

fully-registered Bond certificate will be issued for each of the Bonds, each in the aggregate principal amount of such issue, and will be deposited with DTC.

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to 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 the District or Paying Agent/Registrar, 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, District or Paying Agent/Registrar, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or Paying Agent/Registrar, 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 District or Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

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

#### **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, an Alabama banking corporation, Houston, Texas. 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/Registrar by check mailed on each Interest Payment Date by the Paying Agent/Registrar to the Bondholder at the last known address as it appears on the Paying Agent/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 has previously issued twenty-one (21) series of bonds payable from the proceeds of taxes levied upon all taxable property located within the boundaries of the District. Of such previously issued series of bonds, \$26,600,000 principal amount remains outstanding as of March 2, 2019 (the "Outstanding Bonds").

The District has also previously issued three (3) series of unlimited tax bonds ("Defined Area Bonds") that are secured by the proceeds of taxes levied upon taxable property located only within the Defined Area (herein defined) in the District. See "THE DEFINED AREA" for a discussion of the Defined Area Bonds.

## **Authority for Issuance**

The Bonds are issued from 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 serving the District (the "District Utility System") and for the refunding of bonds issued by the District for the District Utility System. Following the issuance of the Bonds, \$17,930,051 principal amount of unlimited tax bonds will remain authorized but unissued for the purpose of purchasing or constructing District Utility System or for the refunding of bonds issued by the District for the District Utility System. 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, including property within the Defined Area. However, taxes separately levied for the repayment of Defined Area Bonds are not pledged to the repayment of the Outstanding Bonds or the Bonds.

The Bonds are obligations solely 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**

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, 2024, 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.

### **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 in the Bond Order the right 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 aggregate \$43,500,000 principal amount of unlimited tax bonds authorized to be issued by the District for the purpose of acquiring or constructing the District Utility System and for the refunding of bonds issued by the District for the District Utility System. Following the issuance of the Bonds, the District will have the right to issue the \$17,930,051 principal amount of unlimited tax bonds that remain authorized but unissued for the District Utility System, 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.

Voters of the District have also authorized the District's issuance of \$17,000,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing road improvements serving the Defined Area (the "Defined Area Road System"), and for the refunding of such bonds, and the levy of an annual ad valorem tax, unlimited as to rate or amount, upon taxable property located within the Defined Area that is sufficient to provide for payment of bonds issued by the District for the Defined Area Road System; and \$41,000,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing water, wastewater, and drainage improvements within the Defined Area (the "Defined Area Utility System"), and for the refunding of such bonds, and the levy of an annual ad valorem tax, unlimited as to rate or amount, upon taxable property located within the Defined Area that is sufficient to provide for payment of bonds issued by the District for the Defined Area Utility System. To date, the District has issued three series of bonds from such voted authorizations, and the following principal amounts of unlimited tax bonds for financing improvements within the Defined Area remain authorized but unissued: \$11,280,000 for the purpose of acquiring or constructing the Defined Area Road System and \$34,510,000 for the purpose of acquiring or constructing the Defined Area Utility System. See "THE DEFINED AREA."

The District anticipates issuing more bonds for such purposes as future development in the District and the Defined Area necessitates. In the opinion of the Engineer, the amounts of remaining authorized but unissued bonds noted above will be sufficient to complete development of the District, including the Defined Area within. Developing environmental regulations and conversion to surface water could also result in the need to finance additional improvements.

After the issuance of the Bonds, the District will owe the Developers approximately \$4,434,146 for funds advanced for the construction of the District Utility System. In addition, the District currently owes the Developers \$0 for funds advanced for the construction of the Defined Area Road System and approximately \$8,020,828 for funds advanced for the construction of the Defined Area Utility System.

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, and all such principal amount has been retired. 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**

The District lies within the extraterritorial jurisdiction of the City of Houston, Texas (the "City"). Generally, under Texas law, the District may be annexed in whole, but not in part, by the City without the District's consent, in which case the City must assume the assets, functions and obligations of the District, including the Bonds. However, the City may not annex the District unless (i) such annexation has been approved by a majority of those voting in an election held for that purpose within the area to be annexed and (ii) if the registered voters in the area to be annexed do not own more than 50 percent of the land in the area, a petition has been signed by more than 50 percent of the landowners consenting to the annexation. Notwithstanding the preceding sentence, the described election and petition process does not apply during the term of a strategic partnership agreement between the City and the District specifying the procedures for full purpose annexation of all or a portion of the District. No representation is made concerning the likelihood of annexation or 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 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 an excerpt 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 sale of the Bonds will be used by the District to pay for the construction and non-construction costs set out below.

<b><u>Construction Costs</u></b>	<b><u>District Share</u></b>
A. Developer Contribution Items	
1. CST Water and Sanitary Sewer Extension	\$ 142,205
2. Engineering	48,965
Total Developer Contribution Items	\$ 191,170
B. District Items	
1. WWTP Improvements	\$ 1,275,000
2. Water Well No. 1 Rework	221,000
3. Water Plant No. 3 Overage	201,478
4. Creekview Lift Station Improvements	2,104,000
5. Contingencies (10% of Item Nos. 1-4)	380,148
6. Engineering (17.74% of Item Nos. 1-4)	674,255
7. Estimated Land Acquisition Cost	173,000
Total District Items	\$ 5,028,881
Total Construction Costs	\$ 5,220,051
<b><u>Non-Construction Costs</u></b>	
A. Legal Fees (2.50%)	\$ 145,000
B. Fiscal Agent Fees (2.00%)	116,000
C. Developer Interest	20,102
D. Bond Discount	123,930
E. Bond Issuance Expenses	46,547
F. Bond Application Report Costs	58,000
G. Attorney General Fee (0.10%)	5,800
H. TCEQ Bond Issuance Fee (0.25%)	14,500
I. Contingency	50,070
Total Non-Construction Costs	\$ 579,949
<b>TOTAL BOND ISSUE REQUIREMENT</b>	<b>\$ 5,800,000</b>

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 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 18, 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 1,598 acres. Effective August 20, 2012, Houston Gosling Woodlands, L.P. (the “Houston Gosling”) and the District entered into a “Financing Agreement” pursuant to which 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 creation was confirmed at an election within the Defined Area on November 6, 2012. The Defined Area is being developed as single-family residential and multi-family developments. See “THE DEFINED AREA.”

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 and the United States Justice Department, however, no legal mechanism exists to annex land solely into the Defined Area. 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 the central business district of the City and 5 miles west of the City of Spring, Texas. The District lies entirely within the extraterritorial jurisdiction of the City 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 to 151 feet mean sea level. A majority of the land drains north from Root Road to Willow Creek, which ultimately drains to Spring Creek. Approximately 516 acres of the District lie within the 100-year floodplain or floodway of Willow Creek and Spring 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. See “THE SYSTEM – 100-Year Flood Plain.”

## 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 are listed below:

Name	Title	Term Expires May
E.C. Thomas	President	2022
W. Paul Schneider	First Vice President	2022
Ryan Bennett	Second Vice President	2020
Scott Kirkpatrick	Secretary	2020
Roger A. Flood III	Treasurer/Investment Officer	2020

The District employs Jim Sheffield as general manager and has several full-time and part-time employees. The District has established a SIMPLE Individual Retirement Account plan for its employees. See Note 11 to the District's financial statements attached hereto as "APPENDIX A."

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 Tax Tech, Inc. Such firm acts as tax assessor for more than 100 utility districts.

**Bookkeeper:** The District's bookkeeper is L&S District Services, LLC ("L&S"). L&S acts as bookkeeper for more than 80 utility districts.

**Utility System Operator:** The District's operator is Hays Utility South Corporation (the "Operator"). Such firm acts as operator for approximately 80 utility systems.

**Auditor:** The District has contracted McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountants, to audit its financial records for the fiscal year ended December 31, 2017, 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 has engaged 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:** The District has engaged McCall, Parkhurst & Horton L.L.P. as Disclosure Counsel. The legal fees to be paid to Disclosure Counsel for services rendered in connection with the issuance of the Bonds are contingent upon the sale and delivery of the Bonds.

**Financial Advisor:** Robert W. Baird & Co. 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 "OFFICIAL STATEMENT - Experts."

## **THE 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"), and such creation was confirmed at an election within the Defined Area on November 6, 2012.

At an election within the District on November 6, 2012, the voters also authorized the District's issuance of \$41,000,000 principal amount of bonds to finance the Defined Area Utility System as well as \$17,000,000 principal amount of bonds to finance the Defined Area Road System. Bonds issued for the Defined Area are payable solely from the proceeds of taxes levied within the boundaries of the Defined Area and not on any other part of the District.

From the voted authorizations referenced above, the District has previously issued two series of bonds for the purpose of acquiring or constructing the Defined Area Road System and one series of bonds for the purpose of acquiring or constructing the Defined Area Utility System. Of such three prior series of bonds, \$11,790,000 principal amount remains outstanding as of March 1, 2019, and the following principal amounts of unlimited tax bonds for financing improvements within the Defined Area will remain authorized but unissued: \$11,280,000 for the purpose of acquiring or constructing the Defined Area Road System, and for the purpose of refunding of bonds issued by the District for the Defined Area Road System, and \$34,510,000 for the purpose of acquiring or constructing the Defined Area Utility System, and for the purpose of refunding of bonds issued by the District for the Defined Area Utility System.

The voters also approved the levy of a maintenance tax, in an amount not to exceed \$0.64 per \$100 of assessed valuation, upon all taxable property located in the Defined Area. For tax years 2013-2016, the District levied such maintenance tax in the amount of \$0.64 per \$100 of assessed valuation. For tax years 2017 and 2018, the District did not levy this maintenance tax upon property in the Defined Area, and it is not anticipated that said maintenance tax on the Defined Area will be levied in subsequent years. All such taxes levied by the District upon the Defined Area are in addition to the taxes levied by the District upon all taxable property within the District, including the Define Area. See "TAX DATA - Estimated Overlapping Taxes."

D.R. Horton-Texas, Ltd. ("DR Horton") is the sole developer of single-family residential properties in the Defined Area. DR Horton is a subsidiary of and controlled by D.R. Horton, Inc. D.R. Horton, Inc. is a publicly traded corporation whose stock is listed on the New York Stock Exchange and is the largest homebuilder in the country. To date, approximately 356.34 acres within the Defined Area have been developed as approximately 503 single-family lots in the residential subdivision of Hampton Creek, Sections 1-9. As of February 1, 2019, the Defined Area included approximately 415 completed homes (approximately 346 occupied, 155 unoccupied, and 2 model homes); approximately 18 homes under construction; and approximately 70 developed lots available for new home construction.

SC Waterford Springs LLC has developed approximately 21.52 acres in the Defined Area as a multi-family residential property known as Waterford Springs, an apartment complex that includes 308 total units and that is currently open and actively leasing. 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 SC Waterford Springs II, LLC, a start date for construction of the second apartment complex has not been determined.

Gosling Village, LLC, an entity controlled by Bryan Frenchak, owns approximately 25.58 acres within the Defined Area but has not reported any development plans to the District. The 18.59-acre tract owned by SC Waterford Springs II, LLC and the 25.58-acre tract owned by Gosling Village, LLC are the only undeveloped but developable acreage in the Defined Area. The remainder of the lands within the Defined Area includes approximately 17.66 acres that are undevelopable.

## **STATUS OF DEVELOPMENT OF THE DISTRICT**

To date, within the District, approximately 1,164.41 acres have been developed as 2,308 total single-family lots in the following residential subdivisions: Hampton Creek, Sections 1-9 (503 lots); Northampton, Sections 1-5 and 8 (1,073 lots); The Oaks of Northampton (27 lots); Northampton Forest, Sections 1-3 (205 lots); Northampton Estates, Phases I-III (250 lots); Woods of Northampton, Sections 1 and 2 (39 lots); Terrace of

Northampton Estates (13 lots); Courts at Auburn Lakes (53 lots); Inway Forest of Northampton (12 lots); Inway Oaks Estates, Sections 1 and 2 (51 lots); Stratton Woods (40 lots); and Dovershire Place, Section 1 (42 lots). As of February 1, 2019, the District included approximately 2,134 completed homes; approximately 24 homes under construction; and approximately 150 developed but vacant lots available for new home construction.

Residential development within the District also includes the following multi-family properties: a 346-unit apartment complex known as the Alexan Auburn Lakes on 14.36 acres and a 308-unit apartment complex known as Waterford Springs on approximately 21.52 acres. In addition, approximately 18.59 acres have been developed with utilities to serve a planned apartment complex that has not been constructed.

The District includes approximately 202.47 acres of commercial development. Commercial development includes office buildings, a Conoco gas station, Dave's express gas station, a Shell gas station, retail strip centers, a private tennis club, Spring Volunteer Fire Department Station No. 2, recreational facilities, Willow Creek Golf Club (a portion of which lies within the 100-year flood plain), and developed park land. The District also includes two school sites on approximately 27.08 acres, approximately 74.79 undevelopable acres, and approximately 75.15 undeveloped but developable acres.

### **DEVELOPERS**

D.R. Horton-Texas, Ltd. ("DR Horton") is the most active developer of single-family residential properties in the District and the sole developer and homebuilder of single-family properties in the Defined Area. DR Horton is a subsidiary of and controlled by D.R. Horton, Inc. D.R. Horton, Inc. is a publicly traded corporation whose stock is listed on the New York Stock Exchange and is the largest homebuilder in the country. To date, approximately 356.34 acres within the Defined Area have been developed as approximately 503 single-family lots in the residential subdivision of Hampton Creek, Sections 1-9. As of February 1, 2019, the Defined Area included approximately 415 completed homes (approximately 346 occupied, 18 unoccupied, and 2 model homes); approximately 18 homes under construction; and approximately 70 developed lots available for new home construction. The single-family homes being constructed by DR Horton range in size from approximately 1,500 to 4,000 square feet and in price from approximately \$200,000 to \$400,000.

SC Waterford Springs LLC has developed approximately 21.52 acres in the Defined Area of the District as a multi-family residential property known as Waterford Springs, an apartment complex that includes 308 total units and that is currently open and actively leasing. 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 SC Waterford Springs II, LLC, a start date for construction of the second apartment complex has not been determined.

MRE, LLC ("MRE") has developed approximately 23.91 acres as 51 single-family lots in the residential subdivision of Inway Oaks Estates, Sections 1 and 2. Infinity Classic Homes ("Infinity") has purchased half of those lots and plans to purchase the remaining lots for home construction. As of February 1, 2019, said subdivision included 16 completed homes, 2 homes under construction, and 33 vacant, developed lots. Infinity is a Houston-area homebuilder that has built over 500 homes in a dozen subdivisions since beginning its operations in 2008. MRE and Infinity are under the common ownership of Mike Wilkinson and John Castro.

Partners In Building, L.P., ("PIB") a Texas limited partnership, has developed approximately 40 single-family lots on 20.34 acres, known as the residential subdivision of Stratton Woods. As of February 1, 2019, said subdivision included 31 completed homes, 4 homes under construction, and 5 vacant, developed lots.

