

OFFICIAL STATEMENT DATED JULY 16, 2018

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

The Bonds have been designated as "qualified tax-exempt obligations" for financial institutions. See "TAX MATTERS –Qualified Tax-Exempt Obligations."

NEW ISSUE – Book Entry Only

S&P (AGM Insured)..... "AA"
See "MUNICIPAL BOND INSURANCE" and "RATING."

\$3,020,000

NORTHAMPTON MUNICIPAL UTILITY DISTRICT

(A Political Subdivision of the State of Texas Located in Harris County)

DEFINED AREA UNLIMITED TAX ROAD BONDS

SERIES 2018

Interest accrues from: August 1, 2018

Due: September 1, as shown on inside cover

The \$3,020,000 Northampton Municipal Utility District Defined Area Unlimited Tax Road Bonds, Series 2018 (the "Bonds"), are special limited obligations of Northampton Municipal Utility District (the "District") and are not obligations of the State of Texas; Harris County, Texas; the City of Houston, Texas; the areas of the District other than the Defined Area (as defined herein); or any entity other than the District. Neither the faith and credit nor the taxing power of the State of Texas, Harris County, Texas, or the City of Houston, Texas, is pledged to the payment of the principal of or interest on the Bonds.

Principal of the Bonds is payable upon presentation at the principal payment office of the paying agent/registrar, initially, Regions Bank, an Alabama state banking corporation, Houston, Texas (the "Paying Agent/Registrar"). Interest accrues from August 1, 2018, and is payable March 1, 2019, and on each September 1 and March 1 thereafter until the earlier of maturity or redemption. The Bonds will be issued only in fully registered form in principal denominations of \$5,000 or any integral multiples thereof.

The Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Beneficial owners of the Bonds will not receive physical certificates representing the Bonds but will receive a credit balance on the books of the nominees of such beneficial owners. So long as Cede & Co. is the registered owner of the Bonds, the principal of and interest on the Bonds will be paid by the Paying Agent/Registrar directly to DTC, which will, in turn, remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds as described herein. See "THE BONDS – Book-Entry-Only System" herein for further information.

See "MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, AND INITIAL REOFFERING YIELDS" on inside cover.

The Bonds are the second series of bonds to be issued by the District from an aggregate \$17,000,000 principal amount of Defined Area unlimited tax bonds authorized by the District's voters to finance road improvements within the Defined Area. Following the issuance of the Bonds, \$11,280,000 principal amount of Defined Area unlimited tax bonds to finance road improvements within the Defined Area will remain authorized but unissued. See "THE BONDS – Issuance of Additional Debt" for further information.

The Bonds, when issued, will constitute valid and binding special limited obligations of the District, payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the Defined Area. See "THE BONDS – Source of Payment."

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by **ASSURED GUARANTY MUNICIPAL CORP.**



The Bonds are offered when, as, and if issued by the District, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Bacon & Wallace, L.L.P., Houston, Texas, Bond Counsel. Certain legal matters will be passed upon for the District by McCall, Parkhurst & Horton L.L.P., Dallas, Texas, as Disclosure Counsel. Delivery of the Bonds in book-entry form through the facilities of DTC is expected on or about August 23, 2018.

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

Maturity (September 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number (b)	Maturity (September 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number (b)
2019	\$65,000	5.500%	1.800%	663662 QS6	2028 (c)	\$110,000	3.000%	3.100%	663662 RB2
2020	80,000	5.500%	2.000%	663662 QT4	2029 (c)	115,000	3.000%	3.150%	663662 RC0
2021	80,000	5.500%	2.150%	663662 QU1	2030 (c)	120,000	3.000%	3.250%	663662 RD8
2022	85,000	5.500%	2.300%	663662 QV9	****	****	****	****	****
2023	90,000	5.500%	2.450%	663662 QW7	2033 (c)	135,000	3.250%	3.500%	663662 RG1
2024 (c)	90,000	5.000%	2.460%	663662 QX5	****	****	****	****	****
2025 (c)	95,000	5.000%	2.470%	663662 QY3	2036 (c)	150,000	3.500%	3.650%	663662 RK2
2026 (c)	100,000	3.000%	2.900%	663662 QZ0	2037 (c)	160,000	3.500%	3.700%	663662 RL0
2027 (c)	105,000	3.000%	3.000%	663662 RA4					

\$255,000 Term Bonds Due September 1, 2032 (c) (d), Interest Rate: 3.250% (Price: \$97.790) (a), CUSIP No. 663662 RF3 (b)

\$285,000 Term Bonds Due September 1, 2035 (c) (d), Interest Rate: 3.500% (Price: \$98.734) (a), CUSIP No. 663662 RJ5 (b)

\$340,000 Term Bonds Due September 1, 2039 (c) (d), Interest Rate: 3.625% (Price: \$98.192) (a), CUSIP No. 663662 RN6 (b)

\$560,000 Term Bonds Due September 1, 2042 (c) (d), Interest Rate: 3.625% (Price: \$97.258) (a), CUSIP No. 663662 RR7 (b)

-
- (a) Information with respect to the initial reoffering yields of the Bonds is the responsibility of the Initial Purchaser. Initial reoffering yields represent the initial offering price, which may be changed for subsequent purchasers. The initial yield indicated above represents the lower of the yields resulting when priced to maturity or to the first call date. Accrued interest is to be added to the price.
- (b) CUSIP numbers have been assigned to the Bonds by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association and are included solely for the convenience of the owners of the Bonds.
- (c) Bonds maturing on September 1, 2024, and thereafter, shall be subject to redemption and payment at the option of the District, in whole or from time to time in part on September 1, 2023, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. See "THE BONDS - Optional Redemption."
- (d) Subject to mandatory redemption by lot or customary method of random selection on September 1 in the years and in the amounts set forth herein under the caption "THE BONDS - Mandatory Redemption."

USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

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

This Official Statement contains, in part, estimates, assumptions, and matters of opinion that are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions, or matters of opinion, or that they will be realized. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein since the date hereof. However, the District has agreed to keep this Official Statement current by amendment or sticker to reflect material changes in the affairs of the District and, to the extent that information actually comes to its attention, the other matters described in the Official Statement until delivery of the Bonds to the Initial Purchaser, and thereafter only as specified in "OFFICIAL STATEMENT - Updating of Official Statement" and "CONTINUING DISCLOSURE OF INFORMATION."

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this offering document.

Assured Guaranty Municipal Corp. ("AGM") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "MUNICIPAL BOND INSURANCE" and "APPENDIX B - Specimen Municipal Bond Insurance Policy."

TABLE OF CONTENTS

USE OF INFORMATION IN OFFICIAL STATEMENT ..1	Specific Flood Type Risks16
SALE AND DISTRIBUTION OF THE BONDS3	Hurricane Harvey16
Award of the Bonds3	Tax Collections Limitations17
Prices and Marketability3	Registered Owners' Remedies and
Securities Laws.....3	Bankruptcy.....17
MUNICIPAL BOND INSURANCE.....3	Marketability.....17
Bond Insurance Policy3	Future Debt.....18
Assured Guaranty Municipal Corp.....4	Continuing Compliance with Certain
RATING5	Covenants19
OFFICIAL STATEMENT SUMMARY6	Future and Proposed Legislation19
INTRODUCTION14	Bond Insurance Risk Factors19
RISK FACTORS.....14	THE BONDS.....20
General.....14	General.....20
Factors Affecting Taxable Values and Tax	Book-Entry-Only System20
Payments14	Use of Certain Terms in Other Sections of
Potential Impact of Natural Disaster16	this Official Statement.....22

Paying Agent/Registrar	22	Debt Service Requirements of the Defined	
Assignments, Transfers, and Exchanges	22	Area	43
Replacement of Bonds	23	Direct and Estimated Overlapping Debt	
Outstanding Bonds	23	Statement.....	44
Authority for Issuance	23	TAXING PROCEDURES	44
Source of Payment.....	23	Authority to Levy Taxes	44
Optional Redemption	24	Property Tax Code and County-Wide	
Mandatory Redemption	24	Appraisal District	45
Defeasance	24	Property Subject to Taxation by the District	45
Amendments to Bond Order	25	General Residential Homestead Exemption.....	46
Replacement of Paying Agent/Registrar	25	Valuation of Property for Taxation	46
Issuance of Additional Debt.....	26	District and Taxpayer Remedies	47
Annexation and Consolidation	27	Rollback of Operation and Maintenance Tax	
Strategic Partnership Agreements	27	Rate.....	47
Registered Owners' Remedies.....	27	Agricultural, Open Space, Timberland and	
Bankruptcy Limitation to Registered		Inventory Deferment.....	47
Owners' Rights	28	Tax Abatement	47
Legal Investment and Eligibility to Secure		Levy and Collection of Taxes.....	47
Public Funds in Texas.....	28	District's Rights in the Event of Tax	
Use and Distribution of Bond Proceeds	29	Delinquencies.....	48
THE DISTRICT.....	30	LEGAL MATTERS.....	48
General.....	30	Legal Opinions.....	48
Description.....	30	No Arbitrage.....	49
Topography and Flood Hazards	30	No-Litigation Certificate.....	49
Management of the District	31	No Material Adverse Change.....	49
THE DEFINED AREA	32	TAX MATTERS	49
STATUS OF DEVELOPMENT OF THE DISTRICT	32	Federal Income Tax Accounting Treatment	
DEVELOPERS	33	of Original Issue Discount	50
HOMEBUILDER WITHIN THE DEFINED AREA	33	Collateral Federal Income Tax	
LOCATION MAP OF THE DISTRICT	34	Consequences	51
PHOTOGRAPHS TAKEN WITHIN THE DEFINED		State, Local, and Foreign Taxes	51
AREA	35	Qualified Tax-Exempt Obligations.....	51
TAX DATA.....	36	CONTINUING DISCLOSURE OF INFORMATION.....	52
Defined Area Debt Service Taxes	36	Annual Reports.....	52
District Debt Service Tax	36	Event Notices	52
Defined Area Maintenance Tax	36	Availability of Information.....	53
District Maintenance Tax.....	36	Limitations and Amendments	53
Tax Collection History.....	37	Compliance with Prior Undertakings.....	53
Tax Rate Distribution	37	OFFICIAL STATEMENT	53
Analysis of Tax Base.....	37	General.....	53
Principal Taxpayers	38	Experts	54
Tax Rate Calculations	38	Certification as to Official Statement.....	54
Estimated Overlapping Taxes	38	Updating of Official Statement	54
THE SYSTEM.....	39	APPENDIX A Financial Statements of the District	
Historical Operations of the System	40	APPENDIX B Specimen Municipal Bond Insurance	
DEFINED AREA DEBT	41	Policy	
General.....	41		

SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Bonds, the District has accepted the lowest bid, which was tendered by SAMCO Capital Markets, Inc. (the "Initial Purchaser"). The Initial Purchaser has agreed to purchase the Bonds, bearing the interest rates on the inside cover page of this Official Statement, at a price of 97.035790% of the principal amount thereof plus accrued interest to the date of delivery, which resulted in a net effective interest rate of 3.765146%, calculated pursuant to Chapter 1204, Texas Government Code, as amended.

Prices and Marketability

Other than as set forth in the Official Notice of Sale, the District has no control over the reoffering yields or prices of the Bonds or over trading of the Bonds in the secondary market. Moreover, there is no assurance that a secondary market will be made in the Bonds. If there is a secondary market, the difference between the bid and asked prices of the Bonds may be greater than the difference between the bid and asked prices of bonds of comparable maturity and quality issued by more traditional municipal entities, as bonds of such entities are more generally bought, sold or traded in the secondary market.

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

The prices and other terms with respect to the offering and sale of the Bonds may be changed from time-to-time by the Initial Purchaser after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial reoffering prices, including sales to dealers who may sell the Bonds into investment accounts.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE INITIAL PURCHASER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Securities Laws

No registration statement relating to the Bonds has been filed with the United States Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities acts of any other jurisdictions. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be offered, sold, or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds should not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdictions.

MUNICIPAL BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. ("AGM") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as "APPENDIX B" to this Official Statement.

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

Assured Guaranty Municipal Corp.

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. (“AGL”), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol “AGO”. AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM’s financial strength is rated “AA” (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”), “AA+” (stable outlook) by Kroll Bond Rating Agency, Inc. (“KBRA”) and “A2” (stable outlook) by Moody’s Investors Service, Inc. (“Moody’s”). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM’s long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings

On June 26, 2018, S&P announced it had affirmed AGM’s financial strength rating of “AA” (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On May 7, 2018, Moody’s announced it had affirmed AGM’s insurance financial strength rating of “A2” (stable outlook). AGM can give no assurance as to any further ratings action that Moody’s may take.

On January 23, 2018, KBRA announced it had affirmed AGM’s insurance financial strength rating of “AA+” (stable outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

For more information regarding AGM’s financial strength ratings and the risks relating thereto, see AGL’s Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

Capitalization of AGM

At March 31, 2018:

- The policyholders’ surplus of AGM was approximately \$2,247 million.
- The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. (“MAC”) (as described below) were approximately \$1,133 million. Such amount includes 100% of AGM’s contingency reserve and 60.7% of MAC’s contingency reserve.
- The net unearned premium reserves of AGM and its subsidiaries (as described below) were approximately \$1,646 million. Such amount includes (i) 100% of the net unearned premium reserves of AGM and AGM’s wholly owned subsidiaries Assured Guaranty (Europe) plc, Assured Guaranty (UK) plc, CIFG Europe S.A. and Assured Guaranty (London) plc (together, the “AGM European Subsidiaries”) and (ii) 60.7% of the net unearned premium reserve of MAC.

The policyholders’ surplus of AGM and the contingency reserves and net unearned premium reserves of AGM and MAC were determined in accordance with statutory accounting principles. The net unearned premium reserves of the AGM European Subsidiaries were determined in accordance with accounting principles generally accepted in the United States of America.

Incorporation of Certain Documents by Reference

Portions of the following documents filed by AGL with the Securities and Exchange Commission (the “SEC”) that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2017 (filed by AGL with the SEC on February 23, 2018); and
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2018 (filed by AGL with the SEC on May 4, 2018).

All consolidated financial statements of AGM and all other information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof “furnished” under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC’s website at <http://www.sec.gov>, at AGL’s website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 1633 Broadway, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL’s website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AGM included herein under the caption “MUNICIPAL BOND INSURANCE – Assured Guaranty Municipal Corp.” or included in a document incorporated by reference herein (collectively, the “AGM Information”) shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

Miscellaneous Matters

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

RATING

The Bonds are expected to receive an insured rating of “AA” from S&P solely in reliance upon the issuance of the municipal bond insurance policy by AGM at the time of delivery of the Bonds. An explanation of the ratings of S&P may only be obtained from S&P. S&P is located at 55 Water Street, New York, New York 10041, telephone number (212) 208-8000 and has engaged in providing ratings for corporate bonds since 1923 and municipal bonds since 1940. Long-term debt ratings assigned by S&P reflect its analysis of the overall level of credit risk involved in financings. At present, S&P assigns long-term debt ratings with symbols “AAA” (the highest rating) through “D” (the lowest rating). The ratings express only the view of S&P at the time the ratings are given. A security rating is not a recommendation to buy, sell, or hold securities. Furthermore, there is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by S&P, if, in its judgment, circumstances so warrant.

The District is not aware of any rating assigned to the Bonds other than the insured rating of S&P.

OFFICIAL STATEMENT SUMMARY

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

THE BONDS

- The District..... Northampton Municipal Utility District (the “District”), a political subdivision of the State of Texas, is located in Harris County, Texas. See “THE DISTRICT.”
- The Bonds..... The District’s \$3,020,000 Defined Area Unlimited Tax Road Bonds, Series 2018 (the “Bonds”), are dated August 1, 2018, and mature on September 1 in each of the years and in the principal amounts shown on the inside cover hereof. Interest on the Bonds accrues from August 1, 2018, at the rates set forth on the inside cover page hereof, and is payable on March 1, 2019, and on each September 1 and March 1 thereafter until maturity or earlier redemption. See “THE BONDS.”
- Redemption of the Bonds The Bonds that mature on or after September 1, 2024, are subject to redemption, in whole or from time to time in part, on September 1, 2023, or on any date thereafter, at a price equal to the principal amount thereof plus accrued interest to the date fixed for redemption. See “THE BONDS – Optional Redemption.” The Bonds that mature on September 1 in each of the years 2032, 2035, 2039, and 2042 are term bonds that are also subject to the mandatory redemption provisions as set out herein under “THE BONDS – Mandatory Redemption.”
- Book-Entry-Only System..... The Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York (“DTC”), pursuant to the book-entry-only system described herein. Beneficial ownership of the Bonds may be acquired in principal denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the Beneficial Owners (herein defined) thereof. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar (herein defined) to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the Beneficial Owners of the Bonds. See “THE BONDS – Book-Entry-Only System” herein.
- Source of Payment The Bonds are payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied by the District upon all taxable property located in the Defined Area (defined herein) within the District. The Bonds are special limited obligations of the District secured by the proceeds of an ad valorem tax levied only upon taxable property located within the Defined Area. The Bonds are not secured by the proceeds of ad valorem taxes levied by the District upon taxable property that is located within the District but not within the Defined Area. The Bonds are not obligations of the State of Texas; Harris County, Texas; the City of Houston, Texas; or any entity other than the District. See “THE BONDS – Source of Payment.”
- Outstanding Bonds The Bonds represent the District’s third issuance of unlimited tax bonds that are secured by the proceeds of taxes levied upon taxable property located only within the Defined Area. The Bonds also

represent the District’s second issuance of unlimited tax bonds for the purpose of acquiring or constructing a road system serving the Defined Area (the “Defined Area Road System”). Previously, the District has issued one series of unlimited tax bonds for the purpose of acquiring or constructing the Defined Area Road System and one series of unlimited tax bonds for the purpose of acquiring or constructing water, sewer, and drainage improvements serving the Defined Area (the “Defined Area Utility System”). Of such two previously issued series of bonds, \$9,015,000 principal amount remains outstanding as of July 1, 2018 (the “Defined Area Outstanding Bonds”).

