

SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Bonds, the District has accepted the lowest bid, resulting in the lowest net interest costs, which was tendered by Raymond James & Associates, Inc. (the "Underwriter") to purchase the Bonds bearing the interest rates shown under "AMOUNTS, MATURITIES, INTEREST RATES AND INITIAL REOFFERING YIELDS" on the cover page of this Official Statement at a price of 98.26644% of the principal amount thereof plus accrued interest to the date of delivery, which resulted in a net effective interest rate of 3.426369%, as calculated pursuant to Chapter 1204, Texas Government Code, as amended.

Prices and Marketability

The delivery of the Bonds is conditioned upon the receipt by the District of a certificate executed and delivered by the Underwriter on or before the date of delivery of the Bonds stating the prices at which a substantial amount of the Bonds of each maturity have been sold to the public. For this purpose the term "public" shall not include any person who is a bond house, broker or similar person acting in the capacity of underwriter or wholesaler. The District has no control over trading of the Bonds after a bona fide offering of the Bonds is made by the Underwriter at the yields specified on the cover page hereof. Information concerning reoffering yields or prices is the responsibility of the Underwriter.

The prices and other terms respecting the offering and sale of the Bonds may be changed from time to time by the Underwriter after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering price, including sales to dealers who may sell the Bonds into investment accounts. IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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

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 subsequent to the date of sale from that set forth or contemplated in the Preliminary Official Statement, as it may have been finalized, supplemented, or amended through the date of sale.

Securities Laws

No registration statement relating to the Bonds has been filed with the United States Securities and Exchange Commission (the "SEC") under the Securities Act of 1933, as amended, in reliance upon exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein, nor have the Bonds been registered or qualified under the securities laws of any other jurisdiction. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds should not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

Delivery of Official Statements

The District shall furnish to the Underwriter (and to each participating underwriter of the Bonds, within the meaning of SEC Rule 15c2-12(a), designated by the Underwriter), within seven (7) business days after the sale date, the aggregate number of Official Statements agreed upon between the District and the Underwriter. The District also shall furnish to the Underwriter a like number of any supplements or amendments approved and authorized for distribution by the District for dissemination to potential underwriters of the Bonds, as well as such additional copies of the Official Statement or any such supplements or amendments as the Underwriter may reasonably request prior to the 90th day after the end of the underwriting period described in SEC Rule 15c2-12(f) (2). The District shall pay the expense of preparing the number of copies of the Official Statement agreed upon between the District and the Underwriter and an equal number of any supplements or amendments issued on or before the delivery date, but the Underwriter shall pay for all other copies of the Official Statement or any supplement or amendment thereto.

MUNICIPAL BOND INSURANCE

Bond Insurance Policy

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

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

Build America Mutual Assurance Company

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

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

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

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

Capitalization of BAM

BAM’s total admitted assets, total liabilities, and total capital and surplus, as of December 31, 2014 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$475.7 million, \$26.9 million and \$448.8 million, respectively.

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

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

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

Additional Information Available from BAM

Credit Insights Videos. For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM’s analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM’s website at buildamerica.com/creditisights/.

Obligor Disclosure Briefs. Subsequent to closing, BAM posts an Obligor Disclosure Brief on every issue insured by BAM, including the Bonds. BAM Obligor Disclosure Briefs provide information about the gross par insured by CUSIP, maturity and coupon; sector designation (e.g. general obligation, sales tax); a summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. The Obligor Disclosure Briefs are also easily accessible on BAM's website at buildamerica.com/obligor/.

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

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

RATINGS

Standard & Poor's Ratings Services ("Standard & Poor's") is a division of the The McGraw Hill Companies, Inc., a New York corporation. Standard & Poor's is located at 55 Water Street, New York, New York 10041, telephone number (212) 208-8000 and has engaged in providing ratings for corporate bonds since 1923 and municipal bonds since 1940. Long-term debt ratings assigned by Standard & Poor's reflect its analysis of the overall level of credit risk involved in financings. At present Standard & Poor's assigns long-term debt ratings with symbols "AAA" (the highest rating) through "D" (the lowest rating).

The Bonds are expected to receive an insured rating of "AA" (stable outlook) from Standard & Poor's solely in reliance upon the insurance of the municipal bond insurance policy issued by BAM at the time of delivery of the Bonds. The Bonds received an underlying rating of "A-" (stable outlook) from Standard and Poor's.

The District is not aware of any rating assigned the Bonds other than the ratings of Standard & Poor's. The ratings reflect only the view of Standard & Poor's and the District makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised or withdrawn entirely by Standard & Poor's, if in its judgment, circumstances so warrant. Any such revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

OFFICIAL STATEMENT SUMMARY

The following material is a summary of certain information contained herein and is qualified in its entirety by the detailed information and financial statements appearing elsewhere in this Official Statement.

THE BONDS

The Issuer	Northampton Municipal Utility District (the “District”), a political subdivision of the State of Texas, is located in Harris County, Texas. See “THE DISTRICT - General” and “Description.”
Description of the Bonds	\$4,460,000 Unlimited Tax Bonds, Series 2015 (the “Bonds”), are dated April 1, 2015, and mature on March 1 in each of the years and in the amounts shown on the cover hereof. 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 maturity or earlier redemption, at the interest rates shown on the cover page. See “THE BONDS.”
Optional Redemption.....	Bonds maturing on or after March 1, 2024, are subject to redemption, 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. If fewer than all of the Bonds are optionally redeemed at any time, the particular maturities and amounts of Bonds to be optionally redeemed shall be selected by the District in integral multiples of \$5,000 within any one maturity and if fewer than all of the Bonds within a maturity are to be redeemed, the Registrar shall designate by method of random selection the Bonds within such maturity to be redeemed (or by DTC in accordance with its customary procedures while the Bonds are in book- entry-only form). Upon redemption, the Bonds will be payable at a price equal to the principal amount thereof called for redemption, plus accrued interest to the date fixed for redemption. See “THE BONDS - Description” and “- Optional Redemption.”
Denominations.....	The Bonds are offered in fully registered form in integral multiples of \$5,000 in principal amount. See “THE BONDS - Description.”
Source of Payment.....	The Bonds are 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. The Bonds are obligations of 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. See “THE BONDS - Source of Payment.”
Use of Proceeds	Proceeds from the Bonds will be used to redeem a bond anticipation note (“BAN”), the proceeds of which were used to pay for (1) the expansion of the District’s Wastewater Treatment Plant; (2) the addition of a hydropneumatic tank to Water Plant No. 2 and (3) costs for contingencies and engineering fees associated with these projects. In addition, the proceeds of the Bonds include eighteen (18) months of capitalized interest and costs of issuing the BAN and the Bonds.
Outstanding Bonds	The District’s currently outstanding bonds include the \$4,000,000 Waterworks and Sewer System Unlimited Tax Bonds the Series 2006 (the “Series 2006 Bonds”) of which \$440,000 remains outstanding; the \$1,775,000 Unlimited Tax Park Bonds, Series 2006 (the “Series 2006 Park Bonds”) of which \$195,000 remains outstanding; the \$4,000,000 Unlimited Tax Bonds, Series 2010 (the “Series 2010 Bonds”) of which \$3,900,000 remains outstanding; the \$6,965,000 Unlimited Tax Refunding Bonds, Series 2010 (the “Series 2010 Refunding Bonds”) of which \$5,475,000 remains outstanding; the \$2,175,000 Unlimited Tax

	Bonds, Series 2012 (the “Series 2012 Bonds”) of which \$2,175,000 remains outstanding; and the \$4,320,000 Unlimited Tax Refunding Bonds, Series 2014 (the “Series 2014 Refunding Bonds”) of which \$4,320,000 remains outstanding. As of February 1 2015, \$16,505,000 principal amount of the bonds issued by the District remain outstanding (the “Outstanding Bonds”). See “THE BONDS - Outstanding Bonds.”
Payment Record.....	The District has never defaulted in the timely payment of principal of and interest on its previously issued bonds.
Authority for Issuance	The Bonds are issued out of an aggregate of \$43,500,000 principal amount of unlimited tax bonds authorized by the District’s voters at elections held on February 2, 2002 and November 6, 2012 for the purpose of purchasing or constructing a water, wastewater and storm drainage system. The Bonds are issued pursuant to an order of the Texas Commission on Environmental Quality (the “TCEQ”), the order of the District authorizing the issuance of the bonds (the “Bond Order”), the Texas Constitution, Chapters 49 and 54, Texas Water Code, and the general laws of the State of Texas. See “INVESTMENT CONSIDERATIONS - Future Debt” and “THE BONDS - Authority for Issuance,” and “- Issuance of Additional Debt.”
Authorized But Unissued Bonds	After the issuance of the Bonds, \$34,480,000 principal amount of unlimited tax bonds will remain authorized but unissued for water, sanitary sewer and drainage facilities to serve land within the District, all of which may also be used for refunding purposes. See “THE BONDS - Authority for Issuance” and “- Issuance of Additional Debt.”
Municipal Bond Insurance.....	Build America Mutual Assurance Company (“BAM”). See “MUNICIPAL BOND INSURANCE.”
Municipal Bond Insurance and Rating.....	Standard & Poor’s (BAM) – “AA” (stable outlook). Standard & Poor’s (Underlying) – “A-” (stable outlook). See “MUNICIPAL BOND INSURANCE” and “RATINGS.”
Legal and Tax Opinion.....	Bacon & Wallace, L.L.P., Houston, Texas, Bond Counsel. See “LEGAL MATTERS.”
Qualified Tax-Exempt Obligations.....	The District has designated the Bonds as “qualified tax-exempt obligations” pursuant to Section 265(b) of the Internal Revenue Code of 1986, as amended (the “Code”). See “QUALIFIED TAX-EXEMPT OBLIGATIONS.”

THE DISTRICT

Description	Northampton Municipal Utility District, a political subdivision of the State of Texas located within Harris County, contains approximately 1,551.16 acres located approximately 30 miles north of Houston's central business district and approximately 5 miles west of Spring, Texas. The District is bounded on the south by Root Road, on the east by Spring Creek, and is approximately one mile east of Kuykendahl Road. The District lies entirely within the extraterritorial jurisdiction of the City of Houston (the “City”) and is located within Klein Independent School District. See “THE DISTRICT – Description.”
Authority.....	The rights, powers, privileges, authority and functions of the District are established by the general laws of the State of Texas pertaining to municipal utility districts, including particularly Chapters 49 and 54 of the Texas Water Code, as amended. See “THE DISTRICT – General.”

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”).

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.

The Defined Area is currently being developed by D.R. Horton-Texas, Ltd. (“DR Horton”) and SC Waterford Springs LLC (“Waterford”). DR Horton has developed Hampton Creek, Sections 1 and 2 on approximately 31.75 acres (120 lots). In addition, DR Horton is developing 104.94 acres (141 lots) as Hampton Creek, Sections 3, 4, 5, and 6. As of February 1, 2015, Hampton Creek contained 9 complete and occupied homes, 28 complete and unoccupied homes, 66 homes under construction, and 17 vacant, developed lots. Waterford purchased approximately 41 acres which is now owned by two different entities. SC Waterford Springs, LLC owns approximately 22.35 acres on which it is currently developing a 308 unit apartment complex which is expected to be completed in April 2015. SC Waterford Springs II, LLC owns approximately 18.59 acres on which a second apartment complex of approximately 300 units is being planned. According to Waterford construction is expected to begin sometime in 2016. DR Horton and Waterford are referred to herein as the “Defined Area Developers.” See “DEFINED AREA – General & Development.”

Development..... Approximately 829.09 acres within the District have been developed as the residential subdivisions of Northampton, Sections 1, 2, 3, 4, 5 and 8 (aggregating 1,073 lots), Inway Forest of Northampton (12 lots), Northampton Estates, Phases I-III (aggregating 250 lots), Northampton Forest, Sections I, II and III (aggregating 205 lots); The Terrace of Northampton Estates (13 lots); The Oaks of Northampton (27 lots); Woods of Northampton, Sections 1 and 2 (39 lots); Courts at Auburn Lakes (53 lots); Hampton Creek, Sections 1 and 2 (120 lots) and Stratton Woods (40 lots). In addition, there are 104.94 acres within the District that are being developed as the residential subdivisions of Hampton Creek, Sections 3, 4, 5 and 6 (141 lots); Dovershire Place Estates, Phase 1 (42 lots) and Inway Oaks Estates (51 lots). As of March 1, 2015, there were 1,646 completed homes, 66 homes under construction, 120 vacant, developed lots and 234 lots under development.

The District includes approximately 18 acres of commercial development including two office buildings, a Conoco gas station, Dave’s express gas station, a Shell gas station, one retail strip center, one automotive repair center, one private tennis club, and the Spring Volunteer Fire Department Station No. 2; a 346-unit apartment complex known as the Alexan Auburn Lakes on 14.37 acres; recreational

facilities which include three clubhouses, two swimming pools and tennis courts; and approximately 42 acres of developed park land. In addition, a 308-unit apartment complex known as Waterford Springs is under construction on approximately 22.35 acres. The remaining acreage within the District consists of a country club and 18-hole golf course on approximately 138 acres, (a portion of which lies within the 100-year flood plain), a school site on approximately 27.08 acres, approximately 216 undeveloped but developable acres and approximately 247.73 undevelopable acres. See “STATUS OF DEVELOPMENT.”

Developers in the District.....

In addition to the Defined Area Developers, Buffington Capital Holdings, LLC (“Buffington Capital”) is currently in the process of developing 42 lots for Phase 1 of a single family residential development known as Dovershire Place. Delivery of Phase 1 is expected in late summer 2015. Phase 2 which will consist of 53 lots and is currently being designed.

Partners In Building, L.P., (“PIB”) a Texas limited partnership, has developed approximately 40 single family residential lots on 20.335 acres.

MRE, LLC (“MRE”) is currently developing a 51 lot single family residential development known as Inway Oaks Estates, which is in the process of being annexed into the District.