BLD Gosling, LLC ("BLD") has developed approximately 42 single-family lots that have been platted as the subdivision of Dovershire Place, Section 1, on approximately 18.30 acres. DR Horton is under contract to purchase such acreage.

Shops on Gosling, LLC ("Shops") has acquired 4.9277 acres along Gosling Road, and the tract has been recently annexed into the boundaries of the District. Shops plans to construct commercial retail development on this site.

The Landmark at Auburn Lakes, LLC ("Landmark") has acquired a total of 30.72 acres west of Gosling Road, north of Dovershire Road, and south of West Rayford Road. The tract is in the process of being annexed into the boundaries of the District and is planned to be developed as 408 units of apartments.

DR Horton, SC Waterford Springs LLC, SC Waterford Springs II, LLC, MRE, PIB, and BLD are referred to herein collectively as the "Developers."

*Other Landowners*

Maple Multi-Family Operations, L.L.C. ("Maple") has completed development of Alexan Auburn Lakes, a 346-unit apartment complex located on 14.37 acres. Maple is owned and controlled by Trammel Crow Residential. Trammel Crow Residential is a Dallas-based multifamily real estate company.

Gosling Village, LLC, an entity controlled by Bryan Frenchak, owns approximately 25.58 acres but has not reported any development plans to the District.

Hampton on the Lakes, LLC, an entity controlled by Bryan Frenchak, owns approximately 16.00 acres in the District. Currently, the District is not aware of any plans to develop such acreage.

*[Remainder of this page intentionally left blank.]*

PHOTOGRAPHS TAKEN WITHIN THE DISTRICT  
(February 2019)



PHOTOGRAPHS TAKEN WITHIN THE DISTRICT  
(February 2019)



## TAX DATA

### District 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 Bonds, the Outstanding Bonds, and any future tax-supported bonds that the District may hereafter issue for the District Utility System. 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 Outstanding Bonds have been issued to provide water, sewer, drainage, and park facilities to serve land within the District. 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. In 2018, the District levied a tax in the amount of \$0.33 per \$100 of assessed valuation for payment of debt service on the Outstanding Bonds and the Bonds. This debt service rate is levied against all taxable property located within the District. See "Tax Rate Distribution" below.

### District Maintenance Tax

The Board also 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 the other taxes that the District is authorized to levy as described above. In 2018, the District levied a maintenance tax in the amount of \$0.25 per \$100 of assessed valuation. This maintenance tax is levied against all taxable property in the District. 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.

Tax Year	Assessed Valuation	Tax Rate (a)	Adjusted Levy	Collections Current Year	Current Year Ended 9/30	Collections 12/31/18
2010	\$338,629,951	\$0.610	\$2,065,643	100.00%	2011	99.86%
2011	337,686,401	0.610	2,059,887	100.00	2012	99.88
2012	327,971,597	0.610	2,000,627	99.99	2013	99.88
2013	346,461,797	0.610	2,113,417	99.19	2014	99.89
2014	388,398,376	0.610	2,369,230	99.17	2015	99.78
2015	504,395,774	0.610	3,076,814	99.25	2016	99.81
2016	575,372,050	0.580	3,337,158	99.24	2017	99.62
2017	620,908,440	0.580	3,601,269	98.19	2018	98.78
2018	626,575,874	0.580	3,634,140	(b)	2019	(b)

(a) Represents the District's tax rate levied upon all taxable property located within the boundaries of the District. See "Tax Rate Distribution" below.

(b) In process of collections.

### Tax Rate Distribution

The following sets out the components of the District's tax rate for each of tax years 2013–2018. The tax rates set forth below include only those taxes levied by the District upon all taxable property in the District. See "THE DEFINED AREA" for discussion of additional taxes levied by the District upon taxable property located only in the Defined Area.

	2018	2017	2016	2015	2014	2013
Debt Service	\$0.330	\$0.330	\$0.330	\$0.360	\$0.360	\$0.360
Maintenance	<u>\$0.250</u>	<u>\$0.250</u>	<u>\$0.250</u>	<u>\$0.250</u>	<u>\$0.250</u>	<u>\$0.250</u>
Total	\$0.580	\$0.580	\$0.580	\$0.610	\$0.610	\$0.610



## Analysis of Tax Base

The following table illustrates the types of property that make up the total taxable assessed value of the District for each of tax years 2014–2018.

	2018	2017	2016	2015	2014
Type of Property	Assessed Value	Assessed Value	Assessed Value	Assessed Value	Assessed Value
Land	\$147,329,502	\$149,576,543	\$135,782,335	\$127,679,579	\$81,808,573
Improvements	561,634,021	550,318,656	497,786,717	434,104,651	361,596,149
Personal Property	7,459,359	7,516,688	8,096,710	8,217,452	6,531,313
Exemptions	<u>(89,847,008)</u>	<u>(86,503,447)</u>	<u>(66,293,712)</u>	<u>(65,605,908)</u>	<u>(61,537,659)</u>
Total	\$626,575,874	\$620,908,440	\$575,372,050	\$504,395,774	\$388,398,376

## Principal Taxpayers

The following represents the District's principal taxpayers, type of property, and their taxable assessed values as of January 1, 2018:

Taxpayer	Types of Property	Taxable Value 2018 Tax Roll	Percent of District
Auburn Lakes Investors LLC	Land & Improvements	\$35,692,780	5.70%
SC Waterford Springs LLC (a)	Land & Improvements	27,873,000	4.45
Gosling Investments LLC (a)	Land & Improvements	3,573,365	0.57
BLD Gosling LLC (a)	Land	3,418,621	0.55
Willow Creek Golf Club Inc.	Land & Improvements	3,369,535	0.55
Infinity Classic Homes LLC	Land & Improvements	3,030,802	0.48
DR Horton Texas LTD (a)	Land & Improvements	2,852,322	0.46
Centerpoint Energy	Personal	2,582,520	0.41
6130 AL Development Group LLC	Land & Improvements	2,487,963	0.40
SC Waterford Springs II LLC (a)	Land	<u>2,195,381</u>	<u>0.35</u>
		\$87,076,289	13.90%

(a) Entity that is a developer of lands in the District. See "DEVELOPERS."

## Tax Rate Calculations

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 of assessed valuation that would be required to meet debt service requirements on the Outstanding Bonds and the Bonds if no growth in the District occurs beyond the taxable assessed valuation as of January 1, 2018, or the estimate of value of the District as of February 1, 2019. The following further assumes collection of 95% of taxes levied and the sale of no additional bonds:

Average Annual Debt Service Requirement (2019–2043).....	\$1,938,910
Debt Service Tax Rate of \$0.33 on the 2018 Taxable Assessed Valuation.....	\$1,964,315
Debt Service Tax Rate of \$0.30 on the Estimate of Value as of February 1, 2019.....	\$1,954,740
Maximum Annual Debt Service Requirement (2025).....	\$2,250,306
Debt Service Tax Rate of \$0.38 on the 2018 Taxable Assessed Valuation.....	\$2,261,939
Debt Service Tax Rate of \$0.35 on the Estimate of Value as of February 1, 2019.....	\$2,280,530

## 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 – Direct and Estimated

Overlapping Debt Statement”), 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 2018 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.

<b>Taxing Jurisdiction</b>	<b>2018 Tax Rate</b>
Harris County	\$0.418580
Harris County Department of Education	0.005190
Harris County Flood Control District	0.028770
Harris County Hospital District	0.171080
Port of Houston Authority	0.011550
Harris County Emergency Services District No. 7	0.096060
Harris County Emergency Services District No. 11	0.036060
Klein Independent School District	1.430000
Lone Star College System	0.107800
The District	<u>0.580000</u>
Total Tax Rate for District Not in Defined Area	\$2.885090
 The Defined Area	 <u>0.640000</u>
Total Tax Rate for District Defined Area	\$3.525090

*[Remainder of this page intentionally left blank.]*

## 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 24 acres of commercial development, and approximately 124 acres consisting of a golf course and club house, an elementary school, and the District's facilities. The District's water supply and wastewater facilities, including distribution and collection systems, are fully integrated and all customers are "in-district" customers.

### -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 5 hydropneumatic tanks and booster pump facilities. The District is currently constructing a third water plant, scheduled to be completed in the third quarter of 2019, that will include one water well and one elevated storage tank. Upon completion of the third water plant, the District's water systems will be sufficient to provide water supply to 3,775 equivalent single-family connections ("esfc"). Currently, the District serves 3,206 esfc, and the ultimate development land within the District is projected to include 4,209 esfc.

### -Water Contracts with Other Districts-

On April 13, 2013, the District entered an Emergency Water Supply Agreement with Harris County Municipal Utility District 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, 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 1,400,000 gallon per day ("gpd") treatment plant (the "Plant"). Ownership of this 1,400,000 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 1,040,000 gpd and Oakmont PUD is allocated 360,000 gpd. The District currently has sufficient capacity to serve approximately 4,160 esfc. Currently the District serves 3,206 esfc, and the developed land within the District is projected to include 4,209 esfc.

### -Drainage Facilities-

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

### 100-Year Flood Plain

"Flood Insurance Rate Map" or "FIRM" means an official map of a community on which the Federal Emergency Management Agency (FEMA) has delineated the appropriate areas of flood hazards. The 1% chance of probable inundation, also known as the 100-year flood plain, is depicted on these maps. The "100-year flood plain" (or 1% chance of probable inundation) as shown on the FIRM is the estimated geographical area that would be flooded by a rain storm of such intensity to statistically have a one percent chance of occurring in any given year. Generally speaking, homes must be built above the 100-year flood plain in order to meet local regulatory requirements and to be eligible for federal flood insurance. An engineering or

regulatory determination that an area is above the 100-year flood plain is not an assurance that homes built in such area will not be flooded, and a number of neighborhoods in the greater Houston area that are above the 100-year flood plain have flooded multiple times in the last several years.

According to the Engineer, approximately 516 acres of the District lie within the 100-year floodplain or floodway of Willow Creek and Spring 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.

### **Subsidence and Conversion to Surface Water Supply**

The District is within the boundaries of the Harris-Galveston Subsidence District (the "Subsidence District") which regulates groundwater withdrawal. The Subsidence District has adopted regulations requiring reduction of groundwater withdrawals through conversion to alternate source water (e.g., surface water) in certain areas within the Subsidence District's jurisdiction, including the area within the District. In 1999, the Texas legislature created the North Harris County Regional Water Authority (the "Authority") to, among other things, reduce groundwater usage in, and to provide surface water to, the northern portion of Harris County. The District is located within the boundaries of the Authority. The Authority has entered into a Water Supply Contract with the City of Houston, Texas ("Houston") to obtain treated water from Houston. The Authority has developed a groundwater reduction plan ("GRP") and obtained Subsidence District approval of its GRP. The Authority's GRP sets forth the Authority's plan to comply with Subsidence District regulations, construct surface water facilities, and convert users from groundwater to alternate source water (e.g., surface water). The District's groundwater well(s) are included within the Authority's GRP. The District's authority to pump groundwater is subject to an annual permit issued by the Subsidence District to the Authority, which permit includes all groundwater wells that are included in the Authority's GRP.

The Authority, among other powers, has the power to (i) issue debt supported by the revenues pledged for the payment of its obligations; (ii) establish fees (including fees to be paid by the District for groundwater pumped by the District or for surface water received by the District from the Authority), user fees, rates, and charges necessary to accomplish its purposes; and (iii) mandate water users, including the District, to convert from groundwater to surface water. The Authority currently charges the District, and other major groundwater users, a fee per 1,000 gallons based on the amount of groundwater pumped by the District and the amount of surface water, if any, received by the District from the Authority. The Authority has issued revenue bonds to fund, among other things, Authority surface water project costs. It is expected that the Authority will continue to issue a substantial amount of bonds by the year 2035 to finance the Authority's project costs, and it is expected that the fees charged by the Authority will increase substantially over such period. The Authority currently charges the District a pumpage fee of \$3.40 per 1,000 gallons of groundwater pumped. However, effective April 1, 2019, the Authority will then charge the District a pumpage fee of \$3.85 per 1,000 gallons of groundwater pumped.

Under the Subsidence District regulations and the GRP, the Authority is required: (i) through the year 2024, to limit groundwater withdrawals to no more than 70% of the total annual water demand of the water users within the Authority's GRP; (ii) beginning in the year 2025, to limit groundwater withdrawals to no more than 40% of the total annual water demand of the water users within the Authority's GRP; and (iii) beginning in the year 2035, and continuing thereafter, to limit groundwater withdrawals to no more than 20% of the total annual water demand of the water users within the Authority's GRP. If the Authority fails to comply with the above Subsidence District regulations or its GRP, the Authority is subject to a disincentive fee penalty of \$8.75 per 1,000 gallons ("Disincentive Fees") imposed by the Subsidence District for any groundwater withdrawn in excess of 20% of the total water demand in the Authority's GRP. In the event of such Authority failure to comply, the Subsidence District may also seek to collect Disincentive Fees from the District. If the District failed to comply with surface water conversion requirements mandated by the Authority, the Authority would likely impose monetary or other penalties against the District.

The District cannot predict the amount or level of fees and charges, which may be due the Authority in the future, but anticipates the need to pass such fees through to its customers: (i) through higher water rates and/or (ii) with portions of maintenance tax proceeds, if any. In addition, conversion to surface water could

necessitate improvements to the System which could require the issuance of additional bonds by the District. No representation is made that the Authority: (i) will build the necessary facilities to meet the requirements of the Subsidence District for conversion to surface water, (ii) will comply with the Subsidence District's surface water conversion requirements, or (iii) will comply with its GRP.

### Historical Operations of the System

The following statement sets forth in condensed form the historical results of operation of the District Utility System. Such summary has been prepared by the Financial Advisor for inclusion herein, based upon information obtained from the District's audited financial statements for the year ended December 31, 2017. Reference is made to such statements for further and more complete information. See "APPENDIX A."

