1,609,738</u>	<u>\$ 1,666,873</u>	<u>\$ 1,551,494</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>\$ (177,242)</u>	<u>\$ (328,881)</u>	<u>\$ (340,382)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Refunding Bonds	\$	\$ 4,320,000	\$
Long-Term Debt Issued	210,284		
Payment to Refunded Bond Escrow Agent	<u></u>	<u>(4,213,138)</u>	<u></u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>\$ 210,284</u>	<u>\$ 106,862</u>	<u>\$ - 0 -</u>
<b>NET CHANGE IN FUND BALANCE</b>	\$ 33,042	\$ (222,019)	\$ (340,382)
<b>BEGINNING FUND BALANCE</b>	<u>900,087</u>	<u>1,122,106</u>	<u>1,462,488</u>
<b>ENDING FUND BALANCE</b>	<u>\$ 933,129</u>	<u>\$ 900,087</u>	<u>\$ 1,122,106</u>
<b>TOTAL ACTIVE RETAIL WATER CONNECTIONS</b>	<u>1,882</u>	<u>1,818</u>	<u>1,708</u>
<b>TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS</b>	<u>1,825</u>	<u>1,766</u>	<u>1,653</u>

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2012	2011	2015	2014	2013	2012	2011
\$ 1,212,652	\$ 1,217,998	97.9 %	98.6 %	97.7 %	98.3 %	97.6 %
15,116	18,678	1.9	1.1	1.9	1.2	1.5
6,605	11,130	0.2	0.3	0.3	0.5	0.9
25				0.1		
<u>\$ 1,234,398</u>	<u>\$ 1,247,806</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 47,288	\$ 66,253	4.6 %	3.9 %	4.0 %	3.8 %	5.3 %
570,000	725,000	64.6	62.0	67.3	46.2	58.1
879,911	661,853	43.2	50.8	56.8	71.3	53.0
			7.9			
<u>\$ 1,497,199</u>	<u>\$ 1,453,106</u>	<u>112.4 %</u>	<u>124.6 %</u>	<u>128.1 %</u>	<u>121.3 %</u>	<u>116.4 %</u>
<u>\$ (262,801)</u>	<u>\$ (205,300)</u>	<u>(12.4) %</u>	<u>(24.6) %</u>	<u>(28.1) %</u>	<u>(21.3) %</u>	<u>(16.4) %</u>
\$ 73,562	\$					
<u>\$ 73,562</u>	<u>\$ - 0 -</u>					
\$ (189,239)	\$ (205,300)					
<u>1,651,727</u>	<u>1,857,027</u>					
<u>\$ 1,462,488</u>	<u>\$ 1,651,727</u>					
<u>1,690</u>	<u>1,692</u>					
<u>1,647</u>	<u>1,648</u>					

See accompanying independent auditor's report.

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS**  
**DECEMBER 31, 2015**

District Mailing Address - Northampton Municipal Utility District  
c/o Bacon & Wallace, L.L.P.  
6363 Woodway, Suite 800  
Houston, TX 77057

District Telephone Number - (713) 739-1060

<b>Board Members</b>	<b>Term of Office (Elected or Appointed)</b>	<b>Fees of Office for the year ended December 31, 2015</b>	<b>Expense Reimbursements for the year ended December 31, 2015</b>	<b>Title</b>
E. C. Thomas	05/14 05/18 (Elected)	\$ 3,000	\$ -0-	President
Bill Black	05/12 05/16 (Elected)	\$ 6,300	\$ 94	1st Vice President
W. Paul Schneider	05/14 05/18 (Elected)	\$ 5,550	\$ 910	2nd Vice President
Robert W. Dowies	06/15 05/16 (Appointed)	\$ 2,100	\$ -0-	Secretary
Roger A. Flood, III	09/14 05/16 (Appointed)	\$ 3,900	\$ -0-	Treasurer/ Investment Officer

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

Submission date of most recent District Registration Form (TWC Sections 36.054 and 49.054 July 20, 2015).

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by Board Resolution (TWC Section 49.060) on July 21, 2003. Fees of Office are the amounts actually paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report.