Maple Multi-Family Operations, L.L.C. (“Maple”) has developed the Alexan Auburn Lakes, a 346-Unit apartment complex located on 14.37 acres. Maple is owned and controlled by Trammel Crow Residential.

Hampton on the Lakes, LLC and Gosling Village, LLC, own approximately 49 acres in the District. Both entities are controlled by Bryan Frenchak. Currently, the District is not aware of any plans to develop such acreage.

The Defined Area Developers, Buffington Capital, PIB, MRE, and Maple are referred to herein as (the “Developers”). See “DEVELOPERS.”

INVESTMENT CONSIDERATIONS

The Bonds are subject to special investment considerations as set forth in this Official Statement. Prospective purchasers should review the entire Official Statement before making their investment decisions. See “INVESTMENT CONSIDERATIONS.”

SELECTED FINANCIAL INFORMATION (UNAUDITED)

2014 Assessed Valuation.....	\$386,488,809 (a)
(100% of estimated market value as of January 1, 2014)	
See "TAX DATA" and "TAXING PROCEDURES."	
Estimated Taxable Valuation as of December 1, 2014.....	\$451,478,755 (b)
See "TAX DATA" and "TAXING PROCEDURES."	
Direct Debt: Outstanding Bonds (as of February 1, 2015).....	\$ 16,505,000
The Bonds	<u>4,460,000</u>
Total	\$ 20,965,000
Estimated Overlapping Debt.....	\$ 25,175,991 (c)
Total Direct and Estimated Overlapping Debt.....	<u>\$ 44,140,991</u>
Direct Debt Ratio	
: as a percentage of 2014 Assessed Valuation.....	5.42 %
: as a percentage of the Estimated Valuation as of December 1, 2014.....	4.64 %
Direct and Estimated Overlapping Debt Ratio	
: as a percentage of 2014 Assessed Valuation.....	11.42 %
: as a percentage of the Estimated Valuation as of December 1, 2014.....	9.78 %
Debt Service Fund Balance as of March 16, 2015 (unaudited).....	\$ 954,170 (d)
General Fund Balance as of March 16, 2015 (unaudited).....	\$ 1,821,107
Park Capital Projects Fund Balance as of March 16, 2015 (unaudited).....	\$ 432,831
Capital Projects Fund Balance as of March 16, 2015 (unaudited).....	\$ 552,051
2014 District Tax Rate Per \$100 of Assessed Valuation	
Debt Service	\$0.36 (e)
Maintenance	<u>0.25</u>
Total	\$0.61 (f)
Average Percentage of Total Tax Collections (2009-2014).....	98.08 %
Average Annual Debt Service Requirements of the Bonds and the Outstanding Bonds (2013-2036)	\$ 1,162,440
Maximum Annual Debt Service Requirement of the Bonds and the Outstanding Bonds (2015).....	\$ 1,545,342
Tax Rate per \$100 of Assessed Valuation Required to Pay Average Annual Debt Service Requirements of the Bonds and the Outstanding Bonds (2015-2040) at 98% Tax Collections	
Based Upon 2014 Assessed Valuation.....	\$0.31
Based Upon December 1, 2014 Estimate of Value	\$0.27
Tax Rate per \$100 of Assessed Valuation Required to Pay Maximum Annual Debt Service Requirement of the Bonds and the Outstanding Bonds (2017) at 98% Tax Collections	
Based Upon 2014 Assessed Valuation.....	\$0.41
Based Upon December 1, 2014 Estimate of Value	\$0.35

- (a) 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.
- (b) Provided by the HCAD for information purposes only. Represents new construction within the District from January 1, 2014 to December 1, 2014. 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."
- (c) See "DISTRICT DEBT - Estimated Overlapping Debt Statement."
- (d) 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. The March 1, 2015 debt service payment was made.
- (e) The TCEQ in its order authorizing the District to issue the Bonds advised the District to levy a debt service tax rate of not more than \$0.42 per \$100 of assessed valuation based upon the Bonds being issued at an interest rate of 4.89%.
- (f) A maintenance tax is also currently levied in the Defined Area at a rate of \$0.64 per \$100 of assessed valuation. Taxpayers within the Defined Area must pay both the District tax rate and the Defined Area tax rate, resulting in a total tax rate of \$1.25.

\$4,460,000
NORTHAMPTON MUNICIPAL UTILITY DISTRICT
UNLIMITED TAX BONDS
SERIES 2015

INTRODUCTION

This Official Statement provides certain information with respect to the issuance by Northampton Municipal Utility District (the “District”) of its Unlimited Tax Bonds, Series 2015 (the “Bonds”).

The Bonds are issued pursuant to an order of the Texas Commission on Environmental Quality (the “TCEQ”), the Texas Constitution, the general laws of the State of Texas, including Chapters 49 and 54, Texas Water Code, as amended, and an order authorizing issuance of the Bonds (the “Bond Order”) adopted by the Board of Directors of the District (the “Board”); and an election held within the boundaries of the District.

There follows in this Official Statement descriptions of the Bonds, the plan of financing, and certain information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the District, c/o Bacon & Wallace, L.L.P., 6363 Woodway, Suite 800, Houston, Texas 77057, upon payment of duplication costs. Certain capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Bond Order, except as otherwise indicated herein.

THE BONDS

General

The following is a description of some of the terms and conditions of the Bonds, which description is qualified in its entirety by the form of the Bonds contained in the Bond Order. A copy of the Bond Order may be obtained upon request to Bond Counsel.

The Bonds, dated April 1, 2015, will mature on March 1 of the years and in the principal amounts indicated on the cover page hereof and will accrue interest, on the basis of a 360 day year comprised of twelve thirty-day months, at the stated interest rates indicated on the cover page hereof. Principal of the Bonds will be payable at Regions Bank, in Houston, Texas, an Alabama banking corporation (the “Registrar” or “Paying Agent” or “Paying Agent/Registrar”), upon surrender of the Bonds for payment. Interest on the Bonds accrues from April 1, 2015 (or the most recent interest payment date to which interest has been paid or duly provided for) and is payable on September 1, 2015, and on each March 1 and September 1 (each an “Interest Payment Date”) thereafter until maturity or prior redemption. Unless otherwise agreed between the Registrar and the registered owner(s) of the Bonds (the “Registered Owners”), interest on the Bonds is payable by check, dated as of the Interest Payment Date, and mailed by the Registrar on or before the Interest Payment Date to the Registered Owners shown on the records of the Registrar as of the close of business on the fifteenth (15th) day of the calendar month next preceding each interest payment date (the “Record Date”). The Bonds are issued only in fully registered form. The Bonds will be issued in denominations of \$5,000 principal amount, or integral multiples thereof.

Book-Entry-Only System

This section describes how ownership of the Bonds is to be transferred and how the principal of and interest on the Bonds are to be paid to and credited by The Depository Trust Company (“DTC”), New York, New York, while the Bonds are registered in its nominee’s name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

The District cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participant, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

The Depository Trust Company (“DTC”), New York NY, will act as securities depository for the securities (the “Bonds”). The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s

partnership nominee) or such other name as may be required by an authorized representative of DTC. One fully-registered Security certificate will be issued for each of the Bonds, each in the aggregate principal amount of such issue, and will be deposited with DTC. If however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issue as soon as possible after the record date. The Omnibus Proxy assigns Cede &

Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

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

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

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

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement it should be understood that while the Bonds are in the book-entry form, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the book-entry system, and (ii) except as described above, notices that are to be given to registered owners under the Bond Order will be given only to DTC.

Paying Agent/Registrar

The initial Paying Agent/Registrar is Regions Bank, Houston, Texas, an Alabama banking corporation. The Bonds are being issued in fully registered form in integral multiples of \$5,000 of principal amount. Interest on the Bonds will be payable semiannually by the Paying Agent by check mailed on each Interest Payment Date by the Paying Agent to the Bondholder at the last known address as it appears on the Registrar's books on the Record Date.

Assignments, Transfers, and Exchanges

The Bonds may be transferred, registered, and assigned only on the registration books of the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the Registered Owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Bond may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. At any time after the date of delivery, any Bond may be transferred or exchanged upon its presentment and surrender at the principal payment office of the Paying Agent/Registrar, duly endorsed for transfer or accompanied by an assignment duly executed by the Registered Owner. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the Registered Owner or assignee of the owner in not more than three business days after the receipt of the request in proper form to transfer, exchange, or replace the Bonds. New Bonds registered and delivered in an exchange or transfer shall be in the denomination of \$5,000 or any integral multiple thereof for any one maturity and for a like aggregate principal amount as the Bond or Bonds surrendered for exchange or transfer. Neither the District nor the Paying Agent/Registrar is required (1) to transfer or exchange any Bond during a period beginning at the opening of business on a Record Date and ending at the close of business on the next succeeding interest payment date, or (2) to issue, transfer, or exchange any Bond during a period beginning at the opening of business thirty (30) days before the day of the first mailing of a notice of redemption of Bonds hereunder and ending at the close of business on the day of such mailing, or (3) to transfer or exchange any Bond selected for redemption in whole or in part within thirty (30) calendar days of the redemption date.

Replacement of Bonds

The District has agreed to replace mutilated, destroyed, lost or stolen Bonds upon surrender of the mutilated Bond at the principal payment office of the Paying Agent/Registrar, currently in Houston, Texas, or receipt of satisfactory evidence by the Paying Agent/Registrar of such destruction, loss or theft, and receipt by the District and the Paying Agent/Registrar of security or indemnity to keep them harmless. Registered Owners of lost, stolen or destroyed Bonds will be required to pay all costs associated with replacement of such Bonds. The District and the Paying Agent/Registrar may require payment of taxes, governmental charges and other expenses in connection with any such replacement.

Outstanding Bonds

The District's currently outstanding bonds include the \$4,000,000 Waterworks and Sewer System Unlimited Tax Bonds the Series 2006 (the "Series 2006 Bonds") of which \$440,000 remains outstanding; the \$1,775,000 Unlimited Tax Park Bonds, Series 2006 (the "Series 2006 Park Bonds") of which \$195,000 remains outstanding; the \$4,000,000 Unlimited Tax Bonds, Series 2010 (the "Series 2010 Bonds") of which \$3,900,000 remains outstanding; the \$6,965,000 Unlimited Tax Refunding Bonds, Series 2010 (the "Series 2010 Refunding Bonds") of which \$5,475,000 remains outstanding; the \$2,175,000 Unlimited Tax Bonds, Series 2012 (the "Series 2012 Bonds") of which \$2,175,000 remains outstanding; and the \$4,320,000 Unlimited Tax Refunding Bonds, Series 2014 (the "Series 2014 Refunding Bonds") of which \$4,320,000 remains outstanding. As of February 1 2015, \$16,505,000 principal amount of the bonds issued by the District remain outstanding (the "Outstanding Bonds").

Authority for Issuance

The Bonds are issued out of the \$43,500,000 principal amount of unlimited tax bonds authorized at elections held within the District for the purpose of acquiring and constructing a waterworks, wastewater and storm drainage system on February 2, 2002, and November 6, 2012. Following the issuance of the Bonds, \$34,480,000 of the principal amount of unlimited tax bonds for purpose of acquiring and constructing a waterworks, wastewater and storm drainage system will remain authorized but unissued pursuant to such elections. On November 6, 2012 the Board of Directors held an election within the Defined Area to authorize \$41,000,000 principal amount of Defined Area Bonds to finance the water, wastewater and drainage improvements within the Defined Area, and \$17,000,000 principal amount of Defined Area Bonds to finance road improvements within the Defined Area. All of such bonds may also be issued for refunding purposes. See "Issuance of Additional Debt" below.

The Bonds are issued pursuant to an Order of the TCEQ; the Bond Order; Chapters 49 and 54 of the Texas Water Code, as amended; Article XVI, Section 59, of the Texas Constitution, and general laws of the State of Texas.

Source of Payment

The Bonds, when issued, will constitute valid and binding obligations of the District, and the principal thereof and the interest thereon, together with the principal and interest on the Outstanding Bonds and such additional tax bonds of the District as may hereafter be issued by the District, if any, are payable from and secured by the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District.

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

Redemption of the Bonds

-Optional Redemption-

The District reserves the right, at its option, to redeem the Bonds prior to their scheduled maturities, in whole or 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. Notice of the exercise of the reserved right of redemption will be given at least thirty (30) days prior to the redemption date by sending such notice by first class mail to the Registered Owner of each Bond to be redeemed in whole or in part at the address shown on the bond register. If fewer than all of the Bonds are optionally redeemed at any time, the particular Bonds to be optionally redeemed shall be selected by the District in integral multiples of \$5,000 within any one maturity and if fewer than all of the Bonds within a maturity are to be redeemed, the Paying Agent/Registrar shall designate by method of random selection the Bonds within such maturity to be redeemed (or by DTC while the Bonds are in Book-Entry-Only form). The Registered Owner of any Bond, all or a portion of which has been called for redemption, shall be required to present same to the Paying Agent/Registrar for payment of the redemption price on the portion of the Bond so called for redemption and issuance of a new Bond in the principal amount equal to the portion of such Bond not redeemed.

-Mandatory Redemption-

The Bonds due on March 1 in each of the years 2029, 2031, 2037, and 2040 (the “Term Bonds”) also are subject to mandatory sinking fund redemption by the District by lot or other customary method of random selection prior to scheduled maturity on March 1 in the years (“Mandatory Redemption Dates”) and in the amounts set forth below at a redemption price of par plus accrued interest to the date of redemption.