	For Fiscal Year Ended				
	12/31/17	12/31/16	12/31/15	12/31/14	12/31/13
<b><u>Revenues</u></b>					
Property Taxes	\$1,472,206	\$1,614,958	\$1,042,385	\$975,998	\$821,340
Water Service	1,086,063	1,136,965	1,001,460	846,002	728,175
Wastewater Service	1,267,422	1,219,691	1,126,294	949,019	875,255
Penalty and Interest	35,902	36,917	37,948	25,950	31,472
Tap Connection & Inspection Fees	145,278	229,147	90,906	653,447	1,420
Facility Use Fees	116,464	117,357	109,162	94,057	101,633
Regional Water Authority Fees	1,068,119	1,002,237	737,987	690,512	666,239
Investment Revenues	23,637	6,510	3,173	1,996	1,137
Miscellaneous Revenues	39,407	85,754	95,683	98,989	77,571
Total Revenues	\$5,254,498	\$5,449,536	\$4,244,998	\$4,335,970	\$3,304,242
<b><u>Expenditures</u></b>					
Purchased Services	\$325,363	\$322,896	\$301,728	\$263,237	\$289,276
Contracted Services	542,887	571,679	528,368	512,900	497,542
Purchased Wastewater Service	432,760	401,395	300,073	306,971	328,594
Utilities	104,398	128,835	106,945	99,271	109,439
Repairs and Maintenance	369,999	380,222	213,767	234,968	237,242
Regional Water Authority Assessment	1,054,157	946,357	652,924	616,980	641,190
Parks and Recreation	1,366,938	1,288,636	1,104,432	1,030,122	1,024,236
Other	283,229	318,730	250,970	427,836	189,231
Capital Outlay:					
Parks and Recreation	276,277	44,545	61,614	32,589	-
Other Facilities	-	-	21,975	-	87,997
Debt Service (Bond Issuance Costs)	-	-	32,948	26,027	-
Total Expenditures	\$4,756,008	\$4,403,295	\$3,575,744	\$3,550,901	\$3,404,747
Excess (Deficiency) of Revenues	\$498,490	\$1,046,241	\$669,254	\$785,069	(\$100,505)
Transfers In (Out)	\$226,208	(\$422,238)	\$26,027	\$64,007	\$157,614
Excess of Revenues After Transfers	\$724,698	\$624,003	\$695,281	\$849,076	\$57,109
Fund Balance Beginning of Period	\$2,528,552	\$1,904,549	\$1,209,268	\$360,192	\$303,083
Fund Balance End of Period	\$3,253,250	\$2,528,552	\$1,904,549	\$1,209,268	\$360,192

## DISTRICT DEBT

### General

2018 Taxable Assessed Valuation.....	\$ 626,575,874 (a)
Estimate of Value as of February 1, 2019.....	\$ 685,873,581 (b)

#### Direct Debt:

The Outstanding Bonds (as of March 2, 2019).....	\$ 26,600,000
The Bonds .....	<u>\$ 5,800,000</u>
Total.....	\$ 32,400,000

Estimated Overlapping Debt .....	<u>\$ 48,995,753 (c)</u>
Total Direct and Estimated Overlapping Debt .....	\$ 81,395,753

#### Direct Debt Ratios:

As a Percentage of the 2018 Taxable Assessed Valuation.....	5.17 %
As a Percentage of the Estimate of Value as of February 1, 2019 .....	4.72 %

#### Direct and Estimated Overlapping Debt Ratios:

As a Percentage of the 2018 Taxable Assessed Valuation.....	12.99 %
As a Percentage of the Estimate of Value as of February 1, 2019 .....	11.87 %

#### District Fund Balances as of February 18, 2019

Debt Service Fund .....	\$ 2,964,541 (d)
Capital Projects Fund .....	\$ 2,626,972
General Operating Fund .....	\$ 4,268,514

#### 2018 Tax Rate per \$100 of Assessed Valuation

Debt Service .....	\$0.330 (e)
Maintenance & Operation .....	<u>\$0.250</u>
Total.....	\$0.580

Average Annual Debt Service Requirement (2019–2043) .....	\$1,938,910 (f)
Maximum Annual Debt Service Requirement (2025) .....	\$2,250,306 (f)

#### Debt Service Tax Rate per \$100 of Assessed Valuation Required to Pay

##### Average Annual Debt Service Requirement (2019–2043) at 95% Collections

Based on the 2018 Taxable Assessed Valuation .....	\$0.33
Based on the Estimate of Value as of February 1, 2019 .....	\$0.30

#### Debt Service Tax Rate per \$100 of Assessed Valuation Required to Pay

##### Maximum Annual Debt Service Requirement (2025) at 95% Tax Collections

Based on the 2018 Taxable Assessed Valuation .....	\$0.38
Based on the Estimate of Value as of February 1, 2019 .....	\$0.35

- 
- (a) Represents the assessed valuation of all taxable property in the District as of January 1, 2018, provided by the Harris County Appraisal District. See "TAX DATA" and "TAXING PROCEDURES."
- (b) Provided by the Harris County Appraisal District for informational purposes only, this amount is an estimate of the taxable value of all taxable property located within the District as of February 1, 2019, and includes an estimate of additional taxable value resulting from additional taxable improvements constructed in the District from January 1, 2018, through February 1, 2019. No taxes will be levied on this estimated value. See "TAX DATA" and "TAXING PROCEDURES."
- (c) Includes all \$11,790,000 principal amount of Defined Area Bonds outstanding as of March 2, 2019, as well as the District's pro rata share, based on taxable value, of the outstanding debt of the taxing jurisdictions overlapping the District. See "DISTRICT DEBT – Direct and Estimated Overlapping Debt Statement."
- (d) Neither Texas law nor the Bond Order requires that any particular amount be maintained in the Debt Service Fund.
- (e) Represents the tax levied by the District upon taxable property located within the entire District, including the Defined Area, for payment of debt service on the Outstanding Bonds and the Bonds. This tax is separate from the ad valorem taxes that are levied by the District upon taxable property located only within the Defined Area for payment of debt service on the Defined Area Bonds. Proceeds of taxes levied by the District for payment of debt service on the Defined Area Bonds may not be used for payment of debt service on the Bonds or the Outstanding Bonds. See "TAX DATA – Estimated Overlapping Taxes."
- (f) Represents a requirement of debt service on the Outstanding Bonds and the Bonds. See "DISTRICT DEBT – Debt Service Requirements."

## Debt Service Requirements

The following schedule sets forth the annual debt service requirements of the Outstanding Bonds as well as the principal and interest requirements of the Bonds.

Calendar Year	Outstanding Debt Service	Plus: The Bonds			Total Debt Service
		Principal	Interest	Debt Service	
2019	\$2,002,483	-	\$82,422	\$82,422	\$2,084,905
2020	2,004,762	-	197,813	197,813	2,202,574
2021	2,014,867	-	197,813	197,813	2,212,680
2022	2,029,769	-	197,813	197,813	2,227,582
2023	2,035,447	-	197,813	197,813	2,233,260
2024	2,043,984	-	197,813	197,813	2,241,797
2025	2,052,494	-	197,813	197,813	2,250,306
2026	1,880,262	-	197,813	197,813	2,078,074
2027	1,879,963	-	197,813	197,813	2,077,776
2028	1,756,099	-	197,813	197,813	1,953,912
2029	1,749,076	-	197,813	197,813	1,946,889
2030	1,760,544	-	197,813	197,813	1,958,357
2031	1,786,664	-	197,813	197,813	1,984,476
2032	1,787,478	-	197,813	197,813	1,985,291
2033	1,795,809	-	197,813	197,813	1,993,621
2034	1,800,106	-	197,813	197,813	1,997,919
2035	1,823,369	-	197,813	197,813	2,021,181
2036	1,831,364	-	197,813	197,813	2,029,176
2037	922,658	\$445,000	190,581	635,581	1,558,239
2038	917,488	470,000	175,713	645,713	1,563,200
2039	915,150	490,000	160,113	650,113	1,565,263
2040	916,544	510,000	143,544	653,544	1,570,088
2041	622,200	830,000	120,931	950,931	1,573,131
2042	-	1,495,000	80,763	1,575,763	1,575,763
2043	-	1,560,000	27,300	1,587,300	1,587,300
Total	\$38,328,580	\$5,800,000	\$4,344,178	\$10,144,178	\$48,472,758

Average Annual Debt Service Requirement (2019–2043)..... \$1,938,910

Maximum Annual Debt Service Requirement (2025)..... \$2,250,306

## Direct and Estimated Overlapping Debt Statement

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

Taxing Jurisdiction	Outstanding Debt February 28, 2019	Overlapping	
		Percent	Amount
Harris County	\$ 2,050,758,022	0.14%	\$ 2,870,535
Harris County Department of Education	6,555,000	0.14	8,845
Harris County Flood Control District	83,075,000	0.14	118,786
Harris County Hospital District	59,490,000	0.14	81,920
Port of Houston Authority	593,754,397	0.14	849,076
Klein Independent School District	1,081,920,000	2.92	31,322,536
Lone Star College System	611,710,000	0.32	1,954,055
The Defined Area	11,790,000	100.00	<u>11,790,000</u>
Total Estimated Overlapping Debt .....			\$ 48,995,753
The District.....			<u>\$ 32,400,000</u>
Total Direct & Estimated Overlapping Debt.....			\$ 81,395,753

## 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, the Outstanding Bonds, and any additional bonds that the District may hereafter issue for the District Utility System as well as 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." In addition, the Board is authorized to levy separate annual ad valorem taxes, without legal limitation as to rate and amount, on all taxable property within only the Defined Area in sufficient amount to pay the principal of and interest on the Defined Area Bonds as described herein under "THE DEFINED AREA." The proceeds from such taxes levied by the District for payment of debt service on Defined Area Bonds are not available for payment of debt service on the Bonds or the Outstanding Bonds.

The Board is also authorized to levy and collect annual ad valorem taxes for the operation and maintenance of the District and its facilities and for the payment of certain contractual obligations if such taxes are authorized by vote of the District's electors at an election. The District's electors have authorized the levy of such a maintenance tax in the maximum amount of \$0.25 per \$100 of assessed valuation for the entire District and an additional \$0.64 per \$100 of assessed valuation in the Defined Area. In 2018, the District levied a maintenance tax upon all taxable property located in the District in the amount of \$0.25 per \$100 of assessed valuation. In 2018, the District did not levy an additional maintenance tax on the Defined Area, and it is not anticipated that said maintenance tax on the Defined Area will be levied in subsequent years. See "TAX DATA – Tax Rate Distribution."

### 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 2018, 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. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. Also, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead spouse. The surviving spouse of a first responder who was killed or fatally injured in the line of duty is, subject to certain conditions, also entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and, subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. See "TAX DATA." 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 2018, 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. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Property Code are to be based on one hundred percent (100%) of market value, as such is defined in the Property Code. Nevertheless, certain land may be appraised at less than market value, as such is defined in the Property Code. The Texas Constitution limits increases in the appraised value of residence homesteads to 10 percent annually regardless of the market value of the property.

The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraisal values. The plan must provide for appraisal of all property in the Appraisal District at least once every three years. It is not known what frequency of reappraisals will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone or county-wide basis. The District, however, at its expense, has the right to obtain from the Appraisal District a current estimate of appraised values within the District or an estimate of any new property or improvements within the District. While such current estimate of appraised values may serve to indicate the rate and extent of growth of taxable values within the District, it cannot be used for establishing a tax rate within the District until such time as the Appraisal District chooses to formally include such values on its appraisal roll.

The Property Tax Code further provides that the governing body of a taxing unit located within an area declared to be a disaster area by the governor of the State of Texas may authorize reappraisal of all property damaged in the disaster at its market value immediately after the disaster. For reappraised property, the taxes are pro-rated for the year in which the disaster occurred. The taxing unit assesses taxes prior to the date the disaster occurred based upon market value as of January 1 of that year. Beginning on the date of the disaster and for the remainder of the year, the taxing unit assesses taxes on the reappraised market value of the property. Certain qualified taxpayers, including owners of residential homesteads, located within a natural disaster area and whose property has been damaged as a direct result of the disaster, are entitled to enter into a tax payment installment agreement with a taxing jurisdiction such as the District if the tax payer pays at least one-fourth of the tax bill imposed on the property by the delinquency date. The remaining taxes may be paid without penalty or interest in three equal installments within six months of the delinquency date.

### **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 Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its fair market value. The Property 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 of such property would bring if sold as a unit to a purchaser who would continue the business. Provisions of the Property Code are complex and are not fully summarized here. Landowners wishing to avail themselves of the agricultural use, open space or timberland designation or residential real property inventory designation must apply for the designation and the appraiser is required by the Property Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by one political subdivision while claiming it for another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous three years for agricultural use and taxes for the previous five years for open space land and timberland. For the 2018 tax year, no lands in the District were designated for agricultural use, open space or timberland.

### **Tax Abatement**

The City or Harris County may designate all or part of the District as a reinvestment zone, and the District, Harris County, and (after annexation of the area) the City 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 October 1, or when billed, whichever comes later, and become delinquent if not paid before February 1 of the year following the year in which imposed. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. A delinquent tax on personal property

incurs an additional penalty, in an amount established by the District and a delinquent tax attorney, 60 days after the date the taxes become delinquent. 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, which may be rejected by taxing units. The District's tax collector is required to enter into an installment payment agreement with any person who is delinquent on the payment of tax on a residence homestead for payment of tax, penalties, and interest, if the person requests an installment agreement and has not entered into an installment agreement with the collector in the preceding 24 months. The installment agreement must provide for payments to be made in monthly installments and must extend for a period of at least 12 months and no more than 36 months. Additionally, the owner of a residential homestead property who is (i) sixty-five (65) years of age or older, (ii) disabled, or (iii) a disabled veteran, is entitled by law to pay current taxes on a residential homestead in installments without penalty or to defer the payment of taxes during the time of ownership. In the instance of tax deferral, a tax lien remains on the property and interest continue to accrue during the period of deferral.

### **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 are not obligations of the State of Texas, Harris County, Texas, the City of Houston, Texas, or any entity other than the District, are payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied by the District upon all taxable property located in the District. See "THE BONDS - Source of Payment." Therefore, the ultimate security for payment of the principal of and interest on the Bonds depends upon the ability of the District to collect from the property owners within the District taxes levied against all taxable property located within the District, or, in the event taxes are not collected and foreclosure proceedings are instituted by the District, upon the value of the taxable property with respect to taxes levied by the District and by other taxing authorities.

The District makes no representations that over the life of the Bonds the construction of improvements or continued development of taxable values will be sufficient to justify continued payment of taxes by property owners. Further, the District makes no representations that, over the life of the Bonds, the existing property within the District will maintain a value sufficient to justify continued payment of taxes by the property owners. The valuation of taxable property in the District is directly related to the economics of the residential housing industry as well as those particular factors discussed below.

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

*Economic Factors:* The rate of continued development within the District is directly related to the vitality of the residential housing industry in the Houston metropolitan area. Construction of new residential properties can be significantly affected by factors such as interest rates, credit availability, energy costs,

construction costs, unemployment rates, consumer demand, and other general economic conditions. 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 OF THE DISTRICT," as of February 1, 2019, approximately 1,219 acres located within the District have been developed to include approximately 2,134 complete single-family homes and 3 multi-family residential properties, the District cannot predict the pace or magnitude of construction of any additional residential improvements, or other future development in the District. Unless the District's tax base grows as a result of construction of additional housing and other taxable improvements, the District may be required to levy taxes at a substantially higher rate than customarily levied by other similar utility districts. An increase in the tax rate of the District to a higher level may have an adverse impact on future development in the District and on the District's ability to collect such tax.