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS**  
**DECEMBER 31, 2015**

<b>Key Personnel:</b>	<b>Date Hired</b>	<b>Fees for the year ended December 31, 2015</b>	<b>Title</b>
Jim Sheffield	09/29/03	\$ 123,296	General Manager
<b>Consultants:</b>			
Bacon & Wallace, L.L.P.	01/01/01	\$ 136,956 \$ 113,235	General Counsel Bond Counsel
McCall Gibson Swedlund Barfoot PLLC	12/16/91	\$ 26,050	Auditor
Cindy Schmidt	01/15/90	\$ 32,250	Bookkeeper
Perdue Brandon Fielder Collins & Mott, L.L.P.	10/21/96	\$ 6,246	Delinquent Tax Attorney
Jones & Carter, Inc.	12/04/79	\$ 564,098	Engineer
Robert W. Baird & Co. Incorporated	01/19/15	\$ 84,368	Financial Advisor
Cindy Schmidt	08/18/14	\$ -0-	Investment Officer
Hays Utility South Corporation	10/14/70	\$ 680,482	Operator
Esther Flores Tax Tech, Inc.	06/17/91	\$ 29,248	Tax Assessor/ Collector

See accompanying independent auditor's report.

APPENDIX B

SPECIMEN MUNICIPAL BOND INSURANCE POLICY



**BAM**

**MUNICIPAL BOND  
INSURANCE POLICY**

ISSUER: [NAME OF ISSUER]

Policy No: \_\_\_\_\_

MEMBER: [NAME OF MEMBER]

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

Effective Date: \_\_\_\_\_

Risk Premium: \$ \_\_\_\_\_

Member Surplus Contribution: \$ \_\_\_\_\_

Total Insurance Payment: \$ \_\_\_\_\_

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

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

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

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

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

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

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: \_\_\_\_\_  
Authorized Officer



**Notices (Unless Otherwise Specified by BAM)**

Email:

claims@buildamerica.com

Address:

1 World Financial Center, 27<sup>th</sup> floor

200 Liberty Street

New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN

**OFFICIAL STATEMENT DATED MARCH 16, 2015**

*THE DELIVERY OF THE BONDS IS SUBJECT TO THE OPINION OF BOND COUNSEL AS TO THE VALIDITY OF THE BONDS AND TO THE EFFECT THAT INTEREST ON THE BONDS IS EXCLUDABLE FROM THE GROSS INCOME OF THE OWNERS OF THE BONDS FOR PURPOSES OF FEDERAL INCOME TAXATION UNDER EXISTING STATUTES, REGULATIONS, PUBLISHED RULINGS AND COURT DECISIONS, AND IS NOT INCLUDABLE IN THE ALTERNATIVE MINIMUM TAXABLE INCOME OF THE OWNERS THEREOF EXCEPT FOR CERTAIN ALTERNATIVE MINIMUM TAX CONSEQUENCES FOR CORPORATIONS. SEE "LEGAL MATTERS" AND "TAX EXEMPTION" HEREIN FOR A DISCUSSION OF BOND COUNSEL'S OPINION.*

The District has designated the Bonds as "qualified tax-exempt obligations for financial institutions." See "TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions."

**NEW ISSUE – BOOK-ENTRY-ONLY**

**RATING:** Standard & Poor's (BAM) ..... "AA/Stable"  
Standard & Poor's (Underlying) ... "A-/Stable"  
(See "MUNICIPAL BOND INSURANCE" and "RATINGS")

**\$4,460,000**

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**

(A Political Subdivision of the State of Texas, located within Harris County, Texas)

**UNLIMITED TAX BONDS, SERIES 2015**

Dated: April 1, 2015

Due: March 1, as shown below

The \$4,460,000 Northampton Municipal Utility District Unlimited Tax Bonds, Series 2015 (the "Bonds") are obligations of Northampton Municipal Utility District (the "District") and are not obligations of the State of Texas, Harris County, Texas, the City of Houston, Texas, or any entity other than the District. Neither the faith and credit nor the taxing power of the State of Texas, Harris County, Texas, or the City of Houston, Texas, is pledged to the payment of the principal of or interest on the Bonds.

Interest on the Bonds accrues from April 1, 2015, and is payable on September 1, 2015, and on each March 1 and September 1 thereafter until the earlier of maturity or redemption.

The Bonds will be initially registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will be responsible for distributing the principal and interest payments to the participating members of DTC and the participating members will be responsible for distributing the payment to the owners of beneficial interest in the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein. Unless otherwise agreed between the Paying Agent, Regions Bank, in Houston, Texas (the "Paying Agent", Paying Agent/Registrar", or "Registrar"), an Alabama banking corporation, and a Bondholder, interest on the Bonds is payable by check or draft of the Paying Agent, dated as of the interest payment date and mailed by the Paying Agent to each Bondholder, as shown on the records of the Registrar on the close of business on the 15th day of the calendar month next preceding each interest payment date (the "Record Date"). The Bonds will be issued only in fully registered form in denominations of \$5,000 of principal amount, or any integral multiple thereof.