\$525,000 Term Bonds

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
March 1, 2027	\$170,000
March 1, 2028	175,000
March 1, 2029 (Maturity)	180,000

\$390,000 Term Bonds

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
March 1, 2030	\$190,000
March 1, 2031 (Maturity)	200,000

\$490,000 Term Bonds

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
March 1, 2036	\$240,000
March 1, 2037 (Maturity)	250,000

\$815,000 Term Bonds

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
March 1, 2038	\$260,000
March 1, 2039	270,000
March 1, 2040 (Maturity)	285,000

On or before 30 days prior to each Mandatory Redemption Date as set forth above, the Registrar shall (i) determine the principal amount of Term Bonds that must be mandatorily redeemed on such Mandatory Redemption Date, after taking into account deliveries for cancellation and optional redemptions as more fully provided for below, (ii) select, by lot or other customary method of random selection, the Term Bonds or portions of the Term Bonds of such maturity to be mandatorily redeemed on such Mandatory Redemption Date, and (ii) give notice of such redemption as provided in the Bond Resolution. The principal amount of any Term Bonds to be mandatorily redeemed on such Mandatory Redemption Date shall be reduced by the principal amount of Term Bonds of such maturity, which by the 45th day prior to such Mandatory Redemption Date, have either been purchased in the open market and delivered or tendered for cancellation by the District or on behalf of the District to the Registrar or optionally redeemed and which, in either case, have not previously been made the basis for a reduction under this sentence.

Notice of any redemption identifying the Bonds to be redeemed in whole or in part shall be given by the Paying Agent/Registrar at least thirty (30) days prior to the date fixed for redemption by sending written notice by first class mail to the Registered Owner of each Bond to be redeemed in whole or in part at the address shown on the register. Such notices shall state the redemption date, the redemption price, the place at which the Bonds are to be surrendered for payment and, if fewer than all the Bonds outstanding with any one maturity are to be redeemed, the numbers of the Bonds or the portions thereof to be redeemed. Any notice given shall be conclusively presumed to have been duly given, whether or not the Registered Owner receives such notice. By the date fixed for redemption in whole or in part and due provision has been made to redeem the same as herein provided, the Bonds or portions thereof so redeemed shall no longer be regarded as outstanding except for the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the Registered Owners to collect interest that would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

Defeasance

The Bond Order provides that the District may discharge its obligations to the Registered Owners of any or all of the Bonds to pay principal, interest and redemption price thereon in any manner permitted by law. Under current Texas law, such discharge may be accomplished either (i) by depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of, premium, if any, and all interest to accrue on the Bonds to maturity or redemption or (ii) by depositing with any place of payment (paying agent) of the Bonds or other obligations of the District payable from revenues or from ad valorem taxes or both or with a commercial bank or trust company designated in the proceedings authorizing such discharge, amounts sufficient to provide for the payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested only in (a) direct noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) non-callable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The foregoing obligations may be in book-entry form and shall mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds. If any of such Bonds are to be redeemed prior to their respective dates of maturity, provision must have been made for giving notice of redemption as provided in the Bond Order.

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

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

Amendments to Bond Order

The Bond Order contains provisions that the District may, without consent of or notice to any Registered Owner of the Bonds, amend, change or modify the Bond Order as may be required (a) by the provisions thereof, (b) for the purpose of curing any ambiguity, inconsistency, or formal defect or omission therein, or (c) in connection with any other change which is not to the prejudice of the Registered Owners of the Bonds. Except for such amendments, changes, or modifications, the District shall not amend, change or modify the Bond Order in any manner without the consent of the Registered Owners of the Bonds as described in the Bond Order. 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.

Replacement of Paying Agent/Registrar

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

Issuance of Additional Debt

The District has reserved the right in the Bond Order to issue additional bonds necessary to provide improvements and facilities consistent with the purposes for which the District was created and for refunding purposes. The Bonds are issued out of the \$43,500,000 unlimited tax bonds authorized by the District voters for providing improvements and facilities. Following the issuance of the Bonds, the District will have the right to issue an additional \$34,480,000 in unlimited tax bonds for facilities as authorized by District voters, all of which may also be used for refunding purposes. The Bond Order imposes no limitation on the amount of additional parity bonds which may be issued by the District.

Since the District has not financed all components of its System, the District anticipates issuing more bonds for such purpose as future development in the District necessitates. In the opinion of the District's Engineer the remaining authorized but unissued bonds will be sufficient to complete development of the District. Developing environmental regulations and conversion to surface water could also result in the need to finance additional improvements. Before issuing any additional bonds for facilities, the District would have to obtain approval of the TCEQ for the issuance of such bonds and the projects to be financed thereby.

In addition to the foregoing, the District is authorized by law to issue bonds payable from an ad valorem tax to pay for the development and maintenance of recreational facilities if (i) the District duly adopts a plan for the facilities; (ii) the bonds are authorized at an election; (iii) the bonds payable from any source do not exceed 1% of the value of the taxable property in the District at the time of issuance of the bonds, or an amount greater than the estimated cost of the plan, whichever amount is smaller; (iv) the District obtains any necessary governmental consents, including that of the TCEQ, allowing the issuance of such bonds; and (v) the bonds are approved by the Attorney General of Texas. The District may issue bonds for such purposes payable solely from the net operating revenues without an election. The issuance of such bonds is subject to rules and regulations to be adopted by the TCEQ. In 2006, the District issued \$1,775,000 principal amount of bonds to finance parks and recreation facilities. The District has no additional authorized bonds for parks and recreation facilities.

The District has the right to issue such additional tax bonds, revenue bonds, or combination tax and revenue bonds as may be hereafter approved by the voters of the District. The District also has the right to issue revenue notes, bond anticipation notes, and tax anticipation notes without the necessity of voter approval. In addition, the District has the right to enter into contracts and to pledge its taxing power to secure any payments the District is required to make under such a contract, provided the provisions of the contract are approved by the voters of the District. The District further has the right to issue refunding bonds, in addition to the refunding bonds described above, without additional voter approval. The Bond Order places no limitation on the amount of additional bonds which may be issued by the District.

The District also is authorized by statute to engage in fire-fighting activities, including the issuing of bonds payable from taxes for such purposes. Before the District could issue such bonds, the following actions would be required: (1) authorization of a detailed master plan and bonds for such purpose by the qualified voters in the District; (2) approval of the master plan and bonds by the TCEQ; and (3) approval of bonds by the Attorney General of Texas. If additional debt obligations are issued in the future by the District, such issuance may increase gross debt/property ratios and might adversely affect the investment security of the Bonds. At this time, the District has no plans to engage in firefighting activities.

Annexation and Consolidation

Under Texas law, the territory within the District may be annexed by a city within whose extraterritorial jurisdiction the District lies without the consent of the District or its residents, subject to compliance by such city with various requirements of Chapter 43, Texas Local Government Code, as amended. If annexation by a city does occur, the District would be abolished within 90 days after annexation. If the District is abolished, the city must assume the assets, functions and obligations of the District, including the Bonds. The District lies within the exclusive extraterritorial jurisdiction of the City of Houston, Texas (the "City"). Annexation of territory by the City is a policy-making matter within the discretion of the Mayor and City Council of the City, and therefore, no representation is made concerning the likelihood of annexation by the City. Moreover no representation is made as to the ability of the City to make debt service payments should annexation occur.

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

Strategic Partnership Agreements

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

Registered Owners' Remedies

The Bond Order provides that in the event the District defaults in the payment of the principal of or interest on any of the Bonds when due, any Registered Owner shall be entitled to seek a writ of mandamus from a court of competent jurisdiction compelling and requiring the District to make such payments or to levy adequate taxes to make such payments or to observe and perform other covenants, obligations or conditions in the Bond Order. Such right is in addition to other rights the Registered Owners may be provided by the laws of the State of Texas.

The Bond Order provides no additional remedies to a Registered Owner. The Bond Order does not provide for the appointment of a trustee 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. Even if the Registered Owners could obtain a judgment against the District, such a judgment could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on the property within the District or sell property of the District in order to pay the principal of or interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may be further limited by laws relating to bankruptcy, reorganization, or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. For example, a Chapter 9 municipal bankruptcy proceeding by the District could delay or eliminate payment of principal or interest to the Registered Owners. See "Bankruptcy Limitation to Registered Owners' Rights" below. Certain traditional legal remedies also may not be available.

Bankruptcy Limitation to Registered Owners' Rights

The enforceability of the rights and remedies of the Registered Owners may be limited by laws relating to bankruptcy, reorganization, or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. Subject to the requirements of Texas law, the District may voluntarily proceed under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. §§ 901-946, if the District: (1) is generally authorized to file for federal bankruptcy protection by State law; (2) is insolvent or unable to meet its debts as they mature; (3) desires to effect a plan to adjust such debts; and (4) has either obtained the agreement of or negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiation is impracticable. Under Texas law, a municipal utility district such as the District must obtain the approval of the TCEQ prior to filing for bankruptcy. The TCEQ must investigate the financial condition of the District and will authorize the District to proceed only if the TCEQ determines that the District has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

If the District decides in the future to proceed voluntarily under the Federal Bankruptcy Code, the District would develop and file a plan for the adjustment of its debts and the Bankruptcy Court would confirm the District's plan if: (1) the plan complies with the applicable provisions of the Federal Bankruptcy Code; (2) all payments to be made in connection with the plan are fully disclosed and reasonable; (3) the District is not prohibited by law from taking any action necessary to carry out the plan; (4) administrative expenses are paid in full; and (5) the plan is in the best interests of creditors and is feasible. If such a plan were confirmed by the bankruptcy court, it could, among other things, affect a Registered Owner by reducing or eliminating the amount of indebtedness, deferring or rearranging the debt service schedule, reducing or eliminating the interest rate, modifying or abrogating collateral or security arrangements, substituting (in whole or in part) other securities, and otherwise compromising and modifying the rights and remedies of such Registered Owner's claim against the District.

The District may not be placed into bankruptcy involuntarily.

Legal Investment and Eligibility to Secure Public Funds in Texas

The following is quoted from Section 49.186 of the Texas Water Code, and is applicable to the District:

- (a) All bonds, notes, and other obligations issued by a district shall be legal and authorized investments for all banks, trust companies, building and loan associations, savings and loan associations, insurance companies of all kinds and types, fiduciaries, and trustees, and for all interest and sinking funds and other public funds of the state, and all agencies, subdivisions, and instrumentalities of the state, including all counties, cities, towns, villages, school districts, and all other kinds and types of districts, public agencies, and bodies politic.
- (b) A district's bonds, notes, and other obligations are eligible and lawful security for all deposits of public funds of the state, and all agencies, subdivisions, and instrumentalities of the state, including all counties, cities, towns, villages, school districts, and all other kinds and types of districts, public agencies, and bodies politic, to the extent of the market value of the bonds, notes, and other obligations when accompanied by any unmatured interest coupons attached to them.

The Public Funds Collateral Act (Chapter 2257, Texas Government Code) also provides that bonds of the District (including the Bonds) are eligible as collateral for public funds.

No representation is made that the Bonds will be suitable for or acceptable to financial or public entities for investment or collateral purposes. No representation is made concerning other laws, rules, regulations or investment criteria which apply to or which might be utilized by any of such persons or entities to limit the acceptability or suitability of the Bonds for any of the foregoing purposes. Prospective purchasers are urged to carefully evaluate the investment quality of the Bonds as to the suitability or acceptability of the Bonds for investment or collateral purposes.

Use and Distribution of Bond Proceeds

Proceeds from the Bonds will be used to redeem a bond anticipation note ("BAN"), the proceeds of which were used to pay for (1) the expansion of the District's Wastewater Treatment Plant; (2) the addition of a hydropneumatic tank to Water Plant No. 2 and (3) costs for contingencies and engineering fees associated with these projects. In addition, the proceeds of the Bonds include eighteen (18) months of capitalized interest and costs of issuing the BAN and the Bonds:

A. CONSTRUCTION COSTS

District Items

1. Wastewater Treatment Plant Expansion 1.40 MGD	\$2,578,000 (a)
2. Water Plant No. 2 Hydropneumatic Tank Addition	206,000
3. Contingencies (10% of Items 1 & 2)	279,000
4. Engineering (16% of Item 1 and 15% of Item 2)	<u>\$487,000</u>

Subtotal for District Items **\$3,550,000**

TOTAL CONSTRUCTION COSTS (79.6% of BIR): **\$3,550,000**

B. NON-CONSTRUCTION COSTS

A. Legal Fees	\$111,500
B. Fiscal Agent Fees	81,900
C. Interest Costs	
1. Capitalized Interest (18 Months @ 4.75%)	317,775
2. Bond Anticipation Note Interest (12 Months @ 2.50%)	91,000
D. Bond Discount (3%)	133,800
E. Bond Issuance Expenses	42,415
F. TCEQ Bond Issuance Fee (0.25%)	11,150
G. Attorney General Fee (0.10%)	4,460
H. Bond Application Report Costs	35,000
I. Bond Anticipation Note Expenses	<u>\$81,000</u>

TOTAL NON-CONSTRUCTION COSTS (20.4% of BIR): **\$910,000**

TOTAL BOND ISSUE REQUIREMENT: **\$4,460,000**

- (a) The remaining \$4,374,000 cost of the Wastewater Treatment Plant has been advanced by the Developers according to their pro rata shares based on needed capacity. The District will seek to reimburse the Developers through future bond issues.

In the instance that approved estimated amounts exceed actual costs, the difference comprises a surplus which may be expended for uses approved by the TCEQ. In the instance that actual costs exceed previously approved estimated amounts and contingencies, additional TCEQ approval and the issuance of additional bonds may be required. The Engineer has advised the District that the proceeds of the sale of the Bonds should be sufficient to pay the costs of the above-described facilities; however, the District cannot and does not guarantee the sufficiency of such funds for such purposes.

THE DISTRICT

General

The District is a municipal utility district which was created as "Norchester Municipal Utility District" by the Texas Legislature pursuant to Article 16, Section 59 of the Constitution of Texas and by Chapter 344, Acts of the 60th Legislature of Texas (HB No. 536) effective June 16, 1967. The District subsequently changed its name to "Northampton Municipal Utility District." The creation of the District was confirmed at an election held within the District on December 9, 1967. The rights, powers privileges, authority and functions of the District are established by the general laws of the State of Texas pertaining to utility districts, including particularly Chapters 49 and 54, Texas Water Code, Vernon's Texas Codes Annotated, as amended. The District is subject to the continuing supervision of the TCEQ.