The District has also previously issued unlimited tax bonds that are secured by the proceeds of taxes levied upon taxable property located within the entire District, including the Defined Area. Of such previously issued unlimited tax bonds, \$27,705,000 principal amount remains outstanding as of July 1, 2018 (the “District Outstanding Bonds”). The District Outstanding Bonds are payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, that is separate from the ad valorem taxes, also without legal limitation as to rate or amount, that are levied by the District for payment of debt service on the Bonds, the Defined Area Outstanding Bonds, and any additional bonds that the District may issue hereafter for the Defined Area Road System and the Defined Area Utility System. Proceeds of taxes levied by the District for payment of debt service on the District Outstanding Bonds may not be used for payment of debt service on the Bonds or the Defined Area Outstanding Bonds. See “THE BONDS – Outstanding Bonds.”

Payment Record.....The District has never defaulted in the timely payment of principal of and interest on its prior bonded indebtedness.

Authority for Issuance.....The Bonds are issued out of an aggregate of \$17,000,000 principal amount of unlimited tax bonds authorized by the Defined Area’s voters 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. After the issuance of the Bonds, \$11,280,000 principal amount of unlimited tax bonds 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, will remain unissued. The Bonds are issued pursuant to the voted authorization referenced above; the general laws of the State of Texas, including Chapters 49 and 54, Texas Water Code, as amended; Article III, Section 52 of the Texas Constitution, and an order of the District authorizing the issuance of the Bonds (the “Bond Order”). See “RISK FACTORS – Future Debt” and “THE BONDS – Authority for Issuance,” and “– Issuance of Additional Debt.”

Use of ProceedsProceeds from sale of the Bonds will be used by the District to reimburse D.R. Horton-Texas, Ltd. for costs of paving in Hampton Creek, Sections 3, 4B, 7, 8, and 9 as well as engineering costs associated with such projects. Additionally, proceeds from the Bonds will be used to pay developer interest and certain costs of

issuance of the Bonds. See “THE BONDS – Use and Distribution of Bond Proceeds.”

- Municipal Bond Insurance Assured Guaranty Municipal Corp. See “MUNICIPAL BOND INSURANCE” above.
- Rating..... S&P (AGM Insured): “AA.” See “RATING” above.
- Qualified Tax-Exempt Obligations..... The District has designated the Bonds as “qualified tax-exempt obligations” for financial institutions. See “TAX MATTERS – Qualified Tax-Exempt Obligations.”
- Legal and Tax Opinion..... Bacon & Wallace, L.L.P., Houston, Texas, Bond Counsel. See “LEGAL MATTERS.”

THE DISTRICT

- Description..... The District is a political subdivision of the State of Texas located within Harris County, Texas. The District encompasses approximately 1,589 total acres of land located approximately 30 miles north of the central business district of the City of Houston, Texas. The District is bounded on the south by Root Road, on the east by Spring Creek, and is approximately one mile east of Kuykendahl Road. The District lies entirely within the extraterritorial jurisdiction of the City of Houston, Texas, and is located within Klein Independent School District. The Defined Area is located entirely within the bounds of the District. See “THE DISTRICT – Description.”
- Authority..... The rights, powers, privileges, authority, and functions of the District are established by the general laws of the State of Texas pertaining to municipal utility districts, including particularly Chapters 49 and 54 of the Texas Water Code, as amended. See “THE DISTRICT – General.”
- Defined Area..... Pursuant to the provisions of Subchapter J of Chapter 54 of the Texas Water Code, as amended, the District is authorized to define areas or designate certain property of the District to pay for improvements, facilities, or services that primarily benefit that area. On August 20, 2012, the District approved the creation of a defined area encompassing approximately 439.69 acres within the District (the “Defined Area”). See “THE DEFINED AREA.”
- Development of the Defined Area..... 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 June 1, 2018, the Defined Area included approximately 278 completed homes (approximately 265 occupied, 11 unoccupied, and 2 model homes); approximately 54 homes under construction; and approximately 171 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. DR Horton, SC Waterford Springs LLC, and SC Waterford Springs II, LLC are collectively referred to herein as the "Defined Area Developer."

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. See "THE DEFINED AREA."

Homebuilder within the Defined Area.....D.R. Horton is the sole homebuilder constructing homes within the Defined Area. The single-family homes being marketed in the Defined Area range in size from approximately 1,500 to 4,000 square feet and in price from approximately \$200,000 to \$400,000. See "HOMEBUILDER WITHIN THE DEFINED AREA."

Development of the District.....To date, within the entire 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 June 1, 2018, the District included approximately 1,986 completed homes; approximately 63 homes under construction; and approximately 259 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.

The District includes approximately 23.53 acres of commercial development including two office buildings, a Conoco gas station, Dave's express gas station, a Shell gas station, one retail strip center, one automotive repair center, one private tennis club, and the Spring Volunteer Fire Department Station No. 2; recreational facilities which include three clubhouses, two swimming pools and tennis courts; 5.00 acres developed as a church; and approximately 42.45 acres of developed park land. The remaining acreage within the District consists of a country club and 18-hole golf course on approximately 67.82 acres (a portion of which lies within the 100-year flood plain), two school sites on approximately 27.08 acres, and approximately 87 undeveloped but developable acres (including approximately 44.17 of such acres in the Defined Area). See "STATUS OF DEVELOPMENT OF THE DISTRICT."

In addition to the Defined Area Developer, the following developers own properties in the District:

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 June 1, 2018, said subdivision included 12 completed homes, 2 homes under construction, and 37 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 residential subdivision of Stratton Woods. As of June 1, 2018, said subdivision included 24 completed homes, 7 homes under construction, and 9 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. As of June 1, 2018, said subdivision included no completed homes and no homes under construction.

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.

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.

The Defined Area Developer, MRE, PIB, and BLD are referred to herein collectively as the “Developers.” See “DEVELOPERS.”

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 (herein defined) and the General Manager of the District, within the Defined Area, there were no single-family homes that experienced structural flooding or damage as a result of Hurricane Harvey, however the one multi-family residential property within the Defined Area, the Waterford Springs apartment complex described above, did experience structural flooding. All affected units in the complex have since been repaired and are currently either occupied or available for tenants. Within the District but outside of the Defined Area, there were approximately 143 single-family homes that experienced structural flooding or damage as a result of Hurricane Harvey. Further, to the best knowledge of the Engineer and the Operator (herein defined), there was minimal impact and minor damage to the District’s utility systems. Both the water and wastewater systems remained operational throughout the event 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. See "RISK FACTORS - Hurricane Harvey," "- Potential Impact of Natural Disaster," and "- Specific Flood Type Risks."

RISK FACTORS

THE BONDS ARE SUBJECT TO CERTAIN INVESTMENT RISKS AS SET FORTH IN THIS OFFICIAL STATEMENT. PROSPECTIVE PURCHASERS SHOULD REVIEW THIS ENTIRE OFFICIAL STATEMENT, INCLUDING PARTICULARLY THE SECTION ENTITLED "RISK FACTORS," BEFORE MAKING AN INVESTMENT DECISION.

[Remainder of this page intentionally left blank.]

SELECTED FINANCIAL INFORMATION

(UNAUDITED)

2017 Taxable Assessed Valuation of the Defined Area	\$ 97,696,207 (a)
2018 Preliminary Valuation of the Defined Area.....	\$ 104,043,051 (b)
Estimate of Value as of March 1, 2018, of the Defined Area.....	\$ 118,130,467 (c)
Direct Debt of the Defined Area:	
The Defined Area Outstanding Bonds (as of July 1, 2018).....	\$ 9,015,000
The Bonds	<u>\$ 3,020,000</u>
Total.....	\$ 12,035,000
Estimated Overlapping Debt of the Defined Area.....	<u>\$ 10,605,839 (d)</u>
Total Direct and Estimated Overlapping Debt of the Defined Area.....	\$ 22,640,839
Direct Debt Ratios of the Defined Area:	
As a Percentage of the 2017 Taxable Assessed Valuation.....	12.32 %
As a Percentage of the 2018 Preliminary Valuation	11.57 %
As a Percentage of the Estimate of Value as of April 15, 2018.....	10.19 %
Direct and Estimated Overlapping Debt Ratio of the Defined Area:	
As a Percentage of the 2017 Taxable Assessed Valuation.....	23.17 %
As a Percentage of the 2018 Preliminary Valuation	21.76 %
As a Percentage of the Estimate of Value as of April 15, 2018.....	19.17 %
Defined Area Fund Balances as of May 21, 2018	
Utility System Debt Service Fund	\$ 603,714 (e)
Utility System Capital Projects Fund.....	\$ 152,769
Road System Debt Service Fund	\$ 871,890 (e)
Road System Capital Projects Fund.....	\$ 69,317
District Fund Balances as of May 21, 2018	
Debt Service Fund	\$ 1,910,013 (f)
Capital Projects Fund.....	\$ 4,791,131
General Operating Fund	\$ 4,557,550

-
- (a) Represents the assessed valuation of all taxable property in the Defined Area as of January 1, 2017, provided by the Harris County Appraisal District. See "TAX DATA" and "TAXING PROCEDURES."
- (b) Provided by the Harris County Appraisal District as the preliminary value as of January 1, 2018. This value represents the preliminary determination of the taxable value in the Defined Area as of January 1, 2018. No taxes will be levied on this preliminary value, which is subject to protest, review, and adjustment prior to certification. After the value is certified, taxes will be levied on the certified value. See "TAX DATA" and "TAXING PROCEDURES."
- (c) 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 Defined Area as of March 1, 2018, and includes an estimate of additional taxable value resulting from additional taxable improvements constructed in the Defined Area from January 1, 2018, through March 1, 2018. No taxes will be levied on this estimated value. See "TAX DATA" and "TAXING PROCEDURES."
- (d) Includes the Defined Area's pro rata share, based on taxable value, of the District Outstanding Bonds and the outstanding debt of the taxing jurisdictions overlapping the Defined Area. See "DEFINED AREA DEBT - Direct and Estimated Overlapping Debt Statement."
- (e) Neither Texas law nor the Bond Order requires that any particular amount be maintained in the Defined Area Utility System Debt Service Fund or the Defined Area Road System Debt Service Fund. Funds in the Defined Area Utility System Debt Service Fund may not be used for payment of debt service on the Bonds or the Defined Area Outstanding Bonds issued for the Defined Area Road System. Funds in the Defined Area Road System Debt Service Fund may not be used for payment of debt service on the Defined Area Outstanding Bonds issued for the Defined Area Utility System.
- (f) This amount represents funds that are available only for payment of debt service on the District Outstanding Bonds. Such funds may not be used for payment of debt service on the Bonds or the Defined Area Outstanding Bonds.