The Bonds will mature in the amounts and on the dates and will bear interest at the rates and be reoffered as set forth below.

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



**AMOUNTS, MATURITIES, INTEREST RATES AND INITIAL REOFFERING YIELDS**

**\$2,240,000 Serial Bonds**

Maturity (March 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	Maturity (March 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)
2017	\$ 115,000	2.000%	0.900%	2025(b)	155,000	2.750%	2.650%
2018	120,000	2.000%	1.300%	2026(b)	160,000	2.750%	2.750%
2019	125,000	2.000%	1.500%	****	****	****	****
2020	125,000	2.000%	1.700%	2032(b)	205,000	3.125%	3.300%
2021	130,000	2.250%	2.000%	2033(b)	215,000	3.250%	3.350%
2022	140,000	2.500%	2.250%	2034(b)	225,000	3.250%	3.400%
2023	145,000	2.500%	2.375%	2035(b)	230,000	3.375%	3.450%
2024(b)	150,000	2.500%	2.500%				

**\$2,220,000 Term Bonds**

**\$525,000 Term Bonds due March 1, 2029(a)(b)(c) Interest Rate 3.000% (Price \$98.321)**

**\$390,000 Term Bonds due March 1, 2031(a)(b)(c) Interest Rate 3.125% (Price \$99.069)**

**\$490,000 Term Bonds due March 1, 2037(a)(b)(c) Interest Rate 3.625% (Price \$100.000)**

**\$815,000 Term Bonds due March 1, 2040(a)(b)(c) Interest Rate 3.750% (Price \$99.675)**

- (a) The yields of the Bonds were established by and are the sole responsibility of the Underwriter (as defined herein), and may subsequently be changed. The yields indicated above represent the lower of the yields resulting when priced to maturity or the first call date.
- (b) Bonds maturing on March 1, 2024, and thereafter, shall be subject to redemption and payment at the option of the District, in whole or from time to time in part on March 1, 2023, or on any date thereafter, at a price equal to the principal amount thereof plus accrued interest to the date fixed for redemption. In addition, the Initial Purchaser may designate one or more maturities as Term Bonds.
- (c) Subject to mandatory redemption by lot or customary method of random selection on March 1 in the years and in the amounts set forth herein under the caption "THE BONDS" – Redemption of the Bonds – *Mandatory Redemption*."

The Bonds are issued out of the \$43,500,000 principal amount of unlimited tax bonds authorized by the District's voters for the purpose of acquiring and constructing a waterworks, wastewater and storm drainage system to serve the District. Following the issuance of the Bonds, \$34,480,000 in principal amount of unlimited tax bonds authorized by the District's voters will remain unissued, all of which may also be used for refunding purposes. See "THE BONDS - Issuance of Additional Debt." The Bonds, when issued, will constitute valid and binding obligations of the District, payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. See "THE BONDS - Source of Payment."

The Bonds are offered subject to prior sale, when, as, and if issued by the District and accepted by the Underwriter, subject, among other things, to the approval of the Initial Bonds by the Attorney General of Texas and the approval of certain legal matters by Bacon & Wallace, L.L.P., Houston, Texas, Bond Counsel. Certain legal matters will be reviewed by McCall, Parkhurst & Horton, L.L.P., Dallas, Texas, as Disclosure Counsel to the District. Delivery of the Bonds is expected on or about April 14, 2015.

**RAYMOND JAMES**

## USE OF INFORMATION IN OFFICIAL STATEMENT

No dealer, broker, salesman or other person has been authorized by the District or the Underwriter (defined herein) to give any information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the District or the Underwriter.

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

All of the summaries of the statutes, orders, resolutions, contracts, audits, and engineering and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from the District, c/o Bacon & Wallace, L.L.P., 6363 Woodway, Suite 800, Houston, Texas 77057, 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 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.