The District is empowered to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply of water; the collection, transportation and treatment of wastewater; and the control and diversion of stormwater. The District also contracts for solid waste disposal and collection services and operates and maintains recreational facilities.

The District is empowered, if approved by the electorate, and the TCEQ and other governmental entities having jurisdiction, to establish, operate and maintain a fire department, either independently or jointly with certain other districts.

Description

As originally created, the District contained approximately 773 acres. Due to subsequent annexations, the District presently contains approximately 1,551.16 acres. Effective August 20, 2012, Houston Gosling Woodlands, L.P. (the "Houston Gosling") and the District entered into a "Financing Agreement" pursuant to which the Houston Gosling agreed to submit a proposed defined area plan for consideration by the Board of Directors of the District relating to an area within the District encompassing 439.686 acres. On August 20, 2012, the Board of Directors took action to proceed with the creation of the Defined Area within the boundaries of the District. The Defined Area is being developed as single-family residential and multi-family developments.

Under Texas law, an owner of land outside the boundaries of the District may petition to be annexed into the District, provided the annexation is found to be feasible and in the best interests of the District, and subject to review and approval by the City of Houston and the United States Justice Department. No representations can be made whether the District will annex additional tracts of land into its boundaries and, if it does, whether such annexed land will be successfully developed such that the additional bonded indebtedness of the District required to provide utility services to the land will be offset by the additional tax base produced by the development of taxable improvements.

The District is located in northwest Harris County approximately 30 miles north of downtown Houston and 5 miles west of Spring, Texas. The District lies entirely within the extraterritorial jurisdiction of the City of Houston and is located within the Klein Independent School District. The District is located approximately 4 miles west of Interstate Highway 45 and is bounded on the east by Spring Creek, on the south by Root Road, and is approximately 1 mile east of Kuykendahl Road.

Topography and Flood Hazards

Elevations within the District vary from approximately 89 feet msl to 151 feet msl. A majority of the land drains north from Root Road to Willow Creek, which ultimately drains to Spring Creek. Approximately 260 acres of the District lie within the 100-year floodplain of Willow Creek, a substantial portion of which has been developed as a golf course. Courts at Auburn Lakes has a very small part of approximately 23 lots that back up to the golf course which are currently in the floodplain. In Northampton, Section 4 approximately 37 lots include a portion of the drainage ditch and therefore are partially located in the 100-year floodplain. No action is currently being taken by the District to remove the land currently in the official floodplain.

Management of the District

The District is governed by a board of five directors which has control and management supervision over all affairs of the District. All of the present members of the Board reside within the District. Directors are elected in even-numbered years for four-year staggered terms. The present members and officers of the Board and their principal occupations are listed below:

Name	Position	Occupation	Term Expires May
E. C. Thomas	President	Petrophysicist	2018
Bill Black	1 st Vice President	Engineering Consultant	2016
W. Paul Schneider	2 nd Vice President	Pharmacist	2018
Joyce Nelsen	Secretary	Realtor/Broker	2016
Roger A. Flood	Treasurer	CPA	2016

The District employs a general manager and several full-time and part-time employees. The District has also contracted for utility system operating, bookkeeping, tax assessing services and annual auditing of its books as follows:

Tax Assessor/Collector - The District's Tax Assessor/Collector is Ms. Esther Flores of Tax Tech, Inc. Such firm acts as tax assessor for more than 100 utility districts.

Bookkeeper - The District's bookkeeper is Cindy Schmidt. Ms. Schmidt acts as bookkeeper for more than 80 utility districts.

Utility System Operator - The District's operator is Hays Utility South Corporation. Such firm acts as operator for approximately 80 utility systems.

Auditor - The District employed McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountants, to audit its financial records for the fiscal year ended December 31, 2013, which have been included as "APPENDIX A".

Engineer - The consulting engineer retained by the District in connection with the design and construction of the District's facilities is Jones & Carter, Inc. (the "Engineer").

Bond Counsel - The District employs Bacon & Wallace, L.L.P., Houston, Texas, as Bond Counsel in connection with the issuance of the Bonds. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered and, therefore, such fees are contingent on the sale and delivery of the Bonds. Bacon & Wallace, L.L.P. also acts as general counsel for the District.

Disclosure Counsel - Certain legal matters will be reviewed by McCall, Parkhurst & Horton, L.L.P., as Disclosure Counsel to the District.

Financial Advisor - Robert W. Baird & Company, Incorporated serves as the District's financial advisor (the "Financial Advisor"). The fee for services rendered in connection with the issuance of the Bonds is based on the percentage of the Bonds actually issued, sold and delivered and, therefore, such fee is contingent upon the sale and delivery of the Bonds. The Financial Advisor is employed by the District and has participated in the preparation of the Official Statement, however, the Financial Advisor is not obligated to undertake, and has not undertaken to make an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement that has been supplied or provided by third-parties. See "SOURCES OF INFORMATION - Experts."

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.

The Defined Area is currently being developed by D.R. Horton-Texas, Ltd. ("DR Horton") and SC Waterford Springs LLC ("Waterford"). DR Horton has developed Hampton Creek, Sections 1 and 2 on approximately 31.75 acres (120 lots). In addition, DR Horton is developing 104.94 acres (141 lots) as Hampton Creek, Sections 3, 4, 5, and 6. As of February 1, 2015, Hampton Creek contained 9 complete and occupied homes, 28 complete and unoccupied homes, 66 homes under construction, and 17 vacant, developed lots. Waterford purchased approximately 41 acres which is now owned by two different entities. SC Waterford Springs, LLC owns approximately 22.35 acres on which it is currently developing a 308 unit apartment complex which is expected to be completed in April 2015. SC Waterford Springs II, LLC owns approximately 18.59 acres on which a second apartment complex of approximately 300 units is being planned. According to Waterford construction is expected to begin sometime in 2016. DR Horton and Waterford are referred to herein as the "Defined Area Developers."

STATUS OF DEVELOPMENT

Approximately 829.09 acres within the District have been developed as the residential subdivisions of Northampton, Sections 1, 2, 3, 4, 5 and 8 (aggregating 1,073 lots), Inway Forest of Northampton (12 lots), Northampton Estates, Phases I-III (aggregating 250 lots), Northampton Forest, Sections I, II and III (aggregating 205 lots); The Terrace of Northampton Estates (13 lots); The Oaks of Northampton (27 lots); Woods of Northampton, Sections 1 and 2 (39 lots); Courts at Auburn Lakes (53 lots); Hampton Creek, Sections 1 and 2 (120 lots) and Stratton Woods (40 lots). In addition, there are 104.94 acres within the District that are being developed as the residential subdivisions of Hampton Creek, Sections 3, 4, 5 and 6 (141 lots); Dovershire Place Estates, Phase 1 (42 lots) and Inway Oaks Estates (51 lots). As of March 1, 2015, there were 1,646 completed homes, 66 homes under construction, 120 vacant, developed lots and 234 lots under development.

The District includes approximately 18 acres of commercial development including two office buildings, a Conoco gas station, Dave's express gas station, a Shell gas station, one retail strip center, one automotive repair center, one private tennis club, and the Spring Volunteer Fire Department Station No. 2; a 346-unit apartment complex known as the Alexan Auburn Lakes on 14.37 acres; recreational facilities which include three clubhouses, two swimming pools and tennis courts; and approximately 42 acres of developed park land. In addition, a 308-unit apartment complex known as Waterford Springs is under construction on approximately 22.35 acres. The remaining acreage within the District consists of a country club and 18-hole golf course on approximately 138 acres, (a portion of which lies within the 100-year flood plain), a school site on approximately 27.08 acres, approximately 216 undeveloped but developable acres and approximately 247.73 undevelopable acres.

DEVELOPERS

In addition to the Defined Area Developers, Buffington Capital Holdings, LLC ("Buffington Capital") is currently in the process of developing 42 lots for Phase 1 of a single family residential development known as Dovershire Place. Delivery of Phase 1 is expected in late summer 2015. Phase 2 which will consist of 53 lots is currently being designed.

Partners In Building, L.P., ("PIB") a Texas limited partnership, has developed an approximately 20.335 acre property which contains approximately 40 single family residential lots.

MRE, LLC ("MRE") is currently developing a 51 lot single family residential development known as Inway Oaks Estates, which is in the process of being annexed into the District.

Maple Multi-Family Operations, L.L.C. (“Maple”) has developed the Alexan Auburn Lakes, a 346-Unit apartment complex located on 14.37 acres. Maple is owned and controlled by Trammel Crow Residential.

Hampton on the Lakes, LLC and Gosling Village, LLC own approximately 49 acres in the District. Both entities are controlled by Bryan Frenchak. Currently, the District is not aware of any plans to develop such acreage.

The Defined Area Developers, Buffington Capital, PIB, MRE, and Maple are referred to herein as (the “Developers”). See “DEVELOPERS.”.

PHOTOGRAPHS WITHIN THE DISTRICT



PHOTOGRAPHS WITHIN THE DISTRICT



TAX DATA

Debt Service Tax

All taxable property within the District is subject to the assessment, levy and collection by the District of an annual ad valorem tax, without legal limitation as to rate or amount, sufficient to pay principal of and interest on the Outstanding Bonds, the Bonds and any future tax-supported bonds which may be issued from time to time as authorized. The Board covenants in the Bond Order to assess and levy, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax ample and sufficient to produce funds to pay the principal of and interest on the Bonds when due. The actual rate of such tax will be determined from year to year as a function of the District's tax base, its debt service requirements and available funds. The District levied a debt service tax for the 2014 tax year of \$0.36 per \$100 of assessed valuation. See "Tax Rate Distribution" below.

Maintenance Tax

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for maintenance of the District's improvements, if such maintenance tax is authorized by a vote of the District's electorate. The District voters have authorized the levy of such a maintenance tax in an amount not to exceed \$0.25 per \$100 of assessed valuation. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds, the Outstanding Bonds and any tax supported bonds which may be issued in the future. The District levied a maintenance tax for the 2014 tax year of \$0.25 per \$100 of assessed valuation. A maintenance tax rate of \$0.64 per \$100 assessed valuation has also been levied in the Defined Area for the 2014 tax year. See "Tax Rate Distribution" below.

Tax Collection History

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

Tax Year	Assessed Valuation	Tax Rate/ \$100 (a)	Adjusted Levy	% of Collection as of 2/28/14
2010	338,629,951	0.610000	2,065,643	99.71
2011	337,686,401	0.610000	2,059,887	99.74
2012	327,971,597	0.610000	2,000,627	99.64
2013	346,507,636	0.610000	2,113,697	99.33
2014	386,488,809	0.610000	2,357,581	98.08

(a) See "- Tax Rate Distribution" below.

(b) As of February 28, 2015

Tax Rate Distribution

	2014 (a)	2013 (a)	2012	2011	2010
Debt Service	\$0.36	\$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>	<u>0.25</u>
Total	<u>\$0.61</u>	<u>\$0.61</u>	<u>\$0.61</u>	<u>\$0.61</u>	<u>\$0.61</u>

(a) The Defined Area also levies a tax rate for maintenance purposes, which is currently \$0.64. Taxpayers within the defined area must pay both the District tax rate and the Defined Area tax rate, resulting in a total tax rate of \$1.25.

Analysis of Tax Base

The following table illustrates the District's total assessed value in the tax years 2010-2014 by type of property.

	2014 Assessed Value	2013 Assessed Value	2012 Assessed Value	2011 Assessed Value	2010 Assessed Value
Land	\$90,351,299	\$76,099,355	\$58,825,278	\$57,298,350	\$56,885,209
Improvements	361,675,384	333,866,933	321,428,213	304,201,829	304,570,913
Personal Property	4,854,864	6,472,444	6,182,205	6,120,582	5,863,001
Exemptions	<u>(59,616,162)</u>	<u>(60,544,750)</u>	<u>(58,515,518)</u>	<u>(29,988,180)</u>	<u>(28,866,057)</u>
Total	<u>397,265,385</u>	<u>355,893,982</u>	<u>327,920,178</u>	<u>337,632,581</u>	<u>338,453,066</u>

Principal Taxpayers

The following represents the principal taxpayers, type of property, and their assessed values as of January 1, 2014:

Taxpayer	Type of Property	Assessed Valuation 2014 Tax Roll
DR Horton Texas LTD(a)	Land	\$12,261,942
SC Waterford Springs LLC(a)	Land & Improvements	7,747,244
AAL Apartments LLC	Land & Improvements	3,934,542
Willow Creek Golf Club Inc	Land & Improvements	3,543,728
Asturcon Investment LLC	Land & Improvements	1,525,230
Gosling Village LLC	Land	1,521,352
Gosling Express Inc	Land, Improvements & Personal Property	1,101,808
Centerpoint Energy	Personal Property	1,027,650
Residents	Land & Improvements	880,000
Residents	Land, Improvements, & Agriculture	<u>725,445</u>
Total		<u>\$34,268,941</u>
	% of Respective Tax Roll	<u>8.87%</u>

(a) Currently developing within the Defined Area – See “DEFINED AREA – Defined Area Developers.”