SELECTED FINANCIAL INFORMATION

(UNAUDITED)

2017 Tax Rate per \$100 of Assessed Valuation	
District Debt Service.....	\$0.330 (a)
District Maintenance & Operation	\$0.250
Defined Area Utility System Debt Service.....	\$0.340 (b)
Defined Area Road System Debt Service	\$0.300 (b)
Defined Area Maintenance & Operation.....	<u>\$0.000</u>
Total.....	\$1.220
Average Annual Debt Service Requirement (2018–2042)	\$702,413 (c)
Maximum Annual Debt Service Requirement (2039).....	\$760,869 (c)
Combined Debt Service Tax Rate per \$100 of Assessed Valuation in the Defined Area Required to Pay Average Annual Debt Service Requirement (2018–2042)	
Based on the 2017 Taxable Assessed Valuation at 95% Collections.....	\$0.76
Based on the 2018 Preliminary Valuation at 95% Collections	\$0.72
Based on the Estimate of Value as of March 1, 2018, at 95% Collections	\$0.63
Combined Debt Service Tax Rate per \$100 of Assessed Valuation in the Defined Area Required to Pay Maximum Annual Debt Service Requirement (2039)	
Based on the 2017 Taxable Assessed Valuation at 95% Tax Collections	\$0.82
Based on the 2018 Preliminary Valuation at 95% Tax Collections.....	\$0.77
Based on the Estimate of Value as of March 1, 2018, at 95% Tax Collections	\$0.68

-
- (a) 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 District Outstanding Bonds. This tax is separate from the ad valorem taxes that are levied by the District (as discussed below) upon taxable property located only within the Defined Area for payment of debt service on the Bonds and the Defined Area Outstanding Bonds. Proceeds of taxes levied by the District for payment of debt service on the District Outstanding Bonds may not be used for payment of debt service on the Bonds or the Defined Area Outstanding Bonds.
- (b) The District is authorized to levy separate taxes for payment of debt service on bonds issued by the District for the Defined Area Utility System and for payment of debt service on bonds issued for the Defined Area Road System (e.g., the Bonds); both such taxes are unlimited as to rate or amount.
- (c) Represents a requirement of debt service on the Defined Area Outstanding Bonds and the Bonds. See “DEFINED AREA DEBT – Debt Service Requirements of the Defined Area.”

INTRODUCTION

This Official Statement provides certain information with respect to the issuance by Northampton Municipal Utility District (the "District") of its \$3,020,000 Defined Area Unlimited Tax Road Bonds, Series 2018 (the "Bonds").

The Bonds are issued pursuant to Article III, Section 52 of the Texas Constitution, the general laws of the State of Texas, including Chapters 49 and 54, Texas Water Code, as amended, and an order authorizing issuance of the Bonds (the "Bond Order") adopted by the Board of Directors of the District (the "Board"); and an election held within the District.

Pursuant to certain provisions 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. Under such authority, on August 20, 2012, the District approved the creation of a defined area encompassing approximately 439.69 acres within the District (the "Defined Area"), and such creation was confirmed at an election within the Defined Area on November 6, 2012.

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

RISK FACTORS

General

The Bonds, which are special limited 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 only within the Defined Area and not from taxes levied on the District as a whole. 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 Defined Area taxes levied against all taxable property located within the Defined Area, 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 Defined Area will maintain a value sufficient to justify continued payment of taxes by the property owners. The valuation of taxable property in the Defined Area 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 Defined Area, as well as the remainder of the lands that make up 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 Defined Area.

Although, as described in this Official Statement under the caption "THE DEFINED AREA," as of June 1, 2018, approximately 378 acres located within the Defined Area have been developed to include approximately 278 complete single-family homes and 1 multi-family residential property, the District cannot predict the pace or magnitude of construction of any additional residential improvements, or other future development in the Defined Area. Unless the Defined Area'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 Defined Area Developer (herein defined), or any other landowner in the Defined Area to proceed at any particular rate or according to any specified plan with the development of land in the Defined Area, or of any homebuilder to proceed at any particular pace with the construction of homes in the Defined Area. 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 Defined Area. Failure to construct taxable improvements on developed lots would restrict the rate of growth of taxable values in the Defined Area 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 2017 tax year, the Defined Area's principal taxpayers owned property located within the Defined Area the aggregate assessed valuation of which comprised approximately 47.82% of the Defined Area's total taxable assessed valuation. SC Waterford Springs LLC, the Defined Area's top taxpayer for the 2017 tax year and one of the entities defined herein as the Defined Area Developer, owned taxable property representing approximately 32.80% of the Defined Area's total taxable assessed valuation. See "DEVELOPERS." In the event that the Defined Area Developer, 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 Defined Area Developer (herein defined) and homebuilders active within the Defined Area 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 Defined Area competes have lower overlapping taxes. As a result, particularly during times of increased competition, the Defined Area Developer 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 Defined Area will be the major determinant of the ability or willingness of property owners within the Defined Area to pay their taxes. The taxable assessed valuation as of January 1, 2017, of all taxable property located within the Defined Area is \$97,696,207, the preliminary valuation as of January 1, 2018, of all taxable property located within the Defined Area is \$104,043,051, and the estimate of value as of March 1, 2018, of all taxable property located within the Defined Area is \$118,130,467. See "TAX DATA."

After issuance of the Bonds, the maximum annual debt service requirement (2039) on the Defined Area Outstanding Bonds (herein defined) and the Bonds will be \$760,869 and the average annual debt service requirement (2018–2042) on the Defined Area Outstanding Bonds and the Bonds will be \$702,413. Assuming no increase to nor decrease from the taxable assessed valuation of the Defined Area as of January 1, 2017, tax rates of \$0.82 and \$0.76 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 preliminary valuation of the Defined Area as of January 1, 2018, tax rates of \$0.77 and \$0.72 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 as of March 1, 2018, tax rates of \$0.68 and \$0.63 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 Defined Area 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, including the Defined Area within its boundaries, 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 Defined Area, the assessed value of such taxable properties could be substantially reduced, resulting in a decrease in the taxable assessed value of the Defined Area 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 Defined Area 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 Defined Area 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 Defined Area 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 (herein defined) and the General Manager of the District, within the Defined Area, there were no single-family homes that experienced structural flooding or damage as a result of Hurricane Harvey, however the one multi-family residential property within the Defined Area, the Waterford Springs apartment complex described above, did experience 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. Within the District but outside of the Defined Area, there were approximately 143 single-family homes that experienced structural flooding and damage as a result of Hurricane Harvey.

Further, to the best knowledge of the Engineer and the Operator (herein defined), Hurricane Harvey caused no damage to the utility systems within the Defined Area, although there was minor damage to certain facilities that are part of the District's utility system located within the District but outside of the Defined Area. 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, including the Defined Area, 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 (hereinafter defined) have a right to seek a writ of mandamus requiring the District to levy sufficient taxes each year to make such payments. Except for mandamus, the Bond Order does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Based on recent Texas court decisions, it is unclear whether, §49.066, Texas Water Code, effectively waives governmental immunity of a municipal utility district for suits for money damages. Even if Registered Owners could obtain a judgment against the District, such a judgment could not be enforced by a direct levy and execution against the District's public purpose property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property of the District in order to pay the principal of and interest on the Bonds. Since there is no trust indenture or trustee, the Registered Owners would have to initiate and finance the legal process to enforce their remedies.

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

Marketability

The District has no 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 are expected to be issued from time to time as future development occurs. The issuance of such future obligations may adversely affect the investment security of the Bonds. The District does not employ any formula with regard to assessed valuations, tax collections, or net revenues to limit the amount of parity bonds that may be issued.

On August 20, 2012, the Board took action to proceed with the creation of the Defined Area within the boundaries of the District. The Defined Area consists of 439.686 acres of the approximate 1,589 total acres that make up the District. The Board held an election within the Defined Area to authorize the following: (i) designation of the Defined Area; (ii) the District's issuance of an aggregate \$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; (iii) the District's issuance of an aggregate \$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; and (iv) the District's levy of a maintenance tax of an amount not to exceed \$0.64 per \$100 of assessed valuation upon taxable property located in the Defined Area for the purpose of maintenance of operations within the Defined Area.