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

The ability of any principal landowner to make full and timely payments of taxes levied against its property by the District and similar taxing authorities will directly affect the District's ability to meet its debt service obligations. As illustrated in this Official Statement under the caption "TAX DATA – Principal Taxpayers," for the 2018 tax year, the District's principal taxpayers owned property located within the District the aggregate assessed valuation of which comprised approximately 13.90% of the District's total taxable assessed valuation. In the event that the Developers, any other taxpayer, or any combination of taxpayers should default in the payment of taxes in an amount which exceeds the District's applicable debt service fund surplus, the ability of the District to make timely payment of debt service on the Bonds will be dependent on its ability to enforce and liquidate its tax liens, which is a time-consuming process. Failure to recover or borrow funds in a timely fashion could result in an excessive District tax rate. See "TAX DATA – Principal Taxpayers" and "TAXING PROCEDURES – Levy and Collection of Taxes."

*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, Texas. The Developers and homebuilders active within the District compete for the sale of developed lots and homes with numerous residential development projects located closer to major employment centers and closer to major freeways. In addition, many of the residential and commercial developments with which the District competes have lower overlapping taxes. As a result, particularly during times of increased competition, the Developers and homebuilders may find themselves at a competitive disadvantage to the developers and homebuilders in other residential projects located closer to major urban centers or with lower overlapping taxes. See "THE DISTRICT."

*Maximum Impact on District Tax Rate:* Assuming no further development or home construction, the value of land, improvements, and other taxable property currently within the District will be the major determinant of the ability or willingness of property owners within the District to pay their taxes. The taxable assessed valuation as of January 1, 2018, of all taxable property located within the District is \$626,575,874, and the estimate of value as of February 1, 2019, of all taxable property located within the District is \$685,873,581. See "TAX DATA."

After issuance of the Bonds, the maximum annual debt service requirement (2025) on the Outstanding Bonds and the Bonds will be \$2,250,306, and the average annual debt service requirement (2019–2043) on the Outstanding Bonds and the Bonds will be \$1,938,910. Assuming no increase to nor decrease from the taxable assessed valuation of the District as of January 1, 2018, tax rates of \$0.38 and \$0.33 per \$100 of taxable assessed valuation at a 95% tax collection rate would be necessary to pay the maximum annual debt service requirement and the average annual debt service requirement, respectively. Assuming no increase to nor decrease from the estimated valuation of the District as of February 1, 2019, tax rates of \$0.35 and \$0.30 per

\$100 of assessed taxable valuation at a 95% tax collection rate would be necessary to pay the maximum annual debt service requirement and the average annual debt service requirement, respectively. The District can make no representation that the taxable property values in the District will increase in the future or will maintain a value sufficient to support the proposed District tax rate or to justify continued payment of taxes by property owners.

### **Potential Impact of Natural Disaster**

The District is located approximately 65 miles from the Texas Gulf Coast and, as it has in the past, could be impacted by high winds, heavy rains, and flooding caused by hurricane, tornado, tropical storm, or other adverse weather event. In the event that a natural disaster should damage or destroy improvements and personal property in the District, the assessed value of such taxable properties could be substantially reduced, resulting in a decrease in the taxable assessed value of the District or an increase in the District's tax rates. See "TAXING PROCEDURES - Valuation of Property for Taxation."

There can be no assurance that a casualty loss to taxable property within the District will be covered by insurance (certain casualties, including flood, are usually excepted unless specific insurance is purchased), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild, repair, or replace any taxable properties in the District or in the remainder of the District that were damaged. Even if insurance proceeds are available and damaged properties are rebuilt, there could be a lengthy period in which assessed values in the District are adversely affected.

### **Specific Flood Type Risks**

***Ponding (or Pluvial) Flood.*** Ponding, or pluvial, flooding occurs when heavy rainfall creates a flood event independent of an overflowing water body, typically in relatively flat areas. Intense rainfall can exceed the drainage capacity of a drainage system, which may result in water within the drainage system becoming trapped and diverted onto streets and nearby property until it is able to reach a natural outlet. Ponding can also occur in a flood pool upstream or behind a dam, levee, or reservoir.

***Riverine (or Fluvial) Flood.*** Riverine, or fluvial, flooding occurs when water levels rise over the top of river, bayou, or channel banks due to excessive rain from tropical systems making landfall and/or persistent thunderstorms over the same area for extended periods of time. The damage from a riverine flood can be widespread. The overflow can affect smaller rivers and streams downstream, or may sheet-flow over land. Flash flooding is a type of riverine flood that is characterized by an intense, high velocity torrent of water that occurs in an existing river channel with little to no notice. Flash flooding can also occur even if no rain has fallen, for instance, after a levee, dam or reservoir has failed or experienced an uncontrolled release, or after a sudden release of water by a debris or ice jam. In addition, planned or unplanned controlled releases from a dam, levee, or reservoir also may result in flooding in areas adjacent to rivers, bayous, or drainage systems downstream.

### **Hurricane Harvey**

The Houston area, including Harris County, experienced historic levels of rainfall and widespread flooding following landfall of Hurricane Harvey on August 26, 2017. According to the Engineer and the General Manager of the District, there were approximately 143 single-family homes that experienced structural flooding and damage as a result of Hurricane Harvey. In addition, one multi-family residential property, the Waterford Springs apartment complex described herein, experienced structural flooding. Approximately 80% of the complex's first-floor units experienced water intrusion. All affected units in the complex have since been repaired and are currently either occupied or available for tenants.

Further, to the best knowledge of the Engineer and the Operator, Hurricane Harvey caused minor damage to certain facilities that are part of the District Utility System. There was no interruption of service anywhere in the District however, and all repairs have been completed. The District is located near the Texas Gulf Coast and, as it has in the past, could be impacted by high winds and flooding caused by hurricane, tornado, tropical storm, or other adverse weather event.

## **Tax Collections Limitations**

The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other taxing authorities on the property against which taxes are levied, and such lien may be enforced by foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time-consuming, and expensive collection procedures, (b) market conditions limiting the proceeds from a foreclosure sale of taxable property, or (c) the taxpayer's right to redeem the property within six months (two years for residential homesteads or agricultural property) after the sheriff's deed issued at a foreclosure sale is filed in the county deed records. While the District has a lien on taxable property within the District for taxes levied against such property, such lien can be foreclosed only in a judicial proceeding. Finally, any bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes assessed against such taxpayer. In addition to the automatic stay against collection of delinquent taxes afforded a taxpayer during the pendency of a bankruptcy, a bankruptcy could affect payment of taxes in two other ways: first, a debtor's confirmation plan may allow a debtor to make installment payments on delinquent taxes for up to six years; and second, a debtor may challenge, and a bankruptcy court may reduce, the amount of any taxes assessed against the debtor, including taxes that have already been paid.

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

In the event of default in the payment of principal of or interest on the Bonds, the Registered Owners have a right to seek a writ of mandamus requiring the District to levy sufficient taxes each year to make such payments. Except for mandamus, the Bond Order does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year.

Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages, so that in the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Orders may not be reduced to a judgment for money damages. If the Registered Owners could obtain a judgment against the District, the judgment could not be enforced by a direct levy and execution against the District's 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 understanding (other than the initial reoffering yields) with the winning bidder for the Bonds (the "Initial Purchaser") regarding the reoffering yields or prices of the Bonds and 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."

## **Future Debt**

Additional bonds may 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 that may be issued.

After the issuance of the Bonds, \$17,930,051 principal amount of unlimited tax bonds will remain authorized but unissued from the District's prior voted authorization for financing of the District Utility System. 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."

After issuance of the Bonds, the District will owe the Developers approximately \$4,434,146 for funds advanced for the construction of the District Utility System.

Additionally, the District currently owes developers within the Defined Area approximately \$0 for expenditures for construction of the Defined Area Road System and approximately \$8,020,828 for expenditures for construction of the Defined Area Utility System. The District anticipates that reimbursement for such expenditures will be made from the proceeds of sale of additional Defined Area Bonds. See "THE DEFINED AREA" for a discussion of Defined Area Bonds.

## **Continuing Compliance with Certain Covenants**

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

## **Future and Proposed Legislation**

From time to time, there are Presidential proposals, proposals of various federal agencies, 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.

## **2019 Legislative Session**

The 86th Regular Legislative Session convened on January 8, 2019, and will conclude on May 27, 2019. The Texas Legislature will likely enact laws that materially change current laws affecting ad valorem tax matters, including rollback elections for maintenance tax increases, and other matters which could adversely affect the marketability or market value of the Bonds. The Governor of Texas has declared property tax reform as an emergency item for the legislative session, with the result that any property tax reform legislation may become effective within the first 60 days of the legislative session. In addition, the Governor may call one or more additional special sessions that may include legislation affecting property taxes. The District can make no representation regarding any actions the Texas Legislature may take or the effect of any such actions.



## Environmental Regulations

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

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

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

**Air Quality Issues.** Air quality control measures required by the United States Environmental Protection Agency (the “EPA”) and the TCEQ may impact new industrial, commercial and residential development in the Houston area. Under the Clean Air Act (“CAA”) Amendments of 1990, the eight-county Houston Galveston area (“HGB area”)—Harris, Galveston, Brazoria, Chambers, Fort Bend, Waller, Montgomery and Liberty counties—has been designated a nonattainment area under three separate federal ozone standards: the one-hour (124 parts per billion (“ppb”)) and eight-hour (84 ppb) standards promulgated by the EPA in 1997 (“the 1997 Ozone Standards”); the tighter, eight-hour ozone standard of 75 ppb promulgated by the EPA in 2008 (“the 2008 Ozone Standard”), and the EPA’s most-recent promulgation of an even lower, 70 ppb eight-hour ozone standard in 2015 (“the 2015 Ozone Standard”). While the State of Texas has been able to demonstrate steady progress and improvements in air quality in the HGB area, the HGB area remains subject to CAA nonattainment requirements.

The HGB area is currently designated as a severe ozone nonattainment area under the 1997 Ozone Standards. While the EPA has revoked the 1997 Ozone Standards, EPA historically has not formally redesignated nonattainment areas for a revoked standard. As a result, the HGB area remained subject to continuing severe nonattainment area “anti-backsliding” requirements, despite the fact that HGB area air quality has been attaining the 1997 Ozone Standards since 2014. In late 2015, EPA approved the TCEQ’s “redesignation substitute” for the HGB area under the revoked 1997 Ozone Standards, leaving the HGB area subject only to the nonattainment area requirements under the 2008 Ozone Standard (and later, the 2015 Ozone Standard).

In February 2018, the U.S. Court of Appeals for the District of Columbia Circuit issued an opinion in *South Coast Air Quality Management District v. EPA*, 882 F.3d 1138 (D.C. Cir. 2018) vacating the EPA redesignation substitute rule that provided the basis for EPA’s decision to eliminate the anti-backsliding requirements that had applied in the HGB area under the 1997 Ozone Standard. The court has not responded to EPA’s April 2018 request for rehearing of the case. To address the uncertainty created by the *South Coast* court’s ruling, the TCEQ has developed a formal request that the HGB area be redesignated to attainment under the 1997 Ozone Standards. The TCEQ Commissioners approved publication of a proposed HGB area redesignation request under the 1997 Ozone Standards on September 5, 2018.

The HGB area is currently designated as a “moderate” nonattainment area under the 2008 Ozone Standard, with an attainment deadline of July 20, 2018. If the EPA ultimately determines that the HGB area has failed to meet the attainment deadline based on the relevant data, the area is subject to reclassification to a nonattainment classification that provides for more-stringent controls on emissions from the industrial sector. In addition, the EPA may impose a moratorium on the awarding of federal highway construction

grants and other federal grants for certain public works construction projects if it finds that an area fails to demonstrate progress in reducing ozone levels.

The HGB area is currently designated as a “marginal” nonattainment area under the 2015 Ozone Standard. For purposes of the 2015 Ozone Standard, the HGB area consists of only six counties: Brazoria, Chambers, Fort Bend, Galveston, Harris, and Montgomery Counties.

In order to demonstrate progress toward attainment of the EPA’s ozone standards, the TCEQ has established a state implementation plan (“SIP”) for the HGB area setting emission control requirements, some of which regulate the inspection and use of automobiles. These types of measures could impact how people travel, what distances people are willing to travel, where people choose to live and work, and what jobs are available in the HGB area. These SIP requirements can negatively impact business due to the additional permitting/regulatory constraints that accompany this designation and because of the community stigma associated with a nonattainment designation. It is possible that additional controls will be necessary to allow the HGB area to reach attainment with the ozone standards by the EPA’s attainment deadlines. These additional controls could have a negative impact on the HGB area’s economic growth and development.

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

Pursuant to the federal Safe Drinking Water Act (“SDWA”) and Environmental Protection Agency’s National Primary Drinking Water Regulations (“NPDWRs”), which are implemented by the TCEQ’s Water Supply Division, a municipal utility district’s provision of water for human consumption is subject to extensive regulation as a public water system.

Municipal utility districts must generally provide treated water that meets the primary and secondary drinking water quality standards adopted by the TCEQ, the applicable disinfectant residual and inactivation standards, and the other regulatory action levels established under the agency’s rules. The EPA has established NPDWRs for more than ninety (90) contaminants and has identified and listed other contaminants which may require national drinking water regulation in the future.

Texas Pollutant Discharge Elimination System (“TPDES”) permits set limits on the type and quantity of discharge, in accordance with state and federal laws and regulations. The TCEQ reissued the TPDES Construction General Permit (TXR150000), with an effective date of March 5, 2018, which is a general permit authorizing the discharge of stormwater runoff associated with small and large construction sites and certain nonstormwater discharges into surface water in the state. It has a 5-year permit term, and is then subject to renewal. Moreover, the Clean Water Act (“CWA”) and Texas Water Code require municipal wastewater treatment plants to meet secondary treatment effluent limitations and more stringent water quality-based limitations and requirements to comply with the Texas water quality standards. Any water quality-based limitations and requirements with which a municipal utility district must comply may have an impact on the municipal utility district’s ability to obtain and maintain compliance with TPDES permits.

In 2015, the EPA and the United States Army Corps of Engineers (“USACE”) promulgated a rule known as the Clean Water Rule (“CWR”) aimed at redefining “waters of the United States” over which the EPA and USACE have jurisdiction under the CWA. The CWR significantly expands the scope of the federal government’s CWA jurisdiction over intrastate water bodies and wetlands. The CWR could have an adverse impact on water districts, including the District, particularly with respect to jurisdictional wetland determinations, and could increase the size and scope of activities requiring USACE permits. The CWR has been challenged in various jurisdictions, including the Southern District of Texas, and the litigation challenging the CWR is still pending.