Tax Rate Calculations

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 assessed valuation that would be required to meet certain debt service requirements if no growth in the District occurs beyond the 2014 Assessed Valuation or alternatively, the Estimated Valuation as of December 1, 2014 Estimate of Value. The foregoing further assumes collection of 98% of taxes levied and the sale of no additional bonds:

Average Annual Debt Service Requirements (2015-2040)	\$1,162,440
Tax Rate of \$0.31 on the 2014 Assessed Valuation (\$386,488,809) produces.....	\$1,174,153
Tax Rate of \$0.27 on the December 1, 2014 Estimate of Value (\$451,478,755) produces..	\$1,194,613
Maximum Debt Service Requirement (2017).....	\$1,545,342
Tax Rate of \$0.41 on the 2014 Assessed Valuation (\$386,488,809) produces.....	\$1,552,912
Tax Rate of \$0.35 on the December 1, 2014 Estimate of Value (\$451,478,755) produces..	\$1,548,572

Estimated Overlapping Taxes

Property within the District is subject to taxation by several taxing authorities in addition to the District. Under Texas law, if ad valorem taxes levied by a taxing authority become delinquent, a lien is created upon the property which has been taxed. A tax lien on property in favor of the District is on parity with tax liens of other taxing jurisdictions. In addition to ad valorem taxes required to make debt service payments on bonded debt of the District and of such other jurisdictions (see "DISTRICT DEBT- Estimated Overlapping Debt"), certain taxing jurisdictions are authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administrative and/or general revenue purposes.

Set forth below is a compilation of all 2014 taxes levied by such jurisdictions per \$100 of assessed valuation. Such levies do not include local assessments for community associations, fire department contributions, charges for solid waste disposal, or any other dues or charges made by entities other than political subdivisions.

<u>Taxing Jurisdictions</u>	<u>2014 Tax Rate/\$100</u>
The District	\$0.61000
Harris County	0.41731
Harris County Department of Education	0.00600
Harris County Flood Control District	0.02736
Port of Houston Authority	0.01531
Harris County Hospital District	0.10810
Lone Star College System	0.07200
Harris County Emergency Service District No. 11	0.04300
Klein Independent School District	<u>1.39000</u>
 Total 2014 Tax Rate for the District	 <u>\$2.68908</u>
The Defined Area	0.64000
Total 2014 Tax Rate for the Defined Area	<u>\$3.32908</u>

THE SYSTEM

Proceeds of the Outstanding Bonds were used to finance water, sanitary sewer and drainage lines to serve approximately 829 acres of single-family residential development, approximately 42 acres of developed park land, approximately 18 acres of commercial development, and approximately 136 acres of consisting of a golf course and club house, an elementary school, and the District's facilities.

- Water Facilities -

Proceeds of the Outstanding Bonds were used to finance construction of the District's existing water supply system which consists of 2 water plants including 3 water wells, 4 ground storage tanks and 4 hydropneumatic tanks and booster pump facilities. A portion of the Bonds will be used to add a hydropneumatic tank to the District's water supply system. These water plants are sufficient to provide water supply to 3,200 equivalent single-family connections ("esfc"). Upon completion of the hydropneumatic tank, the District water supply will be capable of serving approximately 3,279 esfc.

- Water Contracts with Other Districts -

On September 17, 2007, the District entered an Emergency Water Supply Agreement with Harris County Municipal Utility District No. 1 ("HCMUD No. 1") whereby both districts agree to supply each other with water on an emergency basis, with appropriate provisions being made for the payment of water used and the operation and maintenance of the interconnect line.

On February 17, 1992, the District entered an Emergency Water Supply Agreement with Oakmont Public Utility District whereby, upon termination of the Interim Water Supply Agreement, both districts agreed to supply each other with water on an emergency basis for a term of twenty years, with appropriate provisions being made for the payment of water used and the operation and maintenance of the interconnect line.

On September 24, 1985, the District entered an Emergency Water Supply Agreement with Encanto Real Utility District whereby both districts agree to supply each other with water on an emergency basis for a term of thirty-five years, with appropriate provisions being made for the payment of water used and the operation and maintenance of the interconnect line.

- Wastewater Treatment -

Proceeds from the Outstanding Bonds were used to finance construction of the District's existing wastewater treatment system which consists of a 1,150,000 gallon per day ("gpd") treatment plant (the "Plant"). Ownership of this 1,150,000 gpd plant is allocated by written agreements among the District and Oakmont Public Utility District ("Oakmont PUD") Pursuant to such agreements, the District is allocated 715,000 gpd and Oakmont PUD is allocated 435,000 gpd. A portion of the proceeds from the Bonds will fund the Wastewater Treatment Plant Expansion to 1.40 MGD is currently being constructed. The additional capacity of the expansion is being used by Northampton, with Oakmont's consent. Upon completion of the expansion the District will have the capacity to serve approximately 4,160 esfc.

- Drainage Facilities -

Storm sewer lines ranging from 24" to 84" run throughout the entire District. All of the outfalls drain into a Harris County Flood Control ditches that extend from the western border, around the northern border, and down along the eastern border of the District.

Historical Operations of the System

	2013	2012	2011	2010	2009
REVENUES					
Property Taxes	\$1,182,729	\$1,212,652	\$1,217,998	\$1,233,233	\$ 1,251,128
Penalty and Interest	22,686	15,116	18,678	25,990	21,606
Investment Revenues	4,092	6,605	11,130	14,818	34,910
Miscellaneous Revenues	<u>1,605</u>	25		348	284
TOTAL REVENUES	<u>\$ 1,211,112</u>	<u>\$ 1,234,398</u>	<u>\$1,247,806</u>	<u>\$1,274,389</u>	<u>\$1,307,928</u>
EXPENDITURES					
Tax Collection Expenditures	\$48,659	\$47,288	\$66,253	\$ 52,131	\$49,722
Debt Service Principal	815,000	570,000	725,000	640,000	605,000
Debt Service Interest and Fees	687,835	879,911	661,853	690,317	651,043
Bond Issuance Costs				250,485	
TOTAL EXPENDITURES	<u>\$ 1,551,494</u>	<u>\$ 1,497,199</u>	<u>\$1,453,106</u>	<u>\$1,632,933</u>	<u>\$1,305,765</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (340,382)</u>	<u>\$ (262,801)</u>	<u>\$ (205,300)</u>	<u>\$(358,544)</u>	<u>\$ 2,163</u>

General**DISTRICT DEBT**

2014 Assessed Valuation.....	\$386,488,809 (a)
(100% of estimated market value as of January 1, 2014)	
See "TAX DATA" and "TAXING PROCEDURES."	
Estimated Taxable Valuation as of December 1, 2014.....	\$451,478,755 (b)
See "TAX DATA" and "TAXING PROCEDURES."	
Direct Debt: Outstanding Bonds (as of February 1, 2015).....	\$ 16,505,000
The Bonds	<u>4,460,000</u>
Total	\$ 20,965,000
Estimated Overlapping Debt.....	<u>\$ 25,175,991 (c)</u>
Total Direct and Estimated Overlapping Debt.....	<u>\$ 44,140,991</u>
Direct Debt Ratio	
: as a percentage of 2014 Assessed Valuation.....	5.42 %
: as a percentage of the Estimated Valuation as of December 1, 2014	4.64 %
Direct and Estimated Overlapping Debt Ratio	
: as a percentage of 2014 Assessed Valuation.....	11.42 %
: as a percentage of the Estimated Valuation as of December 1, 2014	9.78 %
Debt Service Fund Balance as of March 16, 2015 (unaudited).....	\$ 954,170 (d)
General Fund Balance as of March 16, 2015 (unaudited).....	\$ 1,821,107
Park Capital Projects Fund Balance as of March 16, 2015 (unaudited).....	\$ 432,831
Capital Projects Fund Balance as of March 16, 2015 (unaudited)	\$ 552,051
2014 District Tax Rate Per \$100 of Assessed Valuation	
Debt Service	\$0.36 (e)
Maintenance	<u>0.25</u>
Total	\$0.61 (f)
Average Percentage of Total Tax Collections (2009-2014).....	98.08 %
Average Annual Debt Service Requirements of the Bonds and the Outstanding Bonds (2013-2036)	\$ 1,162,440
Maximum Annual Debt Service Requirement of the Bonds and the Outstanding Bonds (2015).....	\$ 1,545,342
Tax Rate per \$100 of Assessed Valuation Required to Pay Average Annual Debt Service Requirements of the Bonds and the Outstanding Bonds (2015-2040) at 98% Tax Collections	
Based Upon 2014 Assessed Valuation.....	\$0.31
Based Upon December 1, 2014 Estimate of Value	\$0.27
Tax Rate per \$100 of Assessed Valuation Required to Pay Maximum Annual Debt Service Requirement of the Bonds and the Outstanding Bonds (2017) at 98% Tax Collections	
Based Upon 2014 Assessed Valuation.....	\$0.41
Based Upon December 1, 2014 Estimate of Value	\$0.35

- (a) 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.
- (b) Provided by the HCAD for information purposes only. Represents new construction within the District from January 1, 2014 to December 1, 2014. 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."
- (c) See "DISTRICT DEBT - Estimated Overlapping Debt Statement."
- (d) 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. The March 1, 2015 debt service payment was made.
- (e) The TCEQ in its order authorizing the District to issue the Bonds advised the District to levy a debt service tax rate of not more than \$0.42 per \$100 of assessed valuation based upon the Bonds being issued at an interest rate of 4.89%.
- (f) A maintenance tax is also currently levied in the Defined Area at a rate of \$0.64 per \$100 of assessed valuation. Taxpayers within the Defined Area must pay both the District tax rate and the Defined Area tax rate, resulting in a total tax rate of \$1.25.

Debt Service Requirements

The following sets forth the debt service requirements for the Outstanding Bonds and the debt service requirements on the Bonds. This schedule does not reflect the fact that an amount equal to 18 months of capitalized interest will be capitalized from the proceeds of the sale of the Bonds to pay debt service on the Bonds.

Year	Outstanding Bonds	The Bonds		Total Debt Service Requirements
		Principal (Due March 1)	Interest	
2015	\$1,488,303		\$57,039	\$1,545,342
2016	1,289,699		136,894	1,426,592
2017	1,288,265	\$115,000	135,744	1,539,009
2018	1,281,150	120,000	133,394	1,534,543
2019	1,155,826	125,000	130,944	1,411,770
2020	1,157,004	125,000	128,444	1,410,448
2021	1,162,210	130,000	125,731	1,417,941
2022	1,161,380	140,000	122,519	1,423,899
2023	1,164,483	145,000	118,956	1,428,440
2024	1,171,446	150,000	115,269	1,436,714
2025	1,177,199	155,000	111,263	1,443,461
2026	1,000,411	160,000	106,931	1,267,342
2027	996,350	170,000	102,181	1,268,531
2028	869,117	175,000	97,006	1,141,123
2029	868,497	180,000	91,681	1,140,178
2030	871,931	190,000	86,013	1,147,943
2031	894,328	200,000	79,919	1,174,247
2032	895,231	205,000	73,591	1,173,822
2033	899,353	215,000	66,894	1,181,247
2034	901,100	225,000	59,744	1,185,844
2035	901,288	230,000	52,206	1,183,494
2036	910,663	240,000	43,975	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>\$23,505,232</u>	<u>\$4,460,000</u>	<u>\$2,258,211</u>	<u>\$30,223,442</u>
Average Annual Requirements: (2015-2040)				\$1,162,440
Maximum Requirement: (2015)				\$1,545,342

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.

<u>Taxing Jurisdiction</u>	<u>Debt as of January 31, 2015</u>	<u>Estimated Overlapping</u>	
		<u>Percent</u>	<u>Amount</u>
Harris County	\$2,396,117,860	0.110%	\$2,645,930
Harris County Department of Education	7,410,000	0.110%	8,144
Harris County Flood Control District	87,400,000	0.114%	99,597
Klein Independent School District	753,090,000	2.442%	18,387,244
Lone Star College System	467,525,000	0.264%	1,234,536
Port of Houston Authority	702,379,397	0.114%	800,540
Total Estimated Overlapping Debt			\$23,175,991
The District			<u>20,965,000(a)</u>
Total Direct & Estimated Overlapping Debt			<u>\$44,140,991</u>

Debt Ratios

	<u>% of 2014 Assessed Valuation</u>	<u>% of Estimated Valuation as of December 1, 2014</u>
Direct Debt Ratio for the Outstanding Bonds and the Bonds	5.42%	4.64%
Direct and Estimated Overlapping Debt Ratios	11.42%	9.78%

Under Texas law, ad valorem taxes levied by each taxing authority create a lien which is on a parity with the lien in favor of the District on all taxable property within the District. In addition to the ad valorem taxes required to retire the foregoing direct and overlapping debt, the various taxing authorities mentioned above are also authorized by Texas law to assess, levy, and collect ad valorem taxes for operation, maintenance, administration and/or general revenue purposes. Certain of the jurisdictions have in the past levied such taxes. The District has the power to assess, levy, and collect ad valorem taxes for 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 2014 maintenance tax of \$0.25 per \$100 of assessed valuation. A maintenance tax has also been levied in the Defined Area at a rate of \$0.64 per \$100 assessed valuation for the 2014 tax year. 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 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. The District levied a maintenance tax in the amount of \$0.25 per \$100 of assessed valuation for the 2014 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 2014 tax year. See "TAX DATA - Maintenance Tax."

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 2014, 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 2014, 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, 2014, approximately 0 acres of land within the District were 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, Klein Independent School District, and (after annexation of the area) the City of Houston may thereafter enter into tax abatement agreements with the owners of property within the zone. The tax abatement agreements may exempt from ad valorem tax, by the applicable taxing jurisdictions, and by the District, for a period of up to ten 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. See “THE BONDS - Source of Payment.” Therefore, the ultimate security for payment of the principal of and interest on the Bonds and the Outstanding 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. In fact, the assessed valuation in the District declined in 2011 and 2012. 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. Although as described in this Official Statement under the caption “STATUS OF DEVELOPMENT”, (i) the development of a total of approximately 746 acres located within the District is complete, including the development of single-family residential building sites, and home construction is occurring on 86 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 Rates: 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 2014 Assessed Valuation of property located within the District (see “TAX DATA”) is \$386,488,809 and the Estimated Valuation as of December 1, 2014 of property located within the District is \$451,478,755. After issuance of the Bonds, the maximum annual debt service requirement on the Bonds will be \$1,545,342 (2015) and the average annual debt service requirements will be \$1,162,440 (2015-2040, inclusive). Assuming no increase to nor decrease from the 2014 Assessed Valuation of \$386,488,809, tax rates of \$0.41 and \$0.31 per \$100 of assessed valuation at a 98% tax collection rate would be necessary to pay the maximum annual debt service requirement and the annual debt service requirement, respectively. Assuming no increase to nor decrease from the Estimated Valuation as of December 1, 2014 of \$451,478,755, tax rates of \$0.35 and \$0.27 per \$100 of assessed valuation at 98% tax collection rate would be necessary to pay the maximum annual debt service requirement and the average annual debt service requirements, respectively.