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

## TABLE OF CONTENTS

<u>Page</u>	<u>Page</u>
USE OF INFORMATION IN OFFICIAL STATEMENT.....2	Authority for Issuance ..... 15
SALE AND DISTRIBUTION OF THE BONDS .....4	Source of Payment..... 15
Award of the Bonds .....4	Optional Redemption ..... 15
Prices and Marketability .....4	Defeasance..... 16
No Material Adverse Change .....4	Amendments to Bond Order ..... 17
Securities Laws .....4	Replacement of Paying Agent/Registrar 17
Delivery of Official Statements.....4	Issuance of Additional Debt..... 18
MUNICIPAL BOND INSURANCE AND RATINGS .....5	Defined Area ..... 18
OFFICIAL STATEMENT SUMMARY .....7	Annexation and Consolidation..... 18
THE BONDS .....7	Strategic Partnership Agreements..... 19
THE DISTRICT .....8	Registered Owners' Remedies..... 19
INVESTMENT CONSIDERATIONS .....10	Bankruptcy Limitation to Registered Owners' Rights ..... 19
SELECTED FINANCIAL INFORMATION (UNAUDITED) .....11	Legal Investment and Eligibility to Secure Public Funds in Texas ..... 20
INTRODUCTION .....12	Use and Distribution of Bond Proceeds. 21
THE BONDS .....12	THE DISTRICT ..... 21
General .....12	Description..... 22
Book-Entry-Only System .....12	Topography and Flood Hazards..... 22
Use of Certain Terms in Other Sections of this Official Statement.....14	Management of the District..... 23
Paying Agent/Registrar.....14	STATUS OF DEVELOPMENT ..... 24
Assignments, Transfers, and Exchanges 14	PHOTOGRAPHS WITHIN THE DISTRICT 26
Replacement of Bonds.....15	PHOTOGRAPHS WITHIN THE DISTRICT 27
Outstanding Bonds.....15	LOCATION MAP OF THE DISTRICT ..... 28
	General..... 29
	TAX DATA..... 29
	Maintenance Tax ..... 29

Tax Collection History.....	29
Tax Rate Distribution.....	29
Analysis of Tax Base .....	30
Principal Taxpayers .....	30
Tax Rate Calculations.....	30
Estimated Overlapping Taxes.....	31
THE SYSTEM.....	32
General .....	34
DISTRICT DEBT.....	34
Pro-Forma Debt Service Requirements.....	35
Estimated Direct and Overlapping Debt Statement.....	36
Debt Ratios.....	36
Authority to Levy Taxes .....	37
TAXING PROCEDURES.....	37
Property Tax Code and County-Wide Appraisal District .....	37
Property Subject to Taxation by the District.....	37
General Residential Homestead Exemption .....	38
Valuation of Property for Taxation .....	38
District and Taxpayer Remedies .....	38
Rollback of Operation and Maintenance Tax Rate .....	38
Agricultural, Open Space, Timberland and Inventory Deferral.....	38
Tax Abatement.....	39
Levy and Collection of Taxes.....	39
District's Rights in the Event of Tax Delinquencies.....	39
INVESTMENT CONSIDERATIONS .....	40
General .....	40
Factors Affecting Taxable Values and Tax Payments.....	40
Tax Collection Limitations .....	40
Registered Owners' Remedies and Bankruptcy .....	41
Marketability .....	41
Economic Factors .....	41
Bond Insurance Risk Factors .....	41
Future Debt .....	42
Continuing Compliance with Certain Covenants.....	42
Future and Proposed Legislation .....	43
Legal Opinions.....	43
LEGAL MATTERS .....	43
No Arbitrage .....	43
No-Litigation Certificate.....	44
No Material Adverse Change .....	44
TAX MATTERS .....	44
Federal Income Tax Accounting Treatment of Original Issue Discount .....	45
Collateral Federal Income Tax Consequences.....	45
State, Local and Foreign Taxes .....	46
Qualified Tax-Exempt Obligations for Financial Institutions.....	46
CONTINUING DISCLOSURE OF	

INFORMATION.....	46
Annual Reports.....	46
Material Event Notices .....	47
Availability of Information .....	47
Limitations and Amendments .....	47
Compliance with Prior Undertakings .....	47
General.....	48
OFFICIAL STATEMENT.....	48
Experts.....	48
Auditor.....	48
Certification as to Official Statement.....	48
Updating of Official Statement.....	48
Official Statement "Deemed Final" .....	49

## **APPENDIX A – FINANCIAL STATEMENTS OF THE DISTRICT**

## **APPENDIX B - SPECIMEN MUNICIPAL BOND INSURANCE POLICY**