From the voted authorizations referenced above, the District has previously issued one series of bonds for the purpose of acquiring or constructing the Defined Area Road System, \$2,700,000 Defined Area Unlimited Tax Road Bonds, Series 2016, and one series of bonds for the purpose of acquiring or constructing the Defined Area Utility System, \$6,490,000 Defined Area Unlimited Tax Bonds, Series 2016. Of such two prior series of bonds, \$9,015,000 principal amount remains outstanding as of July 1, 2018 (the "Defined Area Outstanding Bonds").

Bonds issued by the District for the Defined Area Road System and the Defined Area Utility System are each supported by the proceeds of a separate unlimited tax levied upon taxable property located within the boundaries of the Defined Area and not on any other part of the District. The Bonds represent the District's second issuance of unlimited tax bonds for the Defined Area Road System as well as the District's third issuance of unlimited tax bonds that are secured by the proceeds of taxes levied upon taxable property located only within the Defined Area.

After the issuance of the Bonds, 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 District reserves in the Bond Order the right to issue such 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. After the issuance of the Bonds, the District will owe the Defined Area Developer (herein defined) \$0 for expenditures for construction of the Defined Area Road System and approximately \$8,000,000 for expenditures for construction of the Defined Area Utility System. See "THE BONDS – Issuance of Additional Debt."

In addition to and separate from the above voted authorization for bonds to provide facilities within the Defined Area, voters of the District have authorized the District's issuance of unlimited tax bonds for the purpose of providing water, sewer, and drainage facilities located in the District (the "District Utility System"). The District has previously issued unlimited tax bonds from such voted authorization for the District Utility System, and, as of July 1, 2018, \$27,705,000 principal amount of such bonds remains outstanding (the "District Outstanding Bonds").

The District Outstanding Bonds and any additional bonds issued by the District for the District Utility System are secured by the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, which is levied upon all taxable property in the District, including the Defined Area. Such tax is separate from the ad valorem taxes that are levied by the District for payment of debt service on the Bonds, the Defined Area Outstanding Bonds, and any additional unlimited tax bonds that the District may hereafter issue for the Defined Area Road System and the Defined Area Utility System. Proceeds of the annual tax levied by the District for payment of debt service on the District Outstanding Bonds and any additional bonds issued by the District for the District Utility System may not be used for payment of debt service on the Bonds or the Defined Area Outstanding Bonds.

Of the District's prior voted authorization for the issuance of bonds for the District Utility System, \$23,730,051 principal amount remains authorized but unissued currently. Issuance of the remaining \$23,730,051 principal amount of unlimited tax bonds for the District Utility System shall be subject to prior approval by the Texas Commission on Environmental Quality ("TCEQ"), and, in the third quarter of 2018, the District intends to submit an application to the TCEQ for approval to issue a series of unlimited tax bonds, of an approximate \$5,370,000 principal amount, for financing of the District Utility System. The issuance of any such bonds could result in higher tax rates within the Defined Area and dilute the security for the Bonds. The District currently owes the Developers (herein defined) approximately \$5,000,000 for funds advanced for the construction of the District Utility System.

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.

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.

THE BONDS

General

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

The Bonds are dated August 1, 2018, and will mature on September 1 of the years and in the principal amounts set forth on the inside cover page hereof and will accrue interest, on the basis of a 360-day year composed of twelve thirty-day months, at the stated interest rates indicated on the inside cover page hereof. Principal of the Bonds will be payable at Regions Bank, an Alabama banking corporation, Houston, Texas, (the "Paying Agent/Registrar"), upon surrender of the Bonds for payment. Interest on the Bonds accrues from August 1, 2018 (or the most recent interest payment date to which interest has been paid or duly provided for) and is payable on March 1, 2019, and on each September 1 and March 1 thereafter (each an "Interest Payment Date") until maturity or prior redemption. Unless otherwise agreed between the Paying Agent/Registrar and the registered owner(s) of the Bonds (the "Registered Owners"), interest on the Bonds is payable by check, dated as of the Interest Payment Date, and mailed by the Paying Agent/Registrar on or before the Interest Payment Date to the Registered Owners shown on the records of the Paying Agent/Registrar as of the close of business on the fifteenth (15th) day of the calendar month next preceding each Interest Payment Date (the "Record Date"). The Bonds are issued only in fully registered form. The Bonds will be issued in denominations of \$5,000 principal amount, or integral multiples thereof.

Book-Entry-Only System

This section describes how ownership of the Bonds is to be transferred and how the principal of and interest on the Bonds are to be paid to and credited by DTC (defined below) while the Bonds are registered in its nominee's

name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

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

The Depository Trust Company, New York, New York (“DTC”), will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be required by an authorized representative of DTC. One 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.

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 Bonds represent the District's third issuance of unlimited tax bonds that are secured by the proceeds of taxes levied upon taxable property located only within the Defined Area. Previously, the District has issued one series of unlimited tax 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 two previously issued series of bonds, \$9,015,000 principal amount remains outstanding as of July 1, 2018 (the "Defined Area Outstanding Bonds" as previously defined herein).

The District has also previously issued unlimited tax bonds for the District Utility System that are secured by the proceeds of taxes levied upon taxable property located within the entire District, including the Defined Area. Of such previously issued unlimited tax bonds, \$27,705,000 principal amount remains outstanding as of July 1, 2018 (the "District Outstanding Bonds" as previously defined herein). The District Outstanding Bonds and any additional bonds that the District may hereafter issue for the District Utility System are payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, that is separate from the ad valorem taxes that are levied by the District for payment of debt service on the Bonds, the Defined Area Outstanding Bonds, and any additional unlimited tax bonds that the District may hereafter issue for the Defined Area Road System and the Defined Area Utility System.

Authority for Issuance

The Bonds are issued out of the aggregate \$17,000,000 principal amount of unlimited tax bonds for the purpose of financing the Defined Area Road System that was authorized by voters of the District at an election held within the Defined Area on November 6, 2012. Following the issuance of the Bonds, \$11,280,000 principal amount of unlimited tax bonds for the purpose of financing the Defined Area Road System will remain authorized but unissued. See "RISK FACTORS – Future Debt" and "THE BONDS – Issuance of Additional Debt" for a discussion of the District's voted authorization that remains authorized but unissued for financing the Defined Area Utility System and the District Utility System.

The Bonds are issued pursuant to the voted authorization referenced above; Article III, Section 52 of the Texas Constitution; the Bond Order; Chapters 49 and 54 of the Texas Water Code, as amended, and the general laws of the State of Texas.

Source of Payment

The Bonds, when issued, will constitute valid and binding special limited obligations of the District, and the principal thereof and the interest thereon 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 Defined Area.

The Bonds are special limited 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.

Optional Redemption

The District reserves the right, at its option, to redeem the Bonds maturing on or after September 1, 2024, prior to their scheduled maturities, in whole or in part, on September 1, 2023, or on any date thereafter, at a price equal to the principal amount thereof plus accrued interest to the date fixed for redemption. Notice of the exercise of the reserved right of redemption will be given at least thirty (30) days prior to the redemption date by sending such notice by first class mail to the Registered Owner of each Bond to be redeemed in whole or in part at the address shown on the bond register. If fewer than all of the Bonds are optionally redeemed at any time, the particular Bonds to be optionally redeemed shall be selected by the District in integral multiples of \$5,000 within any one maturity and if fewer than all of the Bonds within a maturity are to be redeemed, the Paying Agent/Registrar shall designate by method of random selection the Bonds within such maturity to be redeemed (or by DTC while the Bonds are in Book-Entry-Only form). The Registered Owner of any Bond, all or a portion of which has been called for redemption, shall be required to present same to the Paying Agent/Registrar for payment of the redemption price on the portion of the Bond so called for redemption and issuance of a new Bond in the principal amount equal to the portion of such Bond not redeemed.

Mandatory Redemption

The Bonds maturing on September 1 in each of the years 2032, 2035, 2039, and 2042 (“Term Bonds”) are also subject to mandatory sinking fund redemption by the District by lot or other customary method of random selection prior to scheduled maturity on September 1 in each of the years set forth below (“Mandatory Redemption Date”), and in the amounts set forth below, at a redemption price of par plus accrued interest to the date of redemption.

\$255,000 Term Bonds Maturing September 1, 2032		\$285,000 Term Bonds Maturing September 1, 2035	
<u>Mandatory Redemption</u>	<u>Principal Amount</u>	<u>Mandatory Redemption</u>	<u>Principal Amount</u>
September 1, 2031	\$125,000	September 1, 2034	\$140,000
September 1, 2032	\$130,000	September 1, 2035	\$145,000
\$340,000 Term Bonds Maturing September 1, 2039		\$560,000 Term Bonds Maturing September 1, 2042	
<u>Mandatory Redemption</u>	<u>Principal Amount</u>	<u>Mandatory Redemption</u>	<u>Principal Amount</u>
September 1, 2038	\$165,000	September 1, 2040	\$180,000
September 1, 2039	\$175,000	September 1, 2041	\$185,000
		September 1, 2042	\$195,000

The principal amount of the Term Bonds required to be redeemed pursuant to the operation of the mandatory sinking fund redemption provisions shall be reduced, at the direction of the District, by the principal amount of any Term Bonds which, at least 30 days prior to a Mandatory Redemption Date, (1) shall have been acquired by the District at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and cancelled by the Paying Agent/Registrar at the request of the District with monies in the Debt Service Fund at a price not exceeding the principal amount of the Term Bonds plus accrued interest to the date of purchase thereof, or (3) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory sinking fund redemption requirement.