On February 28, 2017, the President signed an executive order ordering the EPA and USACE to modify or rescind the CWR. In response, the EPA and the USACE subsequently released a proposed rule rescinding the CWR, reinstating the regulatory text that existed prior to the adoption of the CWR and proposing the development of a revised definition of “waters of the United States.” In June 2018, the EPA and USACE issued a supplemental notice of proposed rulemaking to the 2017 proposed action to repeal the 2015 definition of “waters of the United States” to clarify that the agencies are proposing to permanently repeal the CWR in its entirety and reinstate language in place before the adoption of the CWR while developing a revised definition

of “waters of the United States.” Meanwhile, in January 2018, the EPA and the USACE finalized a rule extending the effective date of the CWR until 2020 while the agencies finalize actions to repeal and replace the CWR. This rule delaying the effective date of the CWR was challenged in court and, on August 16, 2018, the U.S. District Court for the District of South Carolina issued a nationwide injunction rendering the rule extending the effective date of the CWR void, thereby reinstating the CWR in 26 states, including Texas. However, on September 12, 2018, the U.S. District Court for the Southern District of Texas temporarily enjoined the implementation of the CWR in Texas, Louisiana and Mississippi until the case filed by the States of Texas, Louisiana and Mississippi in 2015 is finally resolved.

On December 11, 2018, the EPA and USACE released the proposed replacement definition of “waters of the United States.” The proposed definition outlines six categories of waters that would be considered “waters of the United States,” including traditional navigable waters, tributaries to those waters, certain ditches, certain lakes and ponds, impoundments of jurisdictional waters, and wetlands adjacent to jurisdictional waters. The proposed rule also details what are not “waters of the United States,” including traditional navigable waters, tributaries to those waters, certain ditches, certain lakes and ponds, impoundments of jurisdictional waters and wetlands adjacent to jurisdictional waters the proposed rule also details what are not “waters of the United States,” such as features that only contain water during or in response to rainfall (e.g., ephemeral features) groundwater, many ditches, including most roadside or farm ditches; prior converted cropland; stormwater control features; and waste treatment systems. The agencies will take comment on the proposal for 60 days after publication in the Federal Register. If finalized, the proposed rule would apply nationwide, replacing the patchwork framework for Clean Water Act jurisdiction that has resulted from litigation challenging the CWR.

Due to the pending rulemaking activity and rule challenge litigation, there is sufficient uncertainty regarding the ultimate scope of “waters of the United States” and to the extent of EPA and USACE jurisdiction. Depending on the final outcome of such proceedings, operations of water districts, including the District, could potentially be subject to additional restrictions and requirements, including permitting requirements.

#### **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 Bond Insurer at such time and in such amounts as would have been due absence such prepayment by the District unless the Bond Insurer chooses to pay such amounts at an earlier date.

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

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

The long-term ratings on the Bonds are dependent in part on the financial strength of the Bond Insurer and its claim paying ability. The Bond Insurer’s financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of the Bond Insurer and of the ratings on the Bonds insured by the Bond Insurer will not be subject to downgrade and

such event could adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds. See "MUNICIPAL BOND INSURANCE."

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

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

## **LEGAL MATTERS**

### **Legal Opinions**

The District will furnish the Initial Purchaser 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."

Bacon & Wallace, L.L.P., in its capacity as Bond Counsel, 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"), "THE DISTRICT - General," and "THE DISTRICT - Management of the District - Bond Counsel," "TAXING PROCEDURES," "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 Bond Counsel 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 Initial Purchaser 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 Initial Purchaser to take and pay for the Bonds, and of the District to deliver the Bonds, are subject to the condition that, up to the time of delivery of and receipt of payment for the Bonds, there shall have been no material adverse change in the 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) is not subject to the alternative minimum tax on individuals. 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 District's federal tax certificate and (b) covenants of the District 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 District 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 Internal Revenue Code of 1986 (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. 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.

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**

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

The District has designated the Bonds as "qualified tax-exempt obligations" represents that the aggregate amount of tax-exempt bonds (including the Bonds) issued by the District and entities aggregated with the District under the Code during calendar year 2019 is not expected to exceed \$10,000,000 and that the District and entities aggregated with the District under the Code have not designated more than \$10,000,000 in "qualified tax-exempt obligations" (including the Bonds) during calendar year 2019.

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

### **CONTINUING DISCLOSURE OF INFORMATION**

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

#### **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," and "APPENDIX A." The District will update and provide this information within six months after the end of each fiscal year ending in or after 2018.

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 United States Securities and Exchange Commission (the "Rule"). The updated information will include audited financial statements, if the District commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the District will provide audited financial statements when and if the audit report becomes available. Any such financial statements will be prepared in accordance with the accounting

principles described in "APPENDIX A" or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

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

### **Event Notices**

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other events affecting the tax-exempt status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of the Rule; (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a debt obligation or derivative instrument entered into in connection with, or pledged as security or source of payment for, an existing or planned debt obligation of the District, or a guarantee of any such debt obligation or derivative instrument, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of any such financial obligation, as defined in accordance with the Rule, as amended, of the District, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of any such financial obligation, as defined in accordance with the Rule, as amended, of the District, any of which reflect financial difficulties. 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 financial information, operating data, or financial statements in accordance with its agreement described above under "Annual Reports."

### **Availability of Information**

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

### **Limitations and Amendments**

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



The District may amend its continuing disclosure agreement in the Bond Order to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or operations or business of the District, if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering made hereby in compliance with the Rule and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. The District may also amend or repeal the agreement in the Bond Order if the United States Securities and Exchange Commission 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 Initial Purchaser from lawfully purchasing the Bonds in the offering described herein.

### **Compliance with Prior Undertakings**

The District did not file operating data for the fiscal year ended December 31, 2014, which the District had agreed to file under previous continuing disclosure undertaking agreements as described in the Rule, within the time specified in such undertakings. On March 18, 2014, S&P Global Ratings upgraded its rating of Assured Guaranty Municipal Corp., which rating is assigned to the District's Unlimited Tax Bonds, Series 2012. On November 11, 2016, the District filed a notice of such rating change with the MSRB through the EMMA system, which was more than 10 business days after the date of the rating change. As of the date of this Official Statement, the District has filed such operating data and notice of rating change in the manner prescribed by the MSRB. Except to the extent the preceding is deemed to be material, in the previous five years, the District has complied in all material respects with its previous continuing disclosure undertakings under the Rule. The District has reviewed its continuing disclosure responsibilities and has engaged McCall, Parkhurst & Horton L.L.P. as Disclosure Counsel to assist the District in making its future filings of financial statements and operating data to the MSRB in a timely manner.

## **OFFICIAL STATEMENT**

### **General**

The information contained in this Official Statement has been obtained primarily from the District's records, the 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 the Engineer.

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 Tax Tech Inc. and the Appraisal District. Such information has been included herein in reliance upon Tax Tech Inc.'s authority as an expert in the field of tax collection and the Appraisal District's authority in the field of tax assessing.

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

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

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

ATTEST:

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

**APPENDIX A**  
**Financial Statements of the District**

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**

**HARRIS COUNTY, TEXAS**

**ANNUAL FINANCIAL REPORT**

**DECEMBER 31, 2017**

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

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# **McCALL GIBSON SWEDLUND BARFOOT PLLC**

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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, 2017, 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, 2017, 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 the Management's Discussion and Analysis and the Schedules of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund and Special Revenue Fund be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

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

*McCall Gibson Swedlund Barfoot PLLC*

McCall Gibson Swedlund Barfoot PLLC  
Certified Public Accountants  
Houston, Texas

May 7, 2018

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

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, 2017. Please read it in conjunction with the District's financial statements.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The basic financial statements include: (1) combined fund financial statements and government-wide financial statements and (2) notes to financial statements. The combined fund financial statements and government-wide financial statements combine both: (1) the Statement of Net Position and Governmental Funds Balance Sheet and (2) the Statement of Activities and Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances. This report also includes required and 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 financial statements provide both long-term and short-term information about the District's overall status. Financial reporting at this level uses a perspective like that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The Statement of Net Position includes all the District's assets, liabilities and, if applicable, 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 Statement of Activities reports how the District's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.



**NORTHAMPTON MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

**FUND FINANCIAL STATEMENTS**

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

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

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

**NOTES TO FINANCIAL STATEMENTS**

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

**OTHER INFORMATION**

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

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

**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 and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$1,897,785 as of December 31, 2017.

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

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

	Summary of Changes in the Statement of Net Position		
	2017	2016	Change Positive (Negative)
Current and Other Assets	\$ 16,791,435	\$ 15,970,206	\$ 821,229
Capital Assets (Net of Accumulated Depreciation)	34,480,004	31,998,940	2,481,064
Total Assets	\$ 51,271,439	\$ 47,969,146	\$ 3,302,293
Deferred Outflows of Resources	\$ 309,883	\$ 329,040	\$ (19,157)
Developer Advances	\$ 6,764,137	\$ 3,298,753	\$ (3,465,384)
Long-Term Liabilities	36,282,035	37,725,733	1,443,698
Other Liabilities	2,495,083	2,056,133	(438,950)
Total Liabilities	\$ 45,541,255	\$ 43,080,619	\$ (2,460,636)
Deferred Inflows of Resources	\$ 4,142,282	\$ 3,750,132	\$ (392,150)
Net Position:			
Net Investment in Capital Assets	\$ (3,851,222)	\$ (3,375,845)	\$ (475,377)
Restricted	2,358,998	2,174,795	184,203
Unrestricted	3,390,009	2,668,485	721,524
Total Net Position	\$ 1,897,785	\$ 1,467,435	\$ 430,350

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

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

The following table provides a summary of the District's operations for the years ended December 31, 2017, and December 31, 2016.

	Summary of Changes in the Statement of Activities		
	2017	2016	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 3,883,140	\$ 3,430,262	\$ 452,878
Charges for Services	3,976,129	3,977,246	(1,117)
Other Revenues	151,261	100,610	50,651
Total Revenues	\$ 8,010,530	\$ 7,508,118	\$ 502,412
Expenses for Services	(7,580,180)	(8,496,954)	916,774
Change in Net Position	\$ 430,350	\$ (988,836)	\$ 1,419,186
Net Position, Beginning of Year	1,467,435	2,456,271	(988,836)
Net Position, End of Year	\$ 1,897,785	\$ 1,467,435	\$ 430,350

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

The District's combined fund balances as of December 31, 2017, were \$11,782,657, an increase of \$500,964 from the prior year.

The General Fund fund balance increased by \$724,698 primarily due to service revenues and transfers exceeding operating expenditures.

The Debt Service Fund fund balance increased by \$221,644, primarily due to the timing difference between actual property tax collections and debt service payments.

The Capital Projects Fund fund balance decreased by \$445,378, primarily due the use of prior bond proceeds and transfers to the General Fund.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The Board of Directors did not amend the budget during the fiscal year. Actual revenues were \$24,773 more than budgeted revenues. Actual expenditures were \$243,629 more than budgeted expenditures.

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

**CAPITAL ASSETS**

Capital assets as of December 31, 2017, total \$34,480,004 (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:	
Water and Sanitary Seer Extention along Gosling Road to Serve 7.965-acre Terra Gosling	\$ 269,651
Hampton Creek Detention – Phases 3 and 4	3,189,851
Splash Pad Conversions	270,697
Equipment	36,957
Resurface Tennis Court	29,060
Gazebo	<u>24,529</u>
Total Completed Projects	<u>\$ 3,820,745</u>
Construction in Progress:	
Water Plant No. 3	\$ 406,427
Splash Pad Conversions - Plans	2,000
Lift Station Rehabilitation	73,841
New Pump House	<u>6,287</u>
Total Construction in Progress	<u>\$ 488,555</u>

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2017	2016	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 1,936,448	\$ 1,936,448	\$
Construction in Progress	488,555	358,438	130,117
Capital Assets, Net of Accumulated Depreciation:			
Meeting and Recreation Facilities	1,750,156	1,669,159	80,997
Water System	4,856,594	5,013,008	(156,414)
Wastewater System	18,078,240	18,684,719	(606,479)
Drainage System	7,345,929	4,337,168	3,008,761
Equipment	<u>24,082</u>	<u></u>	<u>24,082</u>
Total Net Capital Assets	<u>\$ 34,480,004</u>	<u>\$ 31,998,940</u>	<u>\$ 2,481,064</u>

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

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

**LONG-TERM DEBT ACTIVITY**

At the end of the current fiscal year, the District had total long-term debt payable of \$37,915,000.

The changes in the debt position of the District during the fiscal year ended December 31, 2017, are summarized as follows:

Bond Debt Payable, January 1, 2017	\$ 38,950,000
Less: Bond Principal Paid	<u>1,035,000</u>
Bond Debt Payable, December 31, 2017	<u>\$ 37,915,000</u>
 Bond Debt Payable, December 31, 2017	 \$ 37,915,000
Unamortized Discounts	(685,882)
Unamortized Premiums	<u>492,917</u>
Bonds Payable, Net December 31, 2017	<u>\$ 37,722,035</u>

The Series 2010 Refunding Bonds, Series 2016 Refunding Bonds and Series 2016 Bonds carry on underlying rating of "A2" from Moody's Investor Service. The Series 2010 Bonds, Series 2012 Bonds and Series 2015 Bonds carry an underlying rating of "A-" from Standard & Poor's.

The Series 2010 Refunding Bonds, Series 2012 Bonds and Series 2016 Bonds carry insured ratings of "AA/A2", "AA", and "AA/A2" respectively, by virtue of bond insurance issued by Assured Guaranty Municipal Corp. The Series 2015 Bonds and Series 2016 Refunding Bonds carry insured rating of "AA" by virtue of bond insurance issued by Build America Mutual Assurance Company. Credit enhanced ratings provided through bond policies are subject to change based on the rating of the bond insurance company.

**HURRICANE HARVEY**

Hurricane Harvey struck the Houston area on August 25, 2017, resulting in historic levels of rainfall. The District was affected by the storm and additional information on this event can be found in Note 17 of this report.