Tax Collection Limitations

The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other 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.

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 issuer which is recovered by the issuer 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 Insurer at such time and in such amounts as would have been due absence such prepayment by the Issuer 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 Issuer or Underwriters 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 Issuer 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 "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.

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 \$34,480,000 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."

On August 20, 2012, the Board of Directors took action to proceed with the creation of the Defined Area within the boundaries of the District. The Defined Area consists of 439.686 acres that is expected to be developed as single-family residential and multi-family development. The Board of Directors held an election within the Defined Area to authorize \$41,000,000 principal amount of Defined Area Bonds to finance the water, wastewater and drainage improvements within the Defined Area, and \$17,000,000 principal amount of Defined Area Bonds to finance road improvements within the Defined Area. Any bonds issued for the Defined Area will be payable solely from a tax levied within the boundaries of the Defined Area and not on any other part of the District.

Continuing Compliance with Certain Covenants

The Bond Order contains covenants by the District intended to preserve the exclusion from gross income of interest on the Bonds. Failure 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.

2015 Legislative Session

On January 13, 2015, the Texas Legislature convened its 84th regular session until June 1, 2015. During this time, the Legislature will likely enact laws which affect ad valorem tax and other matters which could adversely affect the marketability or market value of the Bonds. The District cannot predict the actions of the Legislature.

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."

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," and "THE DISTRICT - Management of the District - Counsel," "LEGAL MATTERS," "TAX 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 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, Bacon & Wallace, L.L.P., Houston, Texas, Bond 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, Bond 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, Bond Counsel will rely upon (a) the Issuer's federal tax certificate and (b) 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 Bond Counsel is conditioned on compliance by the District with such requirements, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinion is not a guarantee of 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 Bond 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.

Qualified Tax-Exempt Obligations for Financial Institutions

Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a “financial institution,” on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer’s taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a “financial institution” allocable to tax-exempt obligations, other than “private activity bonds,” that are designated by a “qualified small issuer” as “qualified tax-exempt obligations.” A “qualified small issuer” is any governmental issuer (together with any “on-behalf of” and “subordinate” issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term “financial institution” as any “bank” described in Section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person’s trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to “qualified tax-exempt obligations” provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a “bank,” as defined in Section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase “qualified tax-exempt obligations” shall be reduced by twenty-percent (20%) as a “financial institution preference item.”

The Issuer expects to designate the Bonds as “qualified tax-exempt obligations” within the meaning of section 265(b) of the Code. In furtherance of that designation, the Issuer will covenant to take such action that would assure, or to refrain from such action that would adversely affect the treatment of the Bonds as “qualified tax-exempt obligations.” **Potential purchasers should be aware that if the issue price to the public exceeds \$10,000,000, there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of \$10,000,000 is disregarded; however, the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the \$10,000,000 limitation and the Bonds would not be “qualified tax-exempt obligations.”**

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 material events, to certain information vendors so long as the agreement is in force (see “Limitations and Amendments” below). This information will be provided 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 “DISTRICT DEBT,” “TAX DATA,” “APPENDIX A.” The District will update and provide this information within six months after the end of each fiscal year ending in or after 2015.

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.

Material Event Notices

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten 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.

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 and December 31, 2011 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. 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. As of the date of this Official Statement, the District has filed such operating data in the manner prescribed

by the MSRB. The District has reviewed its continuing disclosure responsibilities to help ensure filing of audited financial statements and operating data are made in a timely manner in the future to the MSRB.

OFFICIAL STATEMENT

General

The information contained in this Official Statement has been obtained primarily from the District's records, the District's 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" and "DISTRICT DEBT" 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, 2013 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 hereof.

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

ATTEST:

Joyce Nelsen
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, 2013

NORTHAMPTON MUNICIPAL UTILITY DISTRICT

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

DECEMBER 31, 2013

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

NORTHAMPTON MUNICIPAL UTILITY DISTRICT
HARRIS COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
DECEMBER 31, 2013

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 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	21-39
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE- BUDGET AND ACTUAL-GENERAL FUND	41
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE- BUDGET AND ACTUAL-SPECIAL REVENUE FUND	42
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	44-46
GENERAL FUND EXPENDITURES	47-48
INVESTMENTS	49
TAXES LEVIED AND RECEIVABLE	50-51
LONG-TERM DEBT SERVICE REQUIREMENTS	52-57
CHANGE IN LONG-TERM BOND DEBT	58-60
COMPARATIVE SCHEDULES OF REVENUES AND EXPENDITURES GENERAL FUND AND DEBT SERVICE FUND - FIVE YEARS	61-64
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS	65-67

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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, 2013, 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, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

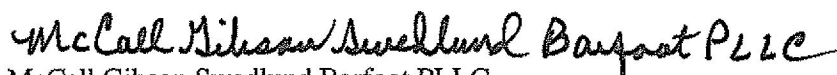
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 through 8 and the Schedules of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund and Special Revenue Fund on pages 41 and 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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



McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants

April 7, 2014

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013**

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, 2013. Please read it in conjunction with the District's financial statements, which begin on page 9.

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 Funds Revenues, Expenditures and Changes in Fund Balances. This report also includes other supplementary information in addition to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

The first of the government-wide statements is the Statement of Net Position. This information is found in the Statement of Net Position column on pages 9 through 14. 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 portion of the Statement of Activities on pages 16 through 19 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, 2013**

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 on page 15 and the Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities on page 20 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. The notes to financial statements can be found on pages 21 through 39 in this report.

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, 2013**

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 \$3,981,715 as of December 31, 2013.

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

The following is a comparative analysis of the Statement of Net Position as of December 31, 2013, and December 31, 2012:

	<u>Summary of Changes in the Statement of Net Position</u>		
	<u>2013</u>	<u>2012</u>	<u>Change Positive (Negative)</u>
Current and Other Assets	\$ 7,125,670	\$ 9,119,698	\$ (1,994,028)
Capital Assets (Net of Accumulated Depreciation)	<u>19,149,976</u>	<u>17,696,265</u>	<u>1,453,711</u>
Total Assets	<u>\$ 26,275,646</u>	<u>\$ 26,815,963</u>	<u>\$ (540,317)</u>
Developer Advances	\$ 2,024,055	\$ 1,255,320	\$ (768,735)
Long -Term Liabilities	16,319,614	17,155,609	835,995
Other Liabilities	<u>1,881,575</u>	<u>1,883,108</u>	<u>1,533</u>
Total Liabilities	<u>\$ 20,225,244</u>	<u>\$ 20,294,037</u>	<u>\$ 68,793</u>
Deferred Inflows of Resources	<u>\$ 2,068,687</u>	<u>\$ 1,996,646</u>	<u>\$ (72,041)</u>
Net Position:			
Net Investment in Capital Assets	\$ 2,373,503	\$ 2,045,147	\$ 328,356
Restricted	1,138,520	2,059,309	(920,789)
Unrestricted	<u>469,692</u>	<u>420,824</u>	<u>48,868</u>
Total Net Position	<u>\$ 3,981,715</u>	<u>\$ 4,525,280</u>	<u>\$ (543,565)</u>

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The following table provides a summary of the District's operations for the years ended December 31, 2013, and December 31, 2012. The District's net position decreased by \$543,565, accounting for a 12.0% reduction in net position.

	Summary of Changes in the Statement of Activities		
	2013	2012	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 2,001,435	\$ 2,061,611	\$ (60,176)
Charges for Services	2,606,972	2,372,479	234,493
Capital Contributions	-	19,660	(19,660)
Other Revenues	91,121	95,902	(4,781)
Total Revenues	\$ 4,699,528	\$ 4,549,652	\$ 149,876
Expenses for Services	(5,243,093)	(5,244,043)	950
Change in Net Position	\$ (543,565)	\$ (694,391)	\$ 150,826
Net Position, Beginning of Year	4,525,280	5,219,671	(694,391)
Net Position, End of Year	\$ 3,981,715	\$ 4,525,280	\$ (543,565)

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of December 31, 2013, were \$2,067,672, a decrease of \$2,797,787 from the prior year.

The General Fund fund balance increased by \$57,109 primarily due to transfers from the Capital Projects Fund.

The Debt Service Fund fund balance decreased by \$340,382, primarily due to the timing difference between actual property tax collections and debt service payments.

The Capital Projects Fund fund balance decreased by \$2,514,514, primarily due to use of prior bond proceeds to fund current year capital costs.

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013**

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the budget during the fiscal year. Actual revenues were \$98,342 more than budgeted revenues. Actual expenditures were \$154,997 more than budgeted expenditures. See page 41 for budget and actual comparison.

CAPITAL ASSETS

Capital assets as of December 31, 2013, total \$19,149,976 (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:

Bridgeway, Kingscrest & Northcrest Lift Station Rehabilitation	\$ 112,865
Water and Sewer Extension on Gosling	2,163,864
Wastewater Treatment Plant Improvements	515,672
Sanitary Sewer Manhole Rehabilitation Phase 1	38,033
Sanitary Sewer Manhole Rehabilitation Phase 2	<u>122,498</u>

Total Completed Projects	<u>\$ 2,952,932</u>
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Construction in Progress:

Water Well No. 1 Rework	\$ 57,186
Water Well No. 3 Rework	6,821
Water Plant No. 3	19,300
Water Plant No. 2 Hydro Tank Addition	17,225
Wastewater Treatment Plant Expansion	<u>330,056</u>

Total Construction in Progress	<u>\$ 430,588</u>
--------------------------------	-------------------

Capital Assets At Year-End, Net of Accumulated Depreciation

	<u>2013</u>	<u>2012</u>	<u>Change Positive (Negative)</u>
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 1,775,875	\$ 1,284,617	\$ 491,258
Construction in Progress	430,588	916,355	(485,767)
Capital Assets, Net of Accumulated Depreciation:			
Meeting and Recreation Facilities	2,344,316	2,600,814	(256,498)
Water System	3,626,946	3,136,843	490,103
Wastewater System	9,902,994	8,647,978	1,255,016
Drainage System	1,054,775	1,084,684	(29,909)
Equipment	<u>14,482</u>	<u>24,974</u>	<u>(10,492)</u>
Total Net Capital Assets	<u>\$ 19,149,976</u>	<u>\$ 17,696,265</u>	<u>\$ 1,453,711</u>

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013**

CAPITAL ASSETS (Continued)

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

LONG-TERM DEBT ACTIVITY

At the end of the current fiscal year, the District had total debt payable of \$17,145,000.

The changes in the debt position of the District during the fiscal year ended December 31, 2013, are summarized as follows:

Bond Debt Payable, January 1, 2013	\$ 17,960,000
Less: Bond Principal Paid	<u>815,000</u>
Bond Debt Payable, December 31, 2013	<u>\$ 17,145,000</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 and Series 2012 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", "A2", and "AA-" respectively, by virtue of bond insurance issued by Assured Guaranty Municipal Corp. ("AGM"). Series 2006 bonds carry insured ratings of "Baa1/A" by virtue of bond insurance issued by National Public Finance Guaranty Corporation ("NPFGC"). 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.

NORTHAMPTON MUNICIPAL UTILITY DISTRICT
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
DECEMBER 31, 2013

	<u>General Fund</u>	<u>Special Revenue Fund</u>
ASSETS		
Cash, Note 5	\$ 578,156	\$ 51,698
Investments, Note 5	245,000	
Receivables:		
Property Taxes	690,443	
Penalty and Interest on Delinquent Taxes		
Service Accounts (Net of Allowance for Doubtful Accounts of \$5,000)	171,711	
Accrued Interest	149	
Other	12,184	
Due from Other Funds, Note 15	8,782	35,791
Prepaid Costs	54,559	
Due from Other Governments	3,030	33,254
Advance for Regional Wastewater Treatment Plant Operations, Note 9	53,700	
Prepaid Bond Insurance		
Land, Note 6		
Construction in Progress, Note 6		
Capital Assets (Net of Accumulated Depreciation), Note 6		
TOTAL ASSETS	<u>\$ 1,817,714</u>	<u>\$ 120,743</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>
\$ 634,997	\$ 2,817,921	\$ 4,082,772	\$	\$ 4,082,772
735,000		980,000		980,000
990,611		1,681,054		1,681,054
12,623		12,623		12,623
		171,711		171,711
		149		149
		12,184		12,184
3,476		48,049	(48,049)	
		54,559		54,559
		36,284		36,284
		53,700	(53,700)	
			94,334	94,334
			1,775,875	1,775,875
			430,588	430,588
			16,943,513	16,943,513
<u>\$ 2,376,707</u>	<u>\$ 2,817,921</u>	<u>\$ 7,133,085</u>	<u>\$ 19,142,561</u>	<u>\$ 26,275,646</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, 2013