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 and the Defined Area were created and for refunding purposes. The Bonds are issued out of the aggregate \$17,000,000 principal amount of unlimited tax bonds authorized to be issued by the District for the purpose of acquiring or constructing the Defined Area Road System and for the refunding of bonds issued by the District for the Defined Area Road System. Following the issuance of the Bonds, the District will have the right to issue the \$11,280,000 principal amount of unlimited tax bonds that remain authorized but unissued for the Defined Area Road System as well as the \$34,510,000 principal amount of unlimited tax bonds that remain authorized but unissued for the purpose of acquiring and constructing the Defined Area Utility System, all of which may also be used for refunding purposes. The District may also issue the \$23,730,051 principal amount of unlimited tax bonds that remain authorized but unissued for the purpose of acquiring and constructing the District Utility System. The Bond Order imposes no limitation on the amount of additional parity bonds which may be issued by the District.

Issuance of the remaining \$34,510,000 principal amount for the Defined Area Utility System as well as the remaining \$23,730,051 principal amount for the District Utility System shall be subject to prior approval by the TCEQ, and, in the third quarter of 2018, the District intends to submit an application to the TCEQ for approval to issue a series of unlimited tax bonds, of an approximate \$5,370,000 principal amount, for financing of the District Utility System. The District's issuance of the remaining \$11,280,000 principal amount of unlimited tax bonds for acquiring or constructing the Defined Area Road System is not subject to approval by the TCEQ however.

Since the District has not financed all components of the District Utility System or the Defined Area Utility System, 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 Defined Area Developer \$0 for funds advanced for the construction of the Defined Area Road System and approximately \$8,000,000 for funds advanced for the construction of the Defined Area Utility System. In addition, the District currently owes the Developers approximately \$5,000,000 for funds advanced for the construction of the District 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. The District has no additional authorized bonds for parks and recreation facilities.

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

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

Annexation and Consolidation

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

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

Strategic Partnership Agreements

Under Texas law, the District is authorized to enter into a strategic partnership agreement with the City 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 reimburse D.R. Horton-Texas, Ltd. for the construction costs set out below as well as to pay for those non-construction costs below.

The construction costs described below were compiled by Jones and Carter, Inc., the District's engineer (the "Engineer"), based, in some cases, on the estimated costs of improvements. Non-construction costs are based upon either contract amounts or estimates of various costs by the Engineer and the District's financial advisor, Robert W. Baird & Co. Incorporated (the "Financial Advisor").

<u>Construction Costs</u>	<u>Amount</u>
A. Paving in Hampton Creek, Section 3	\$ 421,944
B. Paving in Hampton Creek, Sections 4B & 9	686,289
C. Paving in Hampton Creek, Section 7	279,634
D. Paving in Hampton Creek, Section 8	744,555
E. Engineering	<u>499,397</u>
Total Construction Costs	\$ 2,631,820

<u>Non-Construction Costs</u>	
A. Legal Fees (2.50%)	\$ 75,500
B. Fiscal Agent Fees (2.00%)	60,400
C. Developer Interest	92,991
D. Bond Discount	89,519
E. Bond Issuance Expenses	25,669
F. Engineering Fee	40,000
G. Attorney General Fee (0.10%)	3,020
H. Contingency	<u>1,081</u>
Total Non-Construction Costs	\$ 388,180

TOTAL BOND ISSUE REQUIREMENT **\$ 3,020,000**

In the instance that approved estimated amounts exceed actual costs, the difference comprises a surplus that may be expended for approved uses. 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 1,589 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.

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:

<u>Name</u>	<u>Title</u>	<u>Term Expires May</u>
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 authorized \$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. Any bonds issued for the Defined Area shall be payable solely from a tax levied within the boundaries of the Defined Area and not on any other part of the District. The 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. Commencing in 2013, the District has levied a total tax rate of \$0.64 per \$100 of assessed valuation for property within the Defined Area. Such tax is in addition to the taxes levied by the District upon all taxable property within the District, including the Define Area. See "TAX DATA – Tax Rate Distribution."

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 June 1, 2018, the Defined Area included approximately 278 completed homes (approximately 265 occupied, 11 unoccupied, and 2 model homes); approximately 54 homes under construction; and approximately 171 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. DR Horton, SC Waterford Springs LLC, and SC Waterford Springs II, LLC are collectively referred to herein as the "Defined Area Developer."

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 entire 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 June 1, 2018, the District included approximately 1,986 completed homes; approximately 63 homes under construction; and approximately 259 developed 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.

The District includes approximately 23.53 acres of commercial development including two office buildings, a Conoco gas station, Dave's express gas station, a Shell gas station, one retail strip center, one automotive repair center, one private tennis club, and the Spring Volunteer Fire Department Station No. 2; recreational facilities which include three clubhouses, two swimming pools and tennis courts; 5 acres developed as a

church; and approximately 42.45 acres of developed park land. The remaining acreage within the District consists of a country club and 18-hole golf course on approximately 67.82 acres (a portion of which lies within the 100-year flood plain), two school sites on approximately 27.08 acres, and approximately 87 undeveloped but developable acres (including approximately 44.17 of such acres in the Defined Area).

DEVELOPERS

In addition to the Defined Area Developer, the following developers own properties in the District:

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 June 1, 2018, said subdivision included 12 completed homes, 2 homes under construction, and 37 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 residential subdivision of Stratton Woods. As of June 1, 2018, said subdivision included 24 completed homes, 7 homes under construction, and 9 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. Currently, said subdivision includes no completed homes and no homes under construction.

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.

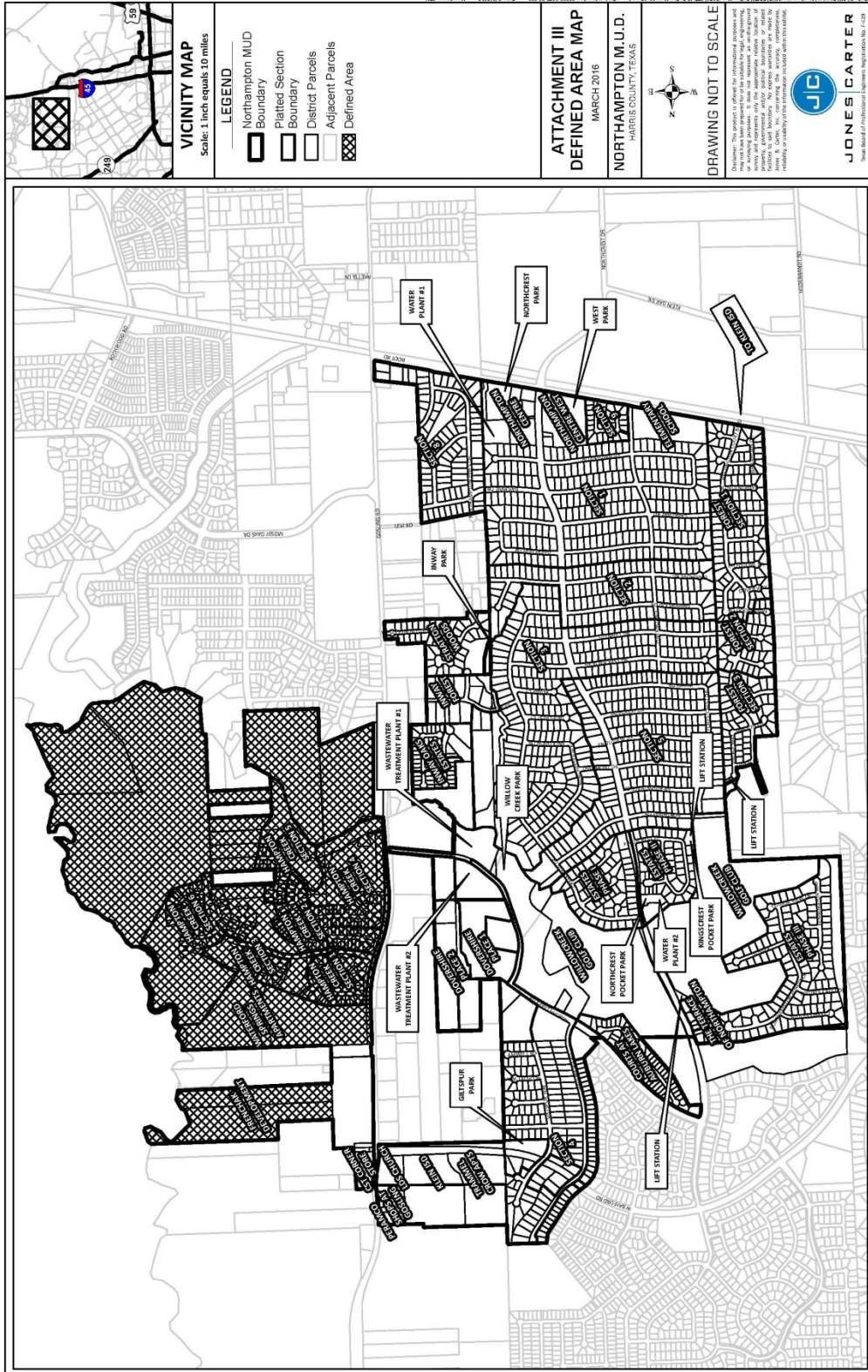
Hampton on the Lakes, LLC, an entity controlled by Bryan Frenchak, owns approximately 16 acres in the District in addition to his acreage that is within the Defined Area. Currently, the District is not aware of any plans to develop such acreage.