**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.

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**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**STATEMENT OF NET POSITION AND**  
**GOVERNMENTAL FUNDS BALANCE SHEET**  
**DECEMBER 31, 2017**

	<u>General Fund</u>	<u>Special Revenue Fund</u>
<b>ASSETS</b>		
Cash	\$ 1,329,150	\$ 107,055
Investments	2,506,910	
Receivables:		
Property Taxes	1,263,697	
Penalty and Interest on Delinquent Taxes		
Service Accounts (Net of Allowance for Doubtful Accounts of \$5,000)	277,020	
Accrued Interest	522	
Builder Damages	15,089	
Due from Other Funds	343,703	17,350
Prepaid Costs	66,620	
Due from Other Governments		22,932
Advance for Regional Wastewater Treatment Plant Operations	74,600	
Land		
Construction in Progress		
Capital Assets (Net of Accumulated Depreciation)		
<b>TOTAL ASSETS</b>	<u>\$ 5,877,311</u>	<u>\$ 147,337</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Charges on Refunding Bonds	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 5,877,311</u>	<u>\$ 147,337</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>
\$ 1,088,673	\$ 336,953	\$ 2,861,831	\$	\$ 2,861,831
1,968,338	5,442,854	9,918,102		9,918,102
2,226,671		3,490,368		3,490,368
			21,280	21,280
		277,020		277,020
5,404		5,926		5,926
		15,089		15,089
30,213	421,030	812,296	(812,296)	
		66,620	112,267	178,887
		22,932		22,932
		74,600	(74,600)	
			1,936,448	1,936,448
			488,555	488,555
			32,055,001	32,055,001
<u>\$ 5,319,299</u>	<u>\$ 6,200,837</u>	<u>\$ 17,544,784</u>	<u>\$ 33,726,655</u>	<u>\$ 51,271,439</u>
<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 309,883</u>	<u>\$ 309,883</u>
<u>\$ 5,319,299</u>	<u>\$ 6,200,837</u>	<u>\$ 17,544,784</u>	<u>\$ 34,036,538</u>	<u>\$ 51,581,322</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, 2017**

	<u>General Fund</u>	<u>Special Revenue Fund</u>
<b>LIABILITIES</b>		
Accounts Payable	\$ 135,364	\$ 46,917
Due to Other Governments	71,032	
Accrued Interest Payable		
Developer Advances	22,953	
Due to Other Funds	468,593	
Due to Taxpayers		
Due to Homeowners Association	1,255	
Unearned User Fees	12,800	
Security Deposits	354,960	
Reserved for Wastewater Treatment Plant Operations		100,420
Long-Term Liabilities:		
Due Within One Year		
Due After One Year		
<b>TOTAL LIABILITIES</b>	<u>\$ 1,066,957</u>	<u>\$ 147,337</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred Inflows:		
Property Taxes	<u>\$ 1,557,104</u>	<u>\$ - 0 -</u>
<b>FUND BALANCES</b>		
Nonspendable:		
Advance for Wastewater Treatment Plant Operations	\$ 74,600	\$
Prepaid Costs	66,620	
Restricted for Authorized Construction:		
Bond Proceeds		
Net Investment Revenues		
Restricted for Debt Service		
Unassigned	3,112,030	
<b>TOTAL FUND BALANCES</b>	<u>\$ 3,253,250</u>	<u>\$ - 0 -</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<u>\$ 5,877,311</u>	<u>\$ 147,337</u>
<b>NET POSITION</b>		
Net Investment in Capital Assets		
Restricted for:		
Debt Service		
Capital Projects		
Unrestricted		
<b>TOTAL NET POSITION</b>		

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

<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$	\$	\$ 182,281	\$	\$ 182,281
		71,032		71,032
			405,390	405,390
		22,953	6,741,184	6,764,137
262,679	81,024	812,296	(812,296)	
1,545		1,545		1,545
		1,255		1,255
		12,800		12,800
		354,960		354,960
		100,420	(74,600)	25,820
			1,440,000	1,440,000
			36,282,035	36,282,035
<u>\$ 264,224</u>	<u>\$ 81,024</u>	<u>\$ 1,559,542</u>	<u>\$ 43,981,713</u>	<u>\$ 45,541,255</u>
<u>\$ 2,645,481</u>	<u>\$ - 0 -</u>	<u>\$ 4,202,585</u>	<u>\$ (60,303)</u>	<u>\$ 4,142,282</u>
\$	\$	\$ 74,600	\$ (74,600)	\$
		66,620	(66,620)	
	5,822,110	5,822,110	(5,822,110)	
	297,703	297,703	(297,703)	
2,409,594		2,409,594	(2,409,594)	
		3,112,030	(3,112,030)	
<u>\$ 2,409,594</u>	<u>\$ 6,119,813</u>	<u>\$ 11,782,657</u>	<u>\$ (11,782,657)</u>	<u>\$ - 0 -</u>
<u>\$ 5,319,299</u>	<u>\$ 6,200,837</u>	<u>\$ 17,544,784</u>		
			\$ (3,851,222)	\$ (3,851,222)
			2,061,295	2,061,295
			297,703	297,703
			3,390,009	3,390,009
			<u>\$ 1,897,785</u>	<u>\$ 1,897,785</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, 2017**

Total Fund Balances - Governmental Funds	\$ 11,782,657
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Bond insurance premiums paid at closing are amortized over the term of the bonds.	112,267
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Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.	34,480,004
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The difference between the net carrying amount of the refunded bonds and the reacquisition price is recorded as a deferred outflow in the governmental activities and systematically charged to interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.	309,883
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Deferred inflows of resources related to tax revenues and penalty and interest receivable on delinquent taxes for the 2016 and prior tax levies became part of recognized revenues in the governmental activities of the District.	81,583
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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:

Due to Developers	\$ (6,741,184)	
Accrued Interest Payable	(405,390)	
Bonds Payable Within One Year	(1,440,000)	
Bonds Payable After One Year	(36,282,035)	
		(44,868,609)

Total Net Position - Governmental Activities	\$ 1,897,785
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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 FUND STATEMENT OF**  
**REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

	General Fund	Special Revenue Fund
<b>REVENUES</b>		
Property Taxes	\$ 1,472,206	\$
Water Service	1,086,063	
Wastewater Service	1,267,422	647,041
Penalty and Interest	35,902	
Tap Connection and Inspection Fees	145,278	
Facility Use Fees	116,464	
Regional Water Authority Fees	1,068,119	
Investment Revenues	23,637	
Miscellaneous Revenues	39,407	
<b>TOTAL REVENUES</b>	<b>\$ 5,254,498</b>	<b>\$ 647,041</b>
<b>EXPENDITURES/EXPENSES</b>		
Service Operations:		
Professional Fees	\$ 325,363	\$ 21,636
Contracted Services	542,887	67,908
Purchased Wastewater Service	432,760	
Utilities	104,398	112,567
Repairs and Maintenance	369,999	221,150
Regional Water Authority Assessments	1,054,157	
Parks and Recreation	1,366,938	
Depreciation		
Other	283,229	223,780
Capital Outlay		
Parks and Recreation	276,277	
Other Facilities		
Debt Service:		
Bond Principal		
Bond Interest		
<b>TOTAL EXPENDITURES/EXPENSES</b>	<b>\$ 4,756,008</b>	<b>\$ 647,041</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>\$ 498,490</b>	<b>\$ -0-</b>
<b>OTHER FINANCING SOURCES (USES)</b>		
Transfers In (Out)	\$ 226,208	\$ -0-
<b>NET CHANGE IN FUND BALANCES</b>	<b>\$ 724,698</b>	<b>\$ -0-</b>
<b>CHANGE IN NET POSITION</b>		
<b>FUND BALANCES/NET POSITION - JANUARY 1, 2017</b>	<b>2,528,552</b>	
<b>FUND BALANCES/NET POSITION - DECEMBER 31, 2017</b>	<b>\$ 3,253,250</b>	<b>\$ -0-</b>

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

Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
\$ 2,397,312	\$	\$ 3,869,518	\$ 13,622	\$ 3,883,140
		1,086,063		1,086,063
		1,914,463	(432,760)	1,481,703
40,020		75,922	2,580	78,502
		145,278		145,278
		116,464		116,464
		1,068,119		1,068,119
16,821	47,346	87,804		87,804
50	24,000	63,457		63,457
<u>\$ 2,454,203</u>	<u>\$ 71,346</u>	<u>\$ 8,427,088</u>	<u>\$ (416,558)</u>	<u>\$ 8,010,530</u>
\$ 12,799	\$	\$ 359,798	\$	\$ 359,798
73,841		684,636		684,636
		432,760	(432,760)	
		216,965		216,965
		591,149		591,149
		1,054,157		1,054,157
		1,366,938		1,366,938
			1,469,798	1,469,798
6,956	244	514,209		514,209
		276,277	(275,643)	634
	290,272	290,272	(215,717)	74,555
1,035,000		1,035,000	(1,035,000)	
1,103,963		1,103,963	143,378	1,247,341
<u>\$ 2,232,559</u>	<u>\$ 290,516</u>	<u>\$ 7,926,124</u>	<u>\$ (345,944)</u>	<u>\$ 7,580,180</u>
\$ 221,644	\$ (219,170)	\$ 500,964	\$ (500,964)	\$ -0-
\$ -0-	\$ (226,208)	\$ -0-	\$ -0-	\$ -0-
\$ 221,644	\$ (445,378)	\$ 500,964	\$ (500,964)	\$
			430,350	430,350
<u>2,187,950</u>	<u>6,565,191</u>	<u>11,281,693</u>	<u>(9,814,258)</u>	<u>1,467,435</u>
<u>\$ 2,409,594</u>	<u>\$ 6,119,813</u>	<u>\$ 11,782,657</u>	<u>\$ (9,884,872)</u>	<u>\$ 1,897,785</u>

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

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF  
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2017**

Net Change in Fund Balances - Governmental Funds	\$ 500,964
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report tax revenues when collected. However, in the government-wide financial statements, revenues are recorded in the accounting period for which the taxes are levied.	13,622
Governmental funds report penalty and interest on delinquent property taxes when collected. However, in the government-wide financial statements, revenues are recorded when the penalty and interest are assessed.	2,580
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.	(1,469,798)
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.	491,360
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.	1,035,000
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.	(143,378)
Change in Net Position - Governmental Activities	<u>\$ 430,350</u>

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

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**NOTE 1. CREATION OF DISTRICT**

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

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES**

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

The District is a political subdivision of the State of Texas governed by an elected board. GASB has established the criteria for determining whether 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 THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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

Financial Statement Presentation

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

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 THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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

Financial Statement Presentation (Continued)

Government-Wide Financial Statements (Continued)

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

Fund Financial Statements

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

Governmental Funds

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

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

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

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

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

Basis of Accounting

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

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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

Basis of Accounting (Continued)

Property taxes considered available by the District and included in revenue include the 2016 tax levy collections during the period October 1, 2016, to December 31, 2017, and taxes collected from January 1, 2017, to December 31, 2017, for all prior tax levies. The 2017 tax levy has been fully deferred to meet the District's planned expenditures in the 2018 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 THE FINANCIAL STATEMENTS**  
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**NOTE 2.      SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Budgeting

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

Pensions

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

Measurement Focus

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

Governmental fund types are accounted for on a spending or financial flow measurement focus. Accordingly, only current assets and current liabilities are included on the Governmental Funds 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 THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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

Measurement Focus (Continued)

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

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

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

Accounting Estimates

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

**NOTE 3. LONG-TERM DEBT**

	Series 2010	Refunding Series 2010	Series 2012
Amount Outstanding - December 31, 2017	\$175,000	\$2,895,000	\$2,175,000
Interest Rates	3.75% - 4.375%	4.00%	2.75% - 3.50%
Maturity Dates – Beginning/Ending	March 1, 2018, 2021	March 1, 2018/2027	March 1, 2028/2034, 2036
Interest Payment Dates	March 1/September 1	March 1/September 1	March 1/September 1
Callable Dates	March 1, 2018*	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 2010 term bonds maturing on March 1, 2021, are subject to mandatory redemption by lot or other customary random selection method beginning March 1, 2019. 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.

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 3. LONG-TERM DEBT (Continued)**

	Refunding Series 2014	Series 2015	Defined Area Series 2016
Amount Outstanding - December 31, 2017	\$4,210,000	\$4,345,000	\$6,315,000
Interest Rates	2.7281%	2.00% - 3.75%	2.00% - 3.45%
Maturity Dates – Beginning/Ending	March 1, 2018/2030	March 1, 2018/2026, 2029, 2031, 2032/2035, 2037, 2040	September 1, 2018/2026, 2028, 2030, 2032, 2034, 2037, 2041
Interest Payment Dates	March 1/September 1	March 1/September 1	March 1/September 1
Callable Dates	March 1, 2023*	March 1, 2023*	September 1, 2024*
	Defined Area Series 2016 Road	Refunding Series 2016	Series 2016
Amount Outstanding - December 31, 2017	\$2,700,00	\$4,800,000	\$10,300,000
Interest Rates	1.25% - 3.50%	2.00% - 4.00%	2.00% - 4.00%
Maturity Dates – Beginning/Ending	September 1, 2018/2025, 2027,2029,2031,2035, 2037,2041	March 1, 2018/2034	March 1, 2018/2033, 2035, 2037, 2041
Interest Payment Dates	March 1/September 1	March 1/September 1	March 1/September 1
Callable Dates	September 1, 2024*	March 1, 2024*	March 1, 2025*

\* 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 2015 term bonds maturing on March 1, 2029, 2031, 2037, and 2040 are subject to mandatory redemption by lot or other customary random selection methods beginning March 1, 2027, 2030, 2036, and 2038, respectively. The Defined Area Series 2016 term bonds maturing on September 1, 2028, 2030, 2032, 2034, 2037 and 2041 are subject to mandatory redemption by lot or other customary random selection methods beginning September 1, 2027, 2029, 2031, 2033, 2035, and 2038, respectively. The Defined Area Series 2016 Road term bonds maturing on March 1, 2027, 2029, 2031, 2035, 2037 and 2041 are subject to mandatory redemption by lot or other customary random selection methods beginning March 1, 2026, 2028, 2030, 2032, 2036, and 2038, respectively. The Series 2016 term bonds maturing on September 1, 2035, 2037, and 2041 are subject to mandatory redemption by lot or other customary random selection methods beginning September 1, 2034, 2036, and 2038, respectively.

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 3. LONG-TERM DEBT (Continued)**

The following is a summary of transactions regarding the changes in the long-term liabilities for the year ended December 31, 2017:

	January 1, 2017	Additions	Retirements	December 31, 2017
Bonds Payable	\$ 38,950,000	\$	\$ 1,035,000	\$ 37,915,000
Unamortized Discounts	(722,309)		(36,427)	(685,882)
Unamortized Premiums	533,042		40,125	492,917
Bonds Payable, Net	<u>\$ 38,760,733</u>	<u>\$ -0-</u>	<u>\$ 1,038,698</u>	<u>\$ 37,722,035</u>
			Amount Due Within One Year	\$ 1,440,000
			Amount Due After One Year	<u>36,282,035</u>
			Bonds Payable, Net	<u>\$ 37,722,035</u>

As of December 31, 2017, the District had authorized but unissued bonds in the amount of \$24,040,000 for utility facilities and refundings; \$34,510,000 for utility facilities and refundings in the defined area; and \$14,300,000 for roads in the defined area.

As of December 31, 2017, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2018	\$ 1,440,000	\$ 1,198,223	\$ 2,638,223
2019	1,360,000	1,159,860	2,519,860
2020	1,405,000	1,122,415	2,527,415
2021	1,455,000	1,082,420	2,537,420
2022	1,515,000	1,041,924	2,556,924
2023-2027	8,050,000	4,541,769	12,591,769
2028-2032	8,300,000	3,308,011	11,608,011
2033-2037	9,200,000	1,772,996	10,972,996
2038-2041	5,190,000	417,246	5,607,246
	<u>\$ 37,915,000</u>	<u>\$ 15,644,864</u>	<u>\$ 53,559,864</u>

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

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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

During the year ended December 31, 2017, the District levied a District-wide ad valorem debt service tax at the rate of \$0.33 per \$100 of assessed valuation, which resulted in a tax levy of \$2,023,048 on the adjusted taxable valuation of \$613,044,675 for the 2017 tax year. The bond orders require the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. See Note 7 for maintenance tax levy.