	<u>General Fund</u>	<u>Wastewater Treatment Plant</u>
LIABILITIES		
Accounts Payable	\$ 176,174	\$ 38,143
Due to Other Governments	40,338	
Accrued Interest Payable		
Developer Advances	11,435	
Due to Other Funds, Note 15	39,267	
Due to Homeowners Association	1,162	
Unearned User Fees	7,580	
Security Deposits	140,060	
Reserved for Wastewater Treatment Plant Operations, Note 9		82,600
Unearned Tap Fees	175,936	
Long Term Liabilities:		
Bonds Payable Within One Year, Note 3		
Bonds Payable After One Year, Note 3		
TOTAL LIABILITIES	<u>\$ 591,952</u>	<u>\$ 120,743</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows:		
Property Taxes	\$ 865,570	\$
Penalty and Interest on Delinquent Taxes		
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>\$ 865,570</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 Net Position</u>
\$	\$ 213,000	\$ 427,317	\$	\$ 427,317
		40,338		40,338
			230,282	230,282
	2,012,620	2,024,055		2,024,055
1,855	6,927	48,049	(48,049)	
		1,162		1,162
		7,580		7,580
		140,060		140,060
		82,600	(53,700)	28,900
		175,936		175,936
			830,000	830,000
			16,319,614	16,319,614
<u>\$ 1,855</u>	<u>\$ 2,232,547</u>	<u>\$ 2,947,097</u>	<u>\$ 17,278,147</u>	<u>\$ 20,225,244</u>
\$ 1,240,123	\$	\$ 2,105,693	\$ (37,006)	\$ 2,068,687
12,623		12,623	(12,623)	
<u>\$ 1,252,746</u>	<u>\$ -0-</u>	<u>\$ 2,118,316</u>	<u>\$ (49,629)</u>	<u>\$ 2,068,687</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, 2013

	<u>General Fund</u>	<u>Wastewater Treatment Plant</u>
FUND BALANCES		
Nonspendable:		
Advance for Wastewater Treatment Plant Operations	\$ 53,700	\$
Prepaid Costs	54,559	
Restricted for Authorized Construction:		
Bond Proceeds		
Net Investment Revenues		
Restricted for Debt Service		
Unassigned	251,933	
TOTAL FUND BALANCES	<u>\$ 360,192</u>	<u>\$ - 0 -</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 1,817,714</u>	<u>\$ 120,743</u>
NET POSITION		
Net Investment in Capital Assets		
Restricted for:		
Debt Service		
Capital Projects		
Unrestricted		
TOTAL NET POSITION		

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>
\$	\$	\$ 53,700	\$ (53,700)	\$
		54,559	(54,559)	
	373,141	373,141	(373,141)	
	212,233	212,233	(212,233)	
1,122,106		1,122,106	(1,122,106)	
		251,933	(251,933)	
<u>\$ 1,122,106</u>	<u>\$ 585,374</u>	<u>\$ 2,067,672</u>	<u>\$ (2,067,672)</u>	<u>\$ - 0 -</u>
<u>\$ 2,376,707</u>	<u>\$ 2,817,921</u>	<u>\$ 7,133,085</u>		
			\$ 2,373,503	\$ 2,373,503
			926,287	926,287
			212,233	212,233
			469,692	469,692
			<u>\$ 3,981,715</u>	<u>\$ 3,981,715</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, 2013

Total Fund Balances - Governmental Funds	\$	2,067,672
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Prepaid bond insurance premiums are not current financial resources and, therefore, are not reported as assets in the governmental funds.		94,334
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Land, construction in progress and capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.		19,149,976
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Deferred tax revenues and deferred penalty and interest revenues on delinquent taxes for the 2012 and prior tax levies became part of recognized revenues in the governmental activities of the District.		49,629
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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:

Accrued Interest Payable	\$ (230,282)	
Bonds Payable Within One Year	(830,000)	
Bonds Payable After One Year	<u>(16,319,614)</u>	<u>(17,379,896)</u>

Total Net Postion - Governmental Activities	\$	<u>3,981,715</u>
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The accompanying notes to financial
statements are an integral part of this report.

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NORTHAMPTON MUNICIPAL UTILITY DISTRICT
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>General Fund</u>	<u>Special Revenue Fund</u>
REVENUES		
Property Taxes	\$ 821,340	\$
Water Service	728,175	
Wastewater Service	875,255	510,653
Penalty and Interest	31,472	
Tap Connection and Inspection Fees	1,420	
Facility Use Fees	101,633	
Regional Water Authority Fees	666,239	
Investment Revenues	1,137	
Miscellaneous Revenues	77,571	
TOTAL REVENUES	<u>\$ 3,304,242</u>	<u>\$ 510,653</u>
EXPENDITURES/EXPENSES		
Service Operations:		
Professional Fees	\$ 289,276	\$ 25,180
Contracted Services	497,542	45,843
Purchased Wastewater Service, Note 9	328,594	
Utilities	109,439	56,368
Repairs and Maintenance	237,242	111,254
Regional Water Authority Assessments, Note 12	641,190	
Parks and Recreation	1,024,236	
Depreciation, Note 6		
Other	189,231	247,593
Capital Outlay		
Other Facilities	87,997	24,415
Debt Service:		
Bond Principal		
Bond Interest		
Bond Issuance Costs		
TOTAL EXPENDITURES/EXPENSES	<u>\$ 3,404,747</u>	<u>\$ 510,653</u>

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

Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
\$ 1,182,729	\$	\$ 2,004,069	\$ (2,634)	\$ 2,001,435
		728,175		728,175
		1,385,908	(328,594)	1,057,314
		31,472	(1,967)	29,505
		1,420		1,420
		101,633		101,633
22,686		688,925		688,925
4,092	6,716	11,945		11,945
1,605		79,176		79,176
<u>\$ 1,211,112</u>	<u>\$ 6,716</u>	<u>\$ 5,032,723</u>	<u>\$ (333,195)</u>	<u>\$ 4,699,528</u>
\$ 7,093	\$	\$ 321,549	\$	\$ 321,549
40,327		583,712		583,712
		328,594	(328,594)	
		165,807		165,807
		348,496		348,496
		641,190		641,190
		1,024,236		1,024,236
			1,013,454	1,013,454
3,239	3,000	443,063		443,063
	2,354,753	2,467,165	(2,467,165)	
815,000		815,000	(815,000)	
685,835		685,835	9,888	695,723
	5,863	5,863		5,863
<u>\$ 1,551,494</u>	<u>\$ 2,363,616</u>	<u>\$ 7,830,510</u>	<u>\$ (2,587,417)</u>	<u>\$ 5,243,093</u>

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

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>General Fund</u>	<u>Special Revenue Fund</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (100,505)	\$ -0-
OTHER FINANCING SOURCES (USES)		
Transfers In (Out), Note 16	\$ 157,614	\$ -0-
NET CHANGE IN FUND BALANCES	\$ 57,109	\$ -0-
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION - JANUARY 1, 2013	<u>303,083</u>	<u></u>
FUND BALANCES/NET POSITION - DECEMBER 31, 2013	<u>\$ 360,192</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>
\$ (340,382)	\$ (2,356,900)	\$ (2,797,787)	\$ 2,797,787	\$ -0-
\$ -0-	\$ (157,614)	\$ -0-	\$ -0-	\$ -0-
\$ (340,382)	\$ (2,514,514)	\$ (2,797,787)	\$ 2,797,787	\$
			(543,565)	(543,565)
<u>1,462,488</u>	<u>3,099,888</u>	<u>4,865,459</u>	<u>(340,179)</u>	<u>4,525,280</u>
<u>\$ 1,122,106</u>	<u>\$ 585,374</u>	<u>\$ 2,067,672</u>	<u>\$ 1,914,043</u>	<u>\$ 3,981,715</u>

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

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013**

Net Change in Fund Balances - Governmental Funds \$ (2,797,787)

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

Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenues are recorded in the accounting period for which the taxes are levied. (2,634)

Governmental funds report penalty and interest on delinquent property taxes when collected. However, in the Statement of Activities, revenues are recorded when the penalty and interest are assessed. (1,967)

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. (1,013,454)

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. 2,467,165

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. 815,000

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. (9,888)

Change in Net Position - Governmental Activities \$ (543,565)

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

NORTHAMPTON MUNICIPAL UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

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

The District 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, 2013

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.

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

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

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

Government-Wide Financial Statements

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

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

NORTHAMPTON MUNICIPAL UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

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 statements. The fund statements include a Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances.

Governmental Funds

The District has four governmental funds and considers 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, 2013

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

Property taxes considered available by the District and included in revenue include the 2012 tax levy collections during the period October 1, 2012, to December 31, 2013, and taxes collected from January 1, 2013, to December 31, 2013, for all prior tax levies. The 2013 tax levy has been fully deferred to meet the District's planned expenditures in the 2014 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, 2013

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 and liabilities associated with the activities are reported. Fund equity is classified as net position.

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

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

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, 2013

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

The following is a summary of transactions regarding the changes in the long-term liabilities for the year ended December 31, 2013:

	January 1, 2013	Additions	Retirements	December 31, 2013
Bonds Payable	\$ 17,960,000	\$	\$ 815,000	\$ 17,145,000
Unamortized Discounts	(399,985)		(22,976)	(377,009)
Unamortized Premiums	410,594		28,971	381,623
Bonds Payable, Net	<u>\$ 17,970,609</u>	<u>\$ -0-</u>	<u>\$ 820,995</u>	<u>\$ 17,149,614</u>
			Amount Due Within One Year	\$ 830,000
			Amount Due After One Year	<u>16,319,614</u>
			Bonds Payable, Net	<u>\$ 17,149,614</u>

As of December 31, 2013, the District had authorized but unissued bonds in the amount of \$39,130,000 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.

NORTHAMPTON MUNICIPAL UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 3. LONG-TERM DEBT (Continued)

As of December 31, 2013, the debt service requirements on the bonds outstanding were as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 830,000	\$ 676,635	\$ 1,506,635
2015	865,000	647,571	1,512,571
2016	695,000	620,098	1,315,098
2017	720,000	594,346	1,314,346
2018	740,000	566,486	1,306,486
2019-2023	3,505,000	2,415,825	5,920,825
2024-2028	3,675,000	1,655,564	5,330,564
2029-2033	3,545,000	931,045	4,476,045
2034-2036	2,570,000	143,050	2,713,050
	<u>\$ 17,145,000</u>	<u>\$ 8,250,620</u>	<u>\$ 25,395,620</u>

	<u>Series 2006</u>	<u>Park Series 2006</u>
Amount Outstanding - December 31, 2013	\$ 3,435,000	\$ 1,520,000
Interest Rates	4.000% - 5.250%	3.900% - 4.000%
Maturity Dates - Beginning/Ending	March 1, 2014/2016, 2018, 2020, 2022, 2024, 2026, 2028, 2030	March 1, 2014/2015, 2018, 2021, 2024, 2027, 2030
Interest Payment Dates	March 1/September 1	March 1/September 1
Callable Dates	March 1, 2015*	March 1, 2015*

	<u>Series 2010</u>
Amount Outstanding - December 31, 2013	\$ 3,925,000
Interest Rates	3.000% - 5.000%
Maturity Dates - Beginning/Ending	March 1, 2014/2018, 2021, 2025, 2028, 2030, 2031/2034
Interest Payment Dates	March 1/September 1
Callable Dates	March 1, 2018*

NORTHAMPTON MUNICIPAL UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 3. LONG-TERM DEBT (Continued)

	Refunding Series 2010	Series 2012
Amount Outstanding - December 31, 2013	\$ 6,090,000	\$ 2,175,000
Interest Rates	3.00% - 4.00%	2.75% - 3.50%
Maturity Dates – Beginning/Ending	March 1, 2014/2027	March 1, 2028/2034, 2036
Interest Payment Dates	March 1/September 1	March 1/September 1
Callable Dates	March 1, 2018*	March 1, 2020*

* 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 2006 term bonds maturing on March 1, 2018, 2020, 2022, 2024, 2026, 2028, and 2030, are subject to mandatory redemption beginning March 1, 2017, 2019, 2021, 2023, 2025, 2027, and 2029, respectively. The Series 2006 Park term bonds maturing on March 1, 2018, 2021, 2024, 2027, and 2030 are subject to mandatory redemption beginning March 1, 2016, 2019, 2022, 2025, and 2028, respectively.

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 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, 2013, 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 \$1,218,283 on the adjusted taxable valuation of \$338,412,082 for the 2013 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.

NORTHAMPTON MUNICIPAL UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 3. LONG-TERM DEBT (Continued)

On November 6, 2012, voters of the District approved the creation of a Defined Area within the boundaries of the District to pay for improvements, facilities or services that primarily benefit that area or property and do not generally and directly benefit the District as a whole. Any bonds issued for the Defined Area will be payable solely from a tax levied within the boundaries of the Defined Area. To date, the District has not sold bonds for the Defined Area.

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 \$16,987,000, scheduled equipment coverage of \$27,000 and boiler and machinery coverage of \$16,987,000. In addition, the District has \$2,000,000 of directors and officers liability coverage, \$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.

NORTHAMPTON MUNICIPAL UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

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

- 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 5th year anniversary of each issue.

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

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 \$5,062,772 and the bank balance was \$5,368,362. Of the bank balance, \$2,100,722 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, 2013, as listed below:

NORTHAMPTON MUNICIPAL UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Deposits (Continued)

	Cash	Certificates of Deposit	Total
GENERAL FUND	\$ 578,156	\$ 245,000	\$ 823,156
SPECIAL REVENUE FUND	51,698		51,698
DEBT SERVICE FUND	634,997	735,000	1,369,997
CAPITAL PROJECTS FUND	2,817,921		2,817,921
TOTAL DEPOSITS	<u>\$ 4,082,772</u>	<u>\$ 980,000</u>	<u>\$ 5,062,772</u>

Investments

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

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. 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

NORTHAMPTON MUNICIPAL UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

investment contracts, (13) certain qualified governmental investment pools and (14) a qualified securities lending program.