The Defined Area Developer, MRE, PIB, and BLD are referred to herein collectively as the “Developers.”

HOMEBUILDER WITHIN THE DEFINED AREA

D.R. Horton is the sole homebuilder constructing homes within the Defined Area. The single-family homes being marketed in the Defined Area range in size from approximately 1,500 to 4,000 square feet and in price from approximately \$200,000 to \$400,000.

LOCATION MAP OF THE DISTRICT



PHOTOGRAPHS TAKEN WITHIN THE DEFINED AREA

(June 2018)



TAX DATA

Defined Area Debt Service Taxes

All taxable property within the Defined Area 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 Defined Area Outstanding Bonds issued for the Defined Area Road System, and any additional tax-supported bonds that the District may issue for the Defined Area Road 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. In addition, the Board is authorized to levy an separate annual ad valorem tax, without legal limitation as to rate and amount, on all taxable property within the Defined Area in sufficient amount to pay the principal of and interest on the Defined Area Outstanding Bonds issued for the Defined Area Utility System and any additional bonds that the District may hereafter issue for the Defined Area Utility System.

The rate of such taxes will be determined from year to year as a function of the Defined Area's tax base, its debt service requirements, and available funds. In 2017, the District levied a tax of \$0.30 for payment of debt service on the Defined Area Outstanding Bonds issued for the Defined Area Road System as well as a tax in the amount of \$0.34 for payment of debt service on the Defined Area Outstanding Bonds issued for the Defined Area Utility System. These taxes for payment of debt service are levied only upon taxable property within the Defined Area. See "Tax Rate Distribution" below.

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 District Outstanding Bonds and any future tax-supported bonds which may be issued for the District Utility System. The District Outstanding Bonds have been issued to provide water, sewer, drainage, and park facilities to serve land within the District, including land within the Defined Area. 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 2017, the District levied a tax in the amount of \$0.33 per \$100 of assessed valuation for payment of debt service on the District Outstanding. This debt service rate is levied against all taxable property within the District, including the Defined Area. See "Tax Rate Distribution" below.

Defined Area Maintenance Tax

The Board is authorized to levy a maintenance tax within the Defined Area not to exceed \$0.64 per \$100 of taxable assessed valuation. For tax years 2013–2016, the District levied a maintenance tax upon all taxable property within the Defined Area. All such taxes have been deposited into the Defined Area Tax Fund and will be allocated and transferred to the Defined Area Utility System Debt Service Fund and the Defined Area Road System Debt Service Fund respectively. In 2017, 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. 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 2017, 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, including the Defined Area. 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 Defined Area. Such summary has been prepared for inclusion herein based upon information obtained from District records. Reference is made to such records, including the District's annual audited financial statements, for more complete information.

Tax Year	Assessed Valuation	Tax Rate (a)	Adjusted Levy	Collections Current Year	Current Year Ended 9/30	Collections 4/30/18
2013	\$9,389,813	\$0.640	\$60,095	100.00%	2014	100.00%
2014	10,765,269	0.640	68,898	100.00	2015	100.00
2015	55,593,937	0.640	355,801	99.99	2016	99.99
2016	84,971,441	0.640	543,817	99.59	2017	99.59
2017	97,696,207	0.640	625,256	98.11 (b)	2018	98.11

(a) Represents the District's tax rate levied only upon taxable property located within the Defined Area. See "Tax Rate Distribution" below.

(b) Represents collections through April 30, 2018.

Tax Rate Distribution

	2017	2016	2015	2014	2013
District Utility System Debt Service (a)	\$0.330	\$0.330	\$0.360	\$0.360	\$0.360
District Maintenance & Operation	0.250	0.250	0.250	0.250	0.250
Defined Area Road System Debt Service (b)	0.300	0.175	0.000	0.000	0.000
Defined Area Utility System Debt Service (c)	0.340	0.420	0.000	0.000	0.000
Defined Area Maintenance & Operation	<u>0.000</u>	<u>0.045</u>	<u>0.640</u>	<u>0.640</u>	<u>0.640</u>
	\$1.220	\$1.220	\$1.250	\$1.250	\$1.250

(a) Such tax is levied by the District upon all taxable property located in the District, including the Defined Area, for payment of debt service on the Outstanding District Bonds and any additional bonds that the District may hereafter issue for the District Utility System. Proceeds from this tax are not available for payment of debt service on the Bonds.

(b) Such tax is levied by the District upon all taxable property located in the Defined Area for payment of debt service on the Bonds, the Defined Area Outstanding Bonds issued for the Defined Area Road System, and any additional bonds that the District may hereafter issue for the Defined Area Road System.

(c) Such tax is levied by the District upon all taxable property located in the Defined Area for payment of debt service on the Defined Area Outstanding Bonds issued for the Defined Area Utility System and any additional bonds that the District may hereafter issue for the Defined Area Utility System. Proceeds from this tax are not available for payment of debt service on the Bonds.

Analysis of Tax Base

The following table illustrates the types of property that make up the total taxable assessed value within the Defined Area for each of tax years 2013–2017.

Type of Property	2017 Assessed Value	2016 Assessed Value	2015 Assessed Value	2014 Assessed Value	2013 Assessed Value
Land	\$29,053,782	\$27,284,352	\$23,539,258	\$10,392,717	\$9,389,813
Improvements	69,271,375	57,514,556	31,808,937	372,552	-
Personal Property	204,313	579,301	300,605	-	-
Exemptions	<u>(833,263)</u>	<u>(406,768)</u>	<u>(54,863)</u>	-	-
Total	\$97,696,207	\$84,971,441	\$55,593,937	\$10,765,269	\$9,389,813

Principal Taxpayers

The following represents the Defined Area’s principal taxpayers, type of property, and their taxable assessed values as of January 1, 2017:

<u>Taxpayer</u>	<u>Types of Property</u>	<u>Taxable Value 2017 Tax Roll</u>	<u>Percent of Defined Area</u>
SC Waterford Springs LLC (a)	Land & Improvements	\$32,043,942	32.80%
DR Horton Texas LTD (a)	Land & Improvements	9,195,910	9.41
SC Waterford Springs II LLC (a)	Land & Improvements	2,195,381	2.25
Hampton Creek Community Association Inc	Land & Improvements	827,353	0.85
Gosling Village LLC	Land & Improvements	668,920	0.68
Homeowner	Land & Improvements	485,472	0.50
Homeowner	Land & Improvements	340,986	0.35
Homeowner	Land & Improvements	322,966	0.33
Homeowner	Land & Improvements	324,399	0.33
Homeowner	Land & Improvements	<u>317,619</u>	<u>0.33</u>
		\$46,722,948	47.82%

(a) Entity that is a developer of lands in the Defined Area. See “THE DEFINED AREA.”

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 Defined Area Outstanding Bonds and the Bonds if no growth in the Defined Area occurs beyond the taxable assessed valuation as of January 1, 2017, the preliminary valuation of the Defined Area as of January 1, 2018, or the estimate of value of the Defined Area as of March 1, 2018. The following further assumes collection of 95% of taxes levied and the sale of no additional bonds:

Average Annual Debt Service Requirement (2018–2042)	\$702,413
Combined Debt Service Tax Rate of \$0.76 on the 2017 Taxable Assessed Valuation	\$705,367
Combined Debt Service Tax Rate of \$0.72 on the 2018 Preliminary Valuation.....	\$711,654
Combined Debt Service Tax Rate of \$0.63 on the Estimate of Value as of March 1, 2018.....	\$707,011
Maximum Annual Debt Service Requirement (2039).....	\$760,869
Combined Debt Service Tax Rate of \$0.82 on the 2017 Taxable Assessed Valuation	\$761,053
Combined Debt Service Tax Rate of \$0.77 on the 2018 Preliminary Valuation.....	\$761,075
Combined Debt Service Tax Rate of \$0.68 on the Estimate of Value as of March 1, 2018.....	\$763,123

Estimated Overlapping Taxes

Property within the Defined Area 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 “DEFINED AREA 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 2017 taxes levied by such jurisdictions per \$100 of assessed valuation. Such levies do not include local assessments for community associations, fire department contributions, charges for solid waste disposal, or any other dues or charges made by entities other than political subdivisions.

<u>Taxing Jurisdiction</u>	<u>2017 Tax Rate</u>
Harris County	\$0.418010
Harris County Department of Education	0.005195
Harris County Flood Control District	0.028310
Harris County Hospital District	0.171100
Port of Houston Authority	0.012560
Harris County Emergency Services District No. 7	0.096060
Harris County Emergency Services District No. 11	0.039040
Klein Independent School District	1.430000
Lone Star College System	0.107800
The District	0.580000
The District Defined Area	<u>0.640000</u>
Estimated Total Tax Rate for the Defined Area	\$3.528075

THE SYSTEM

Proceeds of the District 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 of 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 with the Defined Area and all customers are "in-district" customers.