Defined Area

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

At an election within the District on November 6, 2012 the voters authorized \$41,000,000 principal amount of bonds to finance water, wastewater and drainage improvements within the Defined Area and \$17,000,000 principal amount of bonds to finance road improvements within the Defined Area. 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.

During the year ended December 31, 2017, the District levied an ad valorem debt service and road tax at the rate of \$0.34 and \$0.30, respectively, per \$100 of assessed valuation within the defined area, which resulted in a total tax levy of \$586,622 on the adjusted taxable valuation of \$91,659,783 for the 2017 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.

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. |



**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

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

- A. 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.
- B. 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.
- C. 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 2010 Bonds and the Series 2010 Refunding Bonds; and the final arbitrage rebate reports were completed for the Series 2006 Bonds and the Series 2006 Park Bonds. The reports reflect that the District did not have a rebate obligation to the federal government on these issues.

- D. In accordance with the Series 2015, Defined Area Series 2016 and Series 2016 bond orders, a portion of the bond proceeds were deposited into the Debt Service Fund and reserved for the payment of bond interest during the construction period. This bond interest reserved is reduced as the interest is paid. Transactions for the current year are summarized as follows:

Bond Interest Reserve – January 1, 2017	\$	475,371
Less: Series 2015 Interest		21,295
Less: Defined Area Series 2016 Road Capitalized Interest		73,273
Less: Series 2016 Capitalized Interest		<u>240,008</u>
Bond Interest Reserve – December 31, 2017	\$	<u>140,795</u>

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**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 \$5,320,169 and the bank balance was \$5,292,950. Of the bank balance, \$2,228,920 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, 2017, as listed below:

	Cash	Certificates of Deposit	Total
GENERAL FUND	\$ 1,329,150	\$ 490,000	\$ 1,819,150
SPECIAL REVENUE FUND	107,055		107,055
DEBT SERVICE FUND	1,088,673	1,968,338	3,057,011
CAPITAL PROJECTS FUND	336,953		336,953
TOTAL DEPOSITS	<u>\$ 2,861,831</u>	<u>\$ 2,458,338</u>	<u>\$ 5,320,169</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,

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 5. DEPOSITS AND INVESTMENTS (Continued)**

Investments (Continued)

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. The District has adopted a written investment policy to establish the guidelines by which it may invest. This policy is reviewed annually. The District’s investment policy may be more restrictive than the Public Funds Investment Act.

The District invests in TexPool, an external investment pool that is not SEC-registered. The Texas Comptroller of Public Accounts has oversight of the pool. Federated Investors, Inc. manages the daily operations of the pool under a contract with the Comptroller. TexPool meets the criteria established in GASB Statement No. 79 and measures all its portfolio assets at amortized cost. As a result, the District also measures its investments in TexPool at amortized cost for financial reporting purposes. There are no limitations or restrictions on withdrawals from TexPool.

All investments are recorded at cost, which the District considers to be fair value. As of December 31, 2017, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities in Years		
		Less Than 1	1-5	6-10
<u>GENERAL FUND</u>				
Certificates of Deposit	\$ 490,000	\$ 490,000	\$	\$
TexPool	2,016,910	2,016,910		
<u>DEBT SERVICE FUND</u>				
Certificates of Deposit	1,968,338	1,968,338		
<u>CAPITAL PROJECTS FUND</u>				
TexPool	5,442,854	5,442,854		
TOTAL INVESTMENTS	\$ 9,918,102	\$9,918,102	\$ - 0 -	\$ - 0 -

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At December 31, 2017, the District’s investments in TexPool were rated “AAAm” by Standard and Poor’s. The District also manages credit risk by investing in certificates of deposit insured by the FDIC.

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 5. DEPOSITS AND INVESTMENTS (Continued)**

Investments (Continued)

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District considers the investments in TexPool to have a maturity of less than one year due to the fact the share position can usually be redeemed each day at the discretion of the District. The District also manages interest rate risk by investing in certificates of deposit with maturities of approximately one year or less.

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.

**NOTE 6. CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2017:

	January 1, 2017	Increases	Decreases	December 31, 2017
<b>Capital Assets Not Being Depreciated</b>				
Land and Land Improvements	\$ 1,936,448	\$	\$	\$ 1,936,448
Construction in Progress	358,438	3,950,862	3,820,745	488,555
<b>Total Capital Assets Not Being Depreciated</b>	<u>\$ 2,294,886</u>	<u>\$ 3,950,862</u>	<u>\$ 3,820,745</u>	<u>\$ 2,425,003</u>
<b>Capital Assets Subject to Depreciation</b>				
Meeting and Recreation Facilities	\$ 4,303,864	\$ 331,243	\$	\$ 4,635,107
Water System	9,468,811	170,468		9,639,279
Wastewater System	23,465,578	99,183		23,564,761
Drainage	4,862,330	3,189,851		8,052,181
Equipment	99,392	30,000		129,392
<b>Total Capital Assets Subject to Depreciation</b>	<u>\$ 42,199,975</u>	<u>\$ 3,820,745</u>	<u>\$ - 0 -</u>	<u>\$ 46,020,720</u>
<b>Less Accumulated Depreciation</b>				
Meeting and Recreation Facilities	\$ 2,634,705	\$ 250,246	\$	\$ 2,884,951
Water System	4,455,803	326,882		4,782,685
Wastewater System	4,780,859	705,662		5,486,521
Drainage	525,162	181,090		706,252
Equipment	99,392	5,918		105,310
<b>Total Accumulated Depreciation</b>	<u>\$ 12,495,921</u>	<u>\$ 1,469,798</u>	<u>\$ - 0 -</u>	<u>\$ 13,965,719</u>
<b>Total Depreciable Capital Assets, Net of Accumulated Depreciation</b>	<u>\$ 29,704,054</u>	<u>\$ 2,350,947</u>	<u>\$ - 0 -</u>	<u>\$ 32,055,001</u>
<b>Total Capital Assets, Net of Accumulated Depreciation</b>	<u>\$ 31,998,940</u>	<u>\$ 6,301,809</u>	<u>\$ 3,820,745</u>	<u>\$ 34,480,004</u>

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**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, 2017, the District levied an ad valorem maintenance tax at the rate of \$0.25 per \$100 of assessed valuation, which resulted in a tax levy of \$1,532,612 on the adjusted taxable valuation of \$613,044,675 for the 2017 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 and recreational facilities.

Defined Area

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

The District is authorized to levy a maintenance tax of \$0.64 per \$100 of assessed valuation for property within the Defined Area, in addition to the District's debt service and maintenance tax rates applicable to the remainder of the District. During the fiscal year ended December 31, 2017, the District did not levy an ad valorem maintenance tax for the 2017 tax year.

**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. The agreement shall be in force until September 24, 2020.

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE 8. WATER SUPPLY AGREEMENTS (Continued)**

Oakmont Public Utility District

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

Harris County Municipal Utility District No. 1

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

**NOTE 9. WASTEWATER TREATMENT CONTRACTS**

On January 20, 2014, the District entered into a utility development and service agreement with Klein Independent School District ("Klein ISD"). The District agreed to furnish wastewater treatment capacity not to exceed 70,000 gallons per day average daily flow, to be charged pursuant to the District's rate order. On March 20, 2017, this agreement was amended to include an additional 6.7-acre tract of land which requires water capacity of approximately 450 gallons per day. 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

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
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**NOTE 9. WASTEWATER TREATMENT CONTRACTS (Continued)**

\$279,994. The First Amendment to the contract was entered into as of October 8, 2009, to provide for the capacity owned by each participant after the completion of the 400,000 gallon per day expansion. The plant was expanded from 750,000 gallons per day to 1,150,000 gallons per day. The Second Amendment to the contract was entered into as of February 16, 2015, to re-rate the existing 1,150,000 gallons per day to 950,000 gallons per day. The District has constructed a 450,000 gallon per day expansion thus increasing the capacity in the plant from 950,000 gallons per day to 1,400,000 gallons per day.

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

	Owned Capacity in Gallons Per Day	Owned Capacity Percentage
Northampton Municipal Utility District	1,040,000	74.29
Oakmont Public Utility District	<u>360,000</u>	<u>25.71</u>
<b>TOTAL</b>	<u><u>1,400,000</u></u>	<u><u>100.00</u></u>

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

	The District	Oakmont	Total
Due (to) from Participants at January 1, 2016	\$ 32,521	\$ 22,980	\$ 55,501
Operating Costs	432,760	214,281	647,041
Receipts and Credits	(447,531)	(214,249)	(661,780)
Change in Reserve	<u>(400)</u>	<u>(80)</u>	<u>(480)</u>
Due (to) from Participants at December 31, 2017	<u>\$ 17,350</u>	<u>\$ 22,932</u>	<u>\$ 40,282</u>
Two Month Reserve	<u>\$ 74,600</u>	<u>\$ 25,820</u>	<u>\$ 100,420</u>

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
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**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, 2017, \$5,000 of surplus funds is required to remain in escrow.

**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, 2017, the eligible employees contributed \$16,951 to the plan and the District contributed \$10,677.

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

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

The Authority charges a fee, based on the amount of water pumped from a well, to the owner of wells located within the boundaries of the Authority, unless exempted. This fee enables the Authority to fulfill its purpose and regulatory functions. The fee for 2017 was \$2.90 per 1,000 gallons of water pumped from each well. The District recorded an expenditure of \$1,054,157 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 THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**NOTE 13. RISK MANAGEMENT**

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

**NOTE 14. INTERFUND BALANCES AND TRANSFERS**

The Debt Service Fund (Tax Account) owes the General Fund \$262,679 for maintenance tax collections. The General Fund owes the Debt Service Fund (Tax Account) \$30,213 for the over transfer of defined area maintenance tax collections. The General Fund fund owes the Special Revenues Fund \$17,350 for wastewater treatment plant operations and the General Fund owes the Capital Projects Fund \$421,030 for Water Plant No. 3 construction costs pending the expenditures of these funds. The Capital Projects Fund owes the General Fund \$81,024 for the meter replacement costs and Lift Station rehabilitation.

The District transferred \$226,208 from the Capital Projects Fund to the General Fund for amounts paid in prior years for Inway Park Project and to close the park accounts.

**NOTE 15. UNREIMBURSED COSTS**

The District has entered into development financing agreements with developers within the District. The agreements call for the developers to fund costs associated with water, sewer, and drainage facilities until such time as the District can sell bonds. As of December 31, 2017, the District recorded an estimated liability of \$4,723,489 for completed projects and \$2,017,695 for advances for Wastewater Treatment Plant No. 2.

**NOTE 16. USE OF SURPLUS FUNDS**

On December 11, 2017, the District received approval from the Commission for the use of \$226,832 in surplus funds from the Series 2016 Bond issue to pay for a portion of the cost of implementation of the Smart Meter Replacement Program.

In accordance with Rule 30 T.A.C. 293.83(c)(3) of the Commission, the District approved the use of \$176,327 in surplus funds from the Series 2016 Bond issue to fund the Lift Station rehabilitation. During the current fiscal year, the District expended \$73,841 of surplus funds on this project.

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**NOTE 17. HURRICANE HARVEY**

The Houston area, including Harris County, sustained widespread wind and rain damage and flooding as a result of Hurricane Harvey's landfall along the Texas Gulf Coast on August 25, 2017, and historic levels of rainfall during the succeeding four days. The District believes that it received approximately 27 inches of rain between August 26 and August 29 including approximately 15 inches of rain that was received in one 24-hour period and 2 inches of rain that fell within a one-hour period of time. According to the District's operator, the District's System did not sustain any significant damage and there was no interruption of water and sewer service during Hurricane Harvey. The District did experience flooding in approximately 147 of the 2,094 homes in the District. During the flood the District utilized efforts of the Spring Volunteer Fire Department to serve the residents of the District; there was no loss of life in the District during Hurricane Harvey. The District in conjunction with Harris County had all the storm debris removed from the District by year-end. The District has applied for reimbursement for a portion of such costs from the Federal Emergency Management Agency ("FEMA"). The District has submitted \$112,151.85 to FEMA for reimbursement. The District has also requested assistance from FEMA to perform 2 repairs to drainage channels. The cost of the repairs has not been determined at this time. Most of that flooding (approximately 90%) occurred in the subdivisions of Northampton Sections 3, 4 and 5, Northampton Estates Phase I, The Courts at Auburn Lakes, The Woods of Northampton, and The Greens of Northampton Estates, and 80% of the first floor of the Waterford Springs Apartments. The District believes that most of the flooded homes in the District were homes that were required to have flood insurance and that as of this report, it appears that most of those flooded homes are in the process of being rehabilitated.

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**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2017**

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Original and Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>			
Property Taxes	\$ 1,313,000	\$ 1,472,206	\$ 159,206
Water Service	1,200,000	1,086,063	(113,937)
Wastewater Service	1,260,000	1,267,422	7,422
Penalty and Interest	36,000	35,902	(98)
Tap Connection and Inspection Fees	130,525	145,278	14,753
Facility Use Fees	136,800	116,464	(20,336)
Regional Water Authority Fees	1,128,000	1,068,119	(59,881)
Investment Revenues	6,000	23,637	17,637
Miscellaneous Revenues	19,400	39,407	20,007
<b>TOTAL REVENUES</b>	<u>\$ 5,229,725</u>	<u>\$ 5,254,498</u>	<u>\$ 24,773</u>
<b>EXPENDITURES</b>			
Services Operations:			
Professional Fees	\$ 310,700	\$ 325,363	\$ (14,663)
Contracted Services	596,520	542,887	53,633
Purchased Wastewater Service	450,164	432,760	17,404
Utilities	136,800	104,398	32,402
Repairs and Maintenance	330,000	369,999	(39,999)
Regional Water Authority Assessments	1,128,000	1,054,157	73,843
Parks and Recreation	1,261,080	1,366,938	(105,858)
Other	257,115	283,229	(26,114)
Capital Outlay:			
Parks and Recreation	42,000	276,277	(234,277)
<b>TOTAL EXPENDITURES</b>	<u>\$ 4,512,379</u>	<u>\$ 4,756,008</u>	<u>\$ (243,629)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>\$ 717,346</u>	<u>\$ 498,490</u>	<u>\$ (218,856)</u>
<b>OTHER FINANCING SOURCES(USES)</b>			
Transfers In (Out)	\$ -0-	\$ 226,208	\$ 226,208
<b>NET CHANGE IN FUND BALANCE</b>	\$ 717,346	\$ 724,698	\$ 7,352
<b>FUND BALANCE - JANUARY 1, 2017</b>	<u>2,528,552</u>	<u>2,528,552</u>	<u></u>
<b>FUND BALANCE - DECEMBER 31, 2017</b>	<u>\$ 3,245,898</u>	<u>\$ 3,253,250</u>	<u>\$ 7,352</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, 2017**

	Original and Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>			
Wastewater Service	\$ 605,944	\$ 647,041	\$ 41,097
Investment Revenues	72		(72)
<b>TOTAL REVENUES</b>	<u>\$ 606,016</u>	<u>\$ 647,041</u>	<u>\$ 41,025</u>
<b>EXPENDITURES</b>			
Services Operations:			
Professional Fees	\$ 12,000	\$ 21,636	\$ (9,636)
Contracted Services	69,000	67,908	1,092
Utilities	112,500	112,567	(67)
Repairs and Maintenance	156,000	221,150	(65,150)
Other	256,516	223,780	32,736
<b>TOTAL EXPENDITURES</b>	<u>\$ 606,016</u>	<u>\$ 647,041</u>	<u>\$ (41,025)</u>
<b>NET CHANGE IN FUND BALANCE</b>	\$ -0-	\$ -0-	\$ -0-
<b>FUND BALANCE - JANUARY 1, 2017</b>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>FUND BALANCE - DECEMBER 31, 2017</b>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

See accompanying independent auditor's report.