All investments are recorded at cost, which the District considers to be fair value. As of December 31, 2013, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
<u>GENERAL FUND</u>					
Certificates of Deposit	\$ 245,000	\$ 245,000	\$	\$	\$
<u>DEBT SERVICE FUND</u>					
Certificates of Deposit	735,000	735,000			
TOTAL INVESTMENTS	\$ 980,000	\$ 980,000	\$ - 0 -	\$ - 0 -	\$ - 0 -

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At December 31, 2013, 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, 2013

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2013:

	January 1, 2013	Increases	Decreases	December 31, 2013
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 1,284,617	\$ 491,258	\$	\$ 1,775,875
Construction in Progress	916,355	2,467,165	2,952,932	430,588
Total Capital Assets Not Being Depreciated	<u>\$ 2,200,972</u>	<u>\$ 2,958,423</u>	<u>\$ 2,952,932</u>	<u>\$ 2,206,463</u>
Capital Assets Subject to Depreciation				
Meeting and Recreation Facilities	\$ 4,219,946		\$	\$ 4,219,946
Water System	6,372,978	870,763		7,243,741
Wastewater System	11,887,933	1,590,911		13,478,844
Drainage	1,345,928			1,345,928
Equipment	99,392			99,392
Total Capital Assets Subject to Depreciation	<u>\$ 23,926,177</u>	<u>\$ 2,461,674</u>	<u>\$ - 0 -</u>	<u>\$ 26,387,851</u>
Less Accumulated Depreciation				
Meeting and Recreation Facilities	\$ 1,619,132	\$ 256,498	\$	\$ 1,875,630
Water System	3,236,135	380,660		3,616,795
Wastewater System	3,239,955	335,895		3,575,850
Drainage	261,244	29,909		291,153
Equipment	74,418	10,492		84,910
Total Accumulated Depreciation	<u>\$ 8,430,884</u>	<u>\$ 1,013,454</u>	<u>\$ - 0 -</u>	<u>\$ 9,444,338</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 15,495,293</u>	<u>\$ 1,448,220</u>	<u>\$ - 0 -</u>	<u>\$ 16,943,513</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 17,696,265</u>	<u>\$ 4,406,643</u>	<u>\$ 2,952,932</u>	<u>\$ 19,149,976</u>

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, 2013, 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 \$846,030 on the adjusted taxable valuation of \$338,412,082 for the 2013 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.

On November 6, 2012, voters of the District approved the creation of a Defined Area within the boundaries of the District and the levy of a maintenance tax within the Defined Area not to exceed \$0.64 per \$100 of assessed valuation. During the fiscal year ended December 31, 2013, 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 \$4,374 on the adjusted valuation of \$683,460 for the 2013 tax year.

NORTHAMPTON MUNICIPAL UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

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 \$1,515 for water used plus \$2,121 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. During the current fiscal year, the District billed Oakmont \$5,137 for water used plus \$8,173 for regional water authority fees. The term of this agreement commenced in February of 2009 and continues for a term of 20 years.

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.

NORTHAMPTON MUNICIPAL UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

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 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.

	<u>Owned Capacity in Gallons Per Day</u>	<u>Owned Capacity Percentage</u>
Northampton Municipal Utility District	715,000	62.17
Oakmont Public Utility District	<u>435,000</u>	<u>37.83</u>
TOTAL	<u>1,150,000</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.

NORTHAMPTON MUNICIPAL UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 9. WASTEWATER TREATMENT CONTRACTS (Continued)

	Northampton Municipal Utility District	Oakmont Public Utility District	Total
Due (to) from Participants at January 1, 2013	\$ 33,748	\$ 15,916	\$ 49,664
Operating Costs	328,594	182,059	510,653
Receipts and Credits	(337,351)	(170,521)	(507,872)
Change in Reserve	<u>10,800</u>	<u>5,800</u>	<u>16,600</u>
Due (to) from Participants at December 31, 2013	<u>\$ 35,791</u>	<u>\$ 33,254</u>	<u>\$ 69,045</u>
Two Month Reserve	<u>\$ 53,700</u>	<u>\$ 28,900</u>	<u>\$ 82,600</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 \$5,677 for monthly lease payments.

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, 2013, \$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

NORTHAMPTON MUNICIPAL UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 10. ESCROW REQUIREMENTS (Continued)

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. Based upon this escrow approval, \$368,141 will remain in escrow from the 2006 Park Bonds.

The total escrow requirement at December 31, 2013, 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, 2013, the eligible employees contributed \$5,800 to the plan and the District contributed \$5,102.

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 75th 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 2013 was \$1.75 per 1,000 gallons of water pumped from each well. The District recorded an expenditure of \$641,190 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.

NORTHAMPTON MUNICIPAL UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

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

On December 8, 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 is 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. On January 1, 2012, this agreement was amended to increase the monthly management fee from \$5,000 to \$5,867. During the current fiscal year, the District recorded \$64,533 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. During 2013, the District contributed a net of \$12,684 to TML for this insurance coverage. 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.

NOTE 15. INTERFUND PAYABLES AND RECEIVABLES

The General Fund owes the Debt Service Fund (Tax Account) \$3,476 for maintenance tax collections. The Debt Service Fund (Tax Account) owes the General Fund \$1,855 for Defined Area Tax collections. The General Fund fund owes the Special Revenues Fund \$35,791 for wastewater treatment plant operations. The Capital Projects Fund owes its General Fund \$6,927 for current year capital costs associated with Water Plant No. 2 hydro-tank addition.

NORTHAMPTON MUNICIPAL UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 16. USE OF SURPLUS FUNDS AND TRANSFERS

On March 20, 2013, the Commission approved the use of \$509,624 in surplus funds to provide additional financing for the costs associated with the Gosling Road water and wastewater extension. Additionally, the \$53,000 in funds from the Series 2012 bond issue originally for easement costs was reallocated to construction and engineering costs.

On July 12, 2013, the Commission approved the use of \$496,866 in surplus funds for the costs associated with acquiring 6.26 acres for a District wastewater treatment plant.

Under the rules of the Commission, specially 30 TAC § 293.83(c)(3), the Districts meets the requirements to use surplus funds for certain projects without further Commission approval. The District used \$112,865 of surplus funds to pay for the Bridgeway, Kingscrest and Northcrest Lift Station Rehabilitation.

The District transferred \$157,614 from the Capital Projects Fund to the General Fund for costs paid in prior years: \$105,513 for Northcrest Park Improvements, \$24,250 for West Park Improvements and \$27,851 for the wastewater treatment plant project.

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.

NORTHAMPTON MUNICIPAL UTILITY DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2013

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Property Taxes	\$ 845,000	\$ 821,340	\$ (23,660)
Water Service	555,000	728,175	173,175
Wastewater Service	876,000	875,255	(745)
Penalty and Interest	24,000	31,472	7,472
Tap Connection and Inspection Fees	50,000	1,420	(48,580)
Facility Use Fees	89,800	101,633	11,833
Regional Water Authority Fees	684,000	666,239	(17,761)
Investment Revenues	2,400	1,137	(1,263)
Miscellaneous Revenues	79,700	77,571	(2,129)
TOTAL REVENUES	<u>\$ 3,205,900</u>	<u>\$ 3,304,242</u>	<u>\$ 98,342</u>
EXPENDITURES			
Services Operations:			
Professional Fees	\$ 214,000	\$ 289,276	\$ (75,276)
Contracted Services	535,800	497,542	38,258
Purchased Wastewater Service	257,460	328,594	(71,134)
Utilities	104,460	109,439	(4,979)
Repairs and Maintenance	249,000	237,242	11,758
Regional Water Authority Assessments	684,000	641,190	42,810
Parks and Recreation	983,500	1,024,236	(40,736)
Other	181,530	189,231	(7,701)
Capital Outlay:			
Parks and Recreation	40,000		40,000
Other		87,997	(87,997)
TOTAL EXPENDITURES	<u>\$ 3,249,750</u>	<u>\$ 3,404,747</u>	<u>\$ (154,997)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (43,850)</u>	<u>\$ (100,505)</u>	<u>\$ (56,655)</u>
OTHER FINANCING SOURCES(USES)			
Transfers In (Out)	<u>\$ 131,063</u>	<u>\$ 157,614</u>	<u>\$ 26,551</u>
NET CHANGE IN FUND BALANCE	<u>\$ 87,213</u>	<u>\$ 57,109</u>	<u>\$ (30,104)</u>
FUND BALANCE - JANUARY 1, 2013	<u>303,083</u>	<u>303,083</u>	
FUND BALANCE - DECEMBER 31, 2013	<u><u>\$ 390,296</u></u>	<u><u>\$ 360,192</u></u>	<u><u>\$ (30,104)</u></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, 2013**

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Wastewater Service	\$ 396,400	\$ 510,653	\$ 114,253
Investment Revenues			
TOTAL REVENUES	<u>\$ 396,400</u>	<u>\$ 510,653</u>	<u>\$ 114,253</u>
EXPENDITURES			
Services Operations:			
Professional Fees	\$ 16,800	\$ 25,180	\$ (8,380)
Contracted Services	46,000	45,843	157
Utilities	48,960	56,368	(7,408)
Repairs and Maintenance	90,000	111,254	(21,254)
Other	194,640	247,593	(52,953)
Capital Outlay		24,415	(24,415)
TOTAL EXPENDITURES	<u>\$ 396,400</u>	<u>\$ 510,653</u>	<u>\$ (114,253)</u>
NET CHANGE IN FUND BALANCE	\$ -0-	\$ -0-	\$ -0-
FUND BALANCE - JANUARY 1, 2013			
FUND BALANCE - DECEMBER 31, 2013	<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, 2013

NORTHAMPTON MUNICIPAL UTILITY DISTRICT
SERVICES AND RATES
FOR THE YEAR ENDED DECEMBER 31, 2013

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 June 3, 2013.

	<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	7,001 to 12,000
				\$ 2.00	12,001 to 20,000
				\$ 2.50	20,001 to 30,000
				\$ 3.50	30,001 to 75,000
				\$ 5.00	75,001 and over
WASTEWATER:	\$ 44.85 *		Y		
SURCHARGE:					
Regional Water Authority Fees				\$ 2.10	1,000 and over
District employs winter averaging for wastewater usage?					<u> </u> <u> X </u> Yes No

Total monthly charges per 10,000 gallons usage: Water: \$24.50 Wastewater: \$44.85 Surcharge: \$21.00 Total: \$90.35

* 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, 2013

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>1,614</u>	<u>1,614</u>	x 1.0	<u>1,614</u>
1"	<u>84</u>	<u>82</u>	x 2.5	<u>205</u>
1½"	<u>1</u>	<u>1</u>	x 5.0	<u>5</u>
2"	<u>10</u>	<u>10</u>	x 8.0	<u>80</u>
3"			x 15.0	
4"			x 25.0	
6"	<u>1</u>	<u>1</u>	x 50.0	<u>50</u>
8"			x 80.0	
10"			x 115.0	
Total Water Connections	<u>1,710</u>	<u>1,708</u>		<u>1,954</u>
Total Wastewater Connections	<u>1,667</u>	<u>1,653</u>	x 1.0	<u>1,653</u>

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

Gallons pumped into system:	364,002,000	Water Accountability Ratio: 89.98% (Gallons billed and sold/Gallons pumped and purchased)
Gallons billed to customers:	318,548,000	
Gallons sold to Oakmont Public Utility District/Encanto Real	8,967,000	

See accompanying independent auditor's report.

NORTHAMPTON MUNICIPAL UTILITY DISTRICT
SERVICES AND RATES
FOR THE YEAR ENDED DECEMBER 31, 2013

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

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

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

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes ☒ No ☐

County or Counties in which District is located:

Harris County, Texas

Is the District located within a city?

Entirely ☐ Partly ☐ Not at all ☒

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

Entirely ☒ Partly ☐ Not at all ☐

ETJ's in which District is located:

City of Houston, Texas

Are Board Members appointed by an office outside the District?

Yes ☐ No ☒

See accompanying independent auditor's report.

NORTHAMPTON MUNICIPAL UTILITY DISTRICT
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2013

PROFESSIONAL FEES:	
Auditing	\$ 21,500
Engineering	137,500
Legal	126,526
Financial Advisor	<u>3,750</u>
TOTAL PROFESSIONAL FEES	<u>\$ 289,276</u>
PURCHASED SERVICES FOR RESALE:	
Purchased Wastewater Service	<u>\$ 328,594</u>
CONTRACTED SERVICES:	
Bookkeeping	\$ 22,618
Operations and Billing	<u>84,072</u>
TOTAL CONTRACTED SERVICES	<u>\$ 106,690</u>
UTILITIES:	
Electricity	\$ 105,583
Telephone	<u>3,856</u>
TOTAL UTILITIES	<u>\$ 109,439</u>
REPAIRS AND MAINTENANCE	<u>\$ 237,242</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 23,400
Dues and Registration Fees	2,594
Insurance	44,114
Office Supplies and Postage	4,536
Travel and Meetings	9,756
Website	1,476
Other	<u>23,765</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 109,641</u>
CAPITAL OUTLAY:	
Capitalized Assets	\$ 87,997
Expenditures Not Capitalized	<u></u>
TOTAL CAPITAL OUTLAY	<u>\$ 87,997</u>

See accompanying independent auditor's report.

NORTHAMPTON MUNICIPAL UTILITY DISTRICT
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2013

TAP CONNECTIONS	\$	<u>-0-</u>		
SOLID WASTE DISPOSAL	\$	<u>390,852</u>		
SECURITY	\$	<u>-0-</u>		
PARKS AND RECREATION				
Personnel (Including Benefits)	\$	828,290		
Repairs and Maintenance		130,235		
Truck		5,601		
Utilities		<u>60,110</u>		
TOTAL PARKS AND RECREATION	\$	<u>1,024,236</u>		
OTHER EXPENDITURES:				
Chemicals	\$	30,884		
Laboratory Fees		14,875		
Permit Fees		3,666		
Reconnection Fees		14,714		
Inspection Fees		1,830		
Regional Water Authority Assessments		641,190		
TCEQ Regulatory Assessment		7,944		
Wastewater Treatment Capacity Lease		<u>5,677</u>		
TOTAL OTHER EXPENDITURES	\$	<u>720,780</u>		
TOTAL EXPENDITURES	\$	<u>3,404,747</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.