-Water Facilities-

The District serves the Defined Area with retail water supply. Proceeds of the District 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. These water plants are sufficient to provide water supply to 3,200 equivalent single-family connections ("esfc"). 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. Currently the District serves 2,705 esfc, including the Defined Area, and the developed land within the District, including the Defined Area, is projected to include 4,078 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-

The District serves the Defined Area with retail wastewater treatment. Proceeds from the District 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 2,643 esfc, including the Defined Area, and the developed land within the District, including the Defined Area, is projected to include 4,078 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.

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
Revenues					
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
Expenditures					
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

DEFINED AREA DEBT

General

2017 Taxable Assessed Valuation of the Defined Area	\$ 97,696,207 (a)	
2018 Preliminary Valuation of the Defined Area.....	\$ 104,043,051 (b)	
Estimate of Value as of March 1, 2018, of the Defined Area.....	\$ 118,130,467 (c)	
Direct Debt of the Defined Area:		
The Defined Area Outstanding Bonds (as of July 1, 2018).....	\$ 9,015,000	
The Bonds	<u>\$ 3,020,000</u>	
Total.....	\$ 12,035,000	
Estimated Overlapping Debt of the Defined Area.....	<u>\$ 10,605,839 (d)</u>	
Total Direct and Estimated Overlapping Debt of the Defined Area.....	\$ 22,640,839	
Direct Debt Ratios of the Defined Area:		
As a Percentage of the 2017 Taxable Assessed Valuation.....	12.32	%
As a Percentage of the 2018 Preliminary Valuation	11.57	%
As a Percentage of the Estimate of Value as of April 15, 2018.....	10.19	%
Direct and Estimated Overlapping Debt Ratio of the Defined Area:		
As a Percentage of the 2017 Taxable Assessed Valuation.....	23.17	%
As a Percentage of the 2018 Preliminary Valuation	21.76	%
As a Percentage of the Estimate of Value as of April 15, 2018.....	19.17	%
Defined Area Fund Balances as of May 21, 2018		
Utility System Debt Service Fund	\$ 603,714 (e)	
Utility System Capital Projects Fund.....	\$ 152,769	
Road System Debt Service Fund	\$ 871,890 (e)	
Road System Capital Projects Fund.....	\$ 69,317	
District Fund Balances as of May 21, 2018		
Debt Service Fund	\$ 1,910,013 (f)	
Capital Projects Fund.....	\$ 4,791,131	
General Operating Fund	\$ 4,557,550	

-
- (a) Represents the assessed valuation of all taxable property in the Defined Area as of January 1, 2017, provided by the Harris County Appraisal District. See "TAX DATA" and "TAXING PROCEDURES."
- (b) Provided by the Harris County Appraisal District as the preliminary value as of January 1, 2018. This value represents the preliminary determination of the taxable value in the Defined Area as of January 1, 2018. No taxes will be levied on this preliminary value, which is subject to protest, review, and adjustment prior to certification. After the value is certified, taxes will be levied on the certified value. See "TAX DATA" and "TAXING PROCEDURES."
- (c) 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 Defined Area as of March 1, 2018, and includes an estimate of additional taxable value resulting from additional taxable improvements constructed in the Defined Area from January 1, 2018, through March 1, 2018. No taxes will be levied on this estimated value. See "TAX DATA" and "TAXING PROCEDURES."
- (d) Includes the Defined Area's pro rata share, based on taxable value, of the District Outstanding Bonds and the outstanding debt of the taxing jurisdictions overlapping the Defined Area. See "DEFINED AREA DEBT – Direct and Estimated Overlapping Debt Statement."
- (e) Neither Texas law nor the Bond Order requires that any particular amount be maintained in the Defined Area Utility System Debt Service Fund or the Defined Area Road System Debt Service Fund. Funds in the Defined Area Utility System Debt Service Fund may not be used for payment of debt service on the Bonds or the Defined Area Outstanding Bonds issued for the Defined Area Road System. Funds in the Defined Area Road System Debt Service Fund may not be used for payment of debt service on the Defined Area Outstanding Bonds issued for the Defined Area Utility System.
- (f) This amount represents funds that are available only for payment of debt service on the District Outstanding Bonds. Such funds may not be used for payment of debt service on the Bonds or the Defined Area Outstanding Bonds.

2017 Tax Rate per \$100 of Assessed Valuation	
District Debt Service.....	\$0.330 (a)
District Maintenance & Operation	\$0.250
Defined Area Utility System Debt Service.....	\$0.340 (b)
Defined Area Road System Debt Service	\$0.300 (b)
Defined Area Maintenance & Operation.....	<u>\$0.000</u>
Total.....	\$1.220
Average Annual Debt Service Requirement (2018–2042)	\$702,413 (c)
Maximum Annual Debt Service Requirement (2039).....	\$760,869 (c)
Combined Debt Service Tax Rate per \$100 of Assessed Valuation in the Defined Area Required to Pay Average Annual Debt Service Requirement (2018–2042)	
Based on the 2017 Taxable Assessed Valuation at 95% Collections.....	\$0.76
Based on the 2018 Preliminary Valuation at 95% Collections	\$0.72
Based on the Estimate of Value as of March 1, 2018, at 95% Collections	\$0.63
Combined Debt Service Tax Rate per \$100 of Assessed Valuation in the Defined Area Required to Pay Maximum Annual Debt Service Requirement (2039)	
Based on the 2017 Taxable Assessed Valuation at 95% Tax Collections	\$0.82
Based on the 2018 Preliminary Valuation at 95% Tax Collections.....	\$0.77
Based on the Estimate of Value as of March 1, 2018, at 95% Tax Collections	\$0.68

-
- (a) 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 District Outstanding Bonds. This tax is separate from the ad valorem taxes that are levied by the District (as discussed below) upon taxable property located only within the Defined Area for payment of debt service on the Bonds and the Defined Area Outstanding Bonds. Proceeds of taxes levied by the District for payment of debt service on the District Outstanding Bonds may not be used for payment of debt service on the Bonds or the Defined Area Outstanding Bonds.
- (b) The District is authorized to levy separate taxes for payment of debt service on bonds issued by the District for the Defined Area Utility System and for payment of debt service on bonds issued for the Defined Area Road System (e.g., the Bonds); both such taxes are unlimited as to rate or amount.
- (c) Represents a requirement of debt service on the Defined Area Outstanding Bonds and the Bonds. See “DEFINED AREA DEBT – Debt Service Requirements of the Defined Area.”

Debt Service Requirements of the Defined Area

The following schedule sets forth the principal and interest requirements on the Defined Area Outstanding Bonds and the Bonds.

Calendar Year	Outstanding Debt Service	Plus: The Bonds			Total Debt Service
		Principal	Interest	Debt Service	
2018	\$378,358	-	-	-	\$378,358
2019	517,379	\$65,000	\$123,365	\$188,365	705,743
2020	522,654	80,000	110,300	190,300	712,954
2021	522,554	80,000	105,900	185,900	708,454
2022	527,154	85,000	101,500	186,500	713,654
2023	536,176	90,000	96,825	186,825	723,001
2024	534,661	90,000	91,875	181,875	716,536
2025	542,701	95,000	87,375	182,375	725,076
2026	539,826	100,000	82,625	182,625	722,451
2027	546,251	105,000	79,625	184,625	730,876
2028	551,921	110,000	76,475	186,475	738,396
2029	551,911	115,000	73,175	188,175	740,086
2030	551,111	120,000	69,725	189,725	740,836
2031	555,011	125,000	66,125	191,125	746,136
2032	558,191	130,000	62,063	192,063	750,254
2033	560,461	135,000	57,838	192,838	753,299
2034	561,818	140,000	53,450	193,450	755,268
2035	562,680	145,000	48,550	193,550	756,230
2036	557,584	150,000	43,475	193,475	751,059
2037	557,148	160,000	38,225	198,225	755,373
2038	561,203	165,000	32,625	197,625	758,828
2039	559,225	175,000	26,644	201,644	760,869
2040	556,728	180,000	20,300	200,300	757,028
2041	558,710	185,000	13,775	198,775	757,485
2042	-	195,000	7,069	202,069	202,069
Total	\$12,971,416	\$3,020,000	\$1,568,902	\$4,588,902	\$17,560,318

Average Annual Debt Service Requirement (2018–2042) \$702,413
 Maximum Annual Debt Service Requirement (2039)..... \$760,869

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 June 30, 2018	Overlapping	
		Percent	Amount
Harris County	\$ 2,280,674,361	0.02%	\$ 495,489
Harris County Department of Education	6,555,000	0.02	1,470
Harris County Flood Control District	83,075,000	0.02	19,018
Harris County Hospital District	59,490,000	0.02	13,618
Port of Houston Authority	638,829,397	0.02	146,249
Klein Independent School District	1,113,135,000	0.47	5,242,665
Lone Star College System	638,425,000	0.05	329,568
Northampton Municipal Utility District	27,705,000	15.73	<u>4,357,762</u>
Total Estimated Overlapping Debt			\$ 10,605,839
The Defined Area			<u>\$ 12,035,000</u>
Total Direct & Estimated Overlapping Debt			\$ 22,640,839

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 Defined Area in sufficient amount to pay the principal of and interest on the Bonds, the Defined Area Outstanding Bonds issued for the Defined Area Road System, and any additional bonds that the District may hereafter issue for the Defined Area Road 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 an separate annual ad valorem tax, without legal limitation as to rate and amount, on all taxable property within the Defined Area in sufficient amount to pay the principal of and interest on the