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**SUPPLEMENTARY INFORMATION REQUIRED BY THE**  
**WATER DISTRICT FINANCIAL MANAGEMENT GUIDE**  
**DECEMBER 31, 2017**





**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**SERVICES AND RATES**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

**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>1,967</u>	<u>1,948</u>	x 1.0	<u>1,948</u>
1"	<u>96</u>	<u>94</u>	x 2.5	<u>235</u>
1½"	<u>2</u>	<u>2</u>	x 5.0	<u>10</u>
2"	<u>34</u>	<u>34</u>	x 8.0	<u>272</u>
3"			x 15.0	
4"	<u>2</u>	<u>2</u>	x 25.0	<u>50</u>
6"	<u>1</u>	<u>1</u>	x 50.0	<u>50</u>
8"	<u>3</u>	<u>3</u>	x 80.0	<u>240</u>
10"			x 115.0	
Total Water Connections	<u>2,105</u>	<u>2,084</u>		<u>2,805</u>
Total Wastewater Connections	<u>2,045</u>	<u>2,024</u>	x 1.0	<u>2,024</u>

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

Gallons pumped into system:	370,622,000	Water Accountability Ratio: 89.9% (Gallons billed and sold/Gallons pumped and purchased)
Gallons billed to customers:	333,345,000	

See accompanying independent auditor's report.

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**SERVICES AND RATES**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

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

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

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

**5. LOCATION OF DISTRICT:**

Is the District located entirely within one county?

Yes ☒ No ☐

County or Counties in which District is located:

Harris County, Texas

Is the District located within a city?

Entirely ☐ Partly ☐ Not at all ☒

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

Entirely ☒ Partly ☐ Not at all ☐

ETJ's in which District is located:

City of Houston, Texas

Are Board Members appointed by an office outside the District?

Yes ☐ No ☒

See accompanying independent auditor's report.

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**GENERAL FUND EXPENDITURES**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

PROFESSIONAL FEES:	
Auditing	\$ 25,425
Engineering	165,988
Legal	<u>133,950</u>
TOTAL PROFESSIONAL FEES	<u>\$ 325,363</u>
PURCHASED SERVICES FOR RESALE:	
Purchased Wastewater Service	<u>\$ 432,760</u>
CONTRACTED SERVICES:	
Bookkeeping	\$ 31,281
Operations and Billing	<u>102,270</u>
TOTAL CONTRACTED SERVICES	<u>\$ 133,551</u>
UTILITIES:	
Electricity	\$ 102,835
Telephone	<u>1,563</u>
TOTAL UTILITIES	<u>\$ 104,398</u>
REPAIRS AND MAINTENANCE	<u>\$ 369,999</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 23,700
Dues and Registration Fees	2,823
Insurance	52,645
Office Supplies and Postage	15,059
Travel and Meetings	7,268
Website	9,752
Other	<u>13,918</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 125,165</u>

See accompanying independent auditor's report.

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**GENERAL FUND EXPENDITURES**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

TAP CONNECTIONS	\$ 78,358
SOLID WASTE DISPOSAL	\$ 409,336
PARKS AND RECREATION	
Contract Services	\$ 6,518
Personnel (Including Benefits)	975,417
Repairs and Maintenance	303,269
Truck	3,675
Utilities	78,059
Capital Outlay	276,277
TOTAL PARKS AND RECREATION	\$ 1,643,215
OTHER EXPENDITURES:	
Chemicals	\$ 20,454
Laboratory Fees	10,836
Permit Fees	6,044
Reconnection Fees	18,365
Inspection Fees	12,350
Regional Water Authority Assessments	1,054,157
TCEQ Regulatory Assessment	11,657
TOTAL OTHER EXPENDITURES	\$ 1,133,863
TOTAL EXPENDITURES	\$ 4,756,008

Number of persons employed by the District      12      Full-Time      11      Part-Time\*

\* During the summer months, part-time employees may be as many as 49.

See accompanying independent auditor's report.

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**INVESTMENTS**  
**DECEMBER 31, 2017**

<u>Fund</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at End of Year</u>
<u>GENERAL FUND</u>					
Certificate of Deposit	XXXX5780	0.9500%	04/19/18	\$ 245,000	\$ 441
Certificate of Deposit	XXXX0340	1.2000%	06/21/18	245,000	81
TexPool	XXXX0001	1.2803%	Daily	2,016,910	
TOTAL GENERAL FUND				<u>\$ 2,506,910</u>	<u>\$ 522</u>
<u>DEBT SERVICE FUND</u>					
Certificate of Deposit	XXXX1910	0.9500%	02/23/18	\$ 245,000	\$ 816
Certificate of Deposit	XXXX1535	0.9500%	02/23/18	245,000	816
Certificate of Deposit	XXXX8598	0.8000%	02/23/18	245,000	688
Certificate of Deposit	XXXX7164	1.2500%	08/24/18	575,491	1,439
Certificate of Deposit	XXXX0617	1.2500%	08/24/18	347,504	869
Certificate of Deposit	XXXX0618	1.2500%	08/24/18	310,343	776
TOTAL DEBT SERVICE FUND				<u>\$ 1,968,338</u>	<u>\$ 5,404</u>
<u>CAPITAL PROJECTS FUND</u>					
TexPool	XXXX0002	1.2803%	Daily	<u>\$ 5,442,854</u>	<u>\$ - 0 -</u>
TOTAL - ALL FUNDS				<u>\$ 9,918,102</u>	<u>\$ 5,926</u>

See accompanying independent auditor's report.

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**TAXES LEVIED AND RECEIVABLE**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Maintenance Taxes</u>		<u>Debt Service Taxes</u>		<u>Road Taxes</u>	
TAXES RECEIVABLE -						
JANUARY 1, 2017	\$ 1,158,098		\$ 1,777,948		\$ 119,884	
Adjustments to Beginning						
Balance	<u>40,925</u>	\$ 1,199,023	<u>79,693</u>	\$ 1,857,641	<u>12,390</u>	\$ 132,274
Original 2017 Tax Levy	\$ 1,480,751		\$ 2,255,798		\$ 265,771	
Adjustment to 2017 Tax Levy	<u>51,861</u>	<u>1,532,612</u>	<u>78,893</u>	<u>2,334,691</u>	<u>9,208</u>	<u>274,979</u>
TOTAL TO BE						
ACCOUNTED FOR		\$ 2,731,635		\$ 4,192,332		\$ 407,253
TAX COLLECTIONS:						
Prior Years	\$ 1,174,531		\$ 1,822,435		\$ 131,669	
Current Year	<u>293,407</u>	<u>1,467,938</u>	<u>404,038</u>	<u>2,226,473</u>	<u>14,772</u>	<u>146,441</u>
TAXES RECEIVABLE -						
DECEMBER 31, 2017		<u>\$ 1,263,697</u>		<u>\$ 1,965,859</u>		<u>\$ 260,812</u>
TAXES RECEIVABLE BY						
YEAR:						
2017		\$ 1,239,205		\$ 1,930,653		\$ 260,207
2016		10,325		14,876		605
2015		3,849		5,473		
2014		1,986		2,860		
2013		877		1,262		
2012		1,018		1,466		
2011		1,020		1,469		
2010		1,130		1,628		
2009		1,106		1,592		
2008		1,136		1,636		
2007		807		1,162		
2006		506		728		
2005		366		527		
2004		<u>366</u>		<u>527</u>		
TOTAL		<u>\$ 1,263,697</u>		<u>\$ 1,965,859</u>		<u>\$ 260,812</u>

See accompanying independent auditor's report.

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**TAXES LEVIED AND RECEIVABLE**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

	2017	2016	2015	2014
<b>DISTRICT WIDE:</b>				
Land	\$ 141,884,402	\$ 125,027,658	\$ 127,603,417	\$ 79,957,275
Improvements	546,837,538	493,448,383	433,454,831	361,292,832
Personal Property	7,117,591	6,604,109	5,658,875	4,854,864
Exemptions	<u>(82,794,856)</u>	<u>(64,455,327)</u>	<u>(62,736,244)</u>	<u>(59,616,162)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 613,044,675</u>	<u>\$ 560,624,823</u>	<u>\$ 503,980,879</u>	<u>\$ 386,488,809</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.33	\$ 0.33	\$ 0.36	\$ 0.36
Maintenance ***	<u>0.25</u>	<u>0.25</u>	<u>0.25</u>	<u>0.25</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.58</u>	<u>\$ 0.58</u>	<u>\$ 0.61</u>	<u>\$ 0.61</u>
ADJUSTED TAX LEVY*	<u>\$ 3,555,660</u>	<u>\$ 3,251,624</u>	<u>\$ 3,074,284</u>	<u>\$ 2,357,582</u>
<b>DEFINED AREA :</b>				
PROPERTY VALUATIONS	<u>\$ 91,659,783</u>	<u>\$ 77,891,935</u>	<u>\$ 55,308,676</u>	<u>\$ 10,765,269</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.34	\$ 0.420	\$ 0.00	\$ 0.00
Road	0.30	0.175	0.00	0.00
Maintenance***	<u>0.045</u>	<u>0.045</u>	<u>0.64</u>	<u>0.64</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.64</u>	<u>\$ 0.640</u>	<u>\$ 0.64</u>	<u>\$ 0.64</u>
ADJUSTED TAX LEVY*	<u>\$ 586,622</u>	<u>\$ 498,508</u>	<u>\$ 353,976</u>	<u>\$ 68,898</u>
PERCENTAGE OF TOTAL TAXES COLLECTED TO TOTAL TAXES LEVIED	<u>17.19 %</u>	<u>99.22 %</u>	<u>99.70 %</u>	<u>99.79 %</u>
	**			

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

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

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

See accompanying independent auditor's report.

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**DECEMBER 31, 2017**

S E R I E S - 2 0 1 0			
Due During Fiscal Years Ending December 31	Principal Due March 1	Interest Due March 1/ September 1	Total
2018	\$ 25,000	\$ 7,031	\$ 32,031
2019	50,000	5,469	55,469
2020	50,000	3,281	53,281
2021	50,000	1,094	51,094
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
2041			
	<u>\$ 175,000</u>	<u>\$ 16,875</u>	<u>\$ 191,875</u>

See accompanying independent auditor's report.



**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**DECEMBER 31, 2017**

REFUNDING SERIES - 2010			
Due During Fiscal Years Ending December 31	Principal Due March 1	Interest Due March 1/ September 1	Total
2018	\$ 485,000	\$ 106,100	\$ 591,100
2019	345,000	89,500	434,500
2020	365,000	75,300	440,300
2021	380,000	60,400	440,400
2022	225,000	48,300	273,300
2023	240,000	39,000	279,000
2024	250,000	29,200	279,200
2025	260,000	19,000	279,000
2026	170,000	10,400	180,400
2027	175,000	3,500	178,500
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
2041			
	<u>\$ 2,895,000</u>	<u>\$ 480,700</u>	<u>\$ 3,375,700</u>

See accompanying independent auditor's report.

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**DECEMBER 31, 2017**

S E R I E S - 2 0 1 2			
Due During Fiscal Years Ending December 31	Principal Due March 1	Interest Due March 1/ September 1	Total
2018	\$	\$ 73,563	\$ 73,563
2019		73,562	73,562
2020		73,563	73,563
2021		73,562	73,562
2022		73,563	73,563
2023		73,562	73,562
2024		73,563	73,563
2025		73,562	73,562
2026		73,563	73,563
2027		73,562	73,562
2028	60,000	72,738	132,738
2029	55,000	71,156	126,156
2030	60,000	69,575	129,575
2031	60,000	67,850	127,850
2032	60,000	66,050	126,050
2033	65,000	64,175	129,175
2034	65,000	62,225	127,225
2035	855,000	46,287	901,287
2036	895,000	15,663	910,663
2037			
2038			
2039			
2040			
2041			
	<u>\$ 2,175,000</u>	<u>\$ 1,271,344</u>	<u>\$ 3,446,344</u>

See accompanying independent auditor's report.

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**DECEMBER 31, 2017**

REFUNDING SERIES - 2014			
Due During Fiscal Years Ending December 31	Principal Due March 1	Interest Due March 1/ September 1	Total
2018	\$ 255,000	\$ 111,375	\$ 366,375
2019	270,000	104,213	374,213
2020	275,000	96,779	371,779
2021	290,000	89,073	379,073
2022	295,000	81,093	376,093
2023	305,000	72,908	377,908
2024	320,000	64,383	384,383
2025	335,000	55,449	390,449
2026	345,000	46,174	391,174
2027	355,000	36,625	391,625
2028	370,000	26,735	396,735
2029	390,000	16,368	406,368
2030	405,000	5,524	410,524
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
2041			
	<u>\$ 4,210,000</u>	<u>\$ 806,699</u>	<u>\$ 5,016,699</u>

See accompanying independent auditor's report.

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**DECEMBER 31, 2017**

S E R I E S - 2 0 1 5			
Due During Fiscal Years Ending December 31	Principal Due March 1	Interest Due March 1/ September 1	Total
2018	\$ 120,000	\$ 133,394	\$ 253,394
2019	125,000	130,944	255,944
2020	125,000	128,444	253,444
2021	130,000	125,731	255,731
2022	140,000	122,519	262,519
2023	145,000	118,956	263,956
2024	150,000	115,269	265,269
2025	155,000	111,262	266,262
2026	160,000	106,931	266,931
2027	170,000	102,181	272,181
2028	175,000	97,006	272,006
2029	180,000	91,681	271,681
2030	190,000	86,013	276,013
2031	200,000	79,919	279,919
2032	205,000	73,591	278,591
2033	215,000	66,894	281,894
2034	225,000	59,744	284,744
2035	230,000	52,206	282,206
2036	240,000	43,975	283,975
2037	250,000	35,094	285,094
2038	260,000	25,688	285,688
2039	270,000	15,750	285,750
2040	285,000	5,344	290,344
2041			
	<u>\$ 4,345,000</u>	<u>\$ 1,928,536</u>	<u>\$ 6,273,536</u>

See accompanying independent auditor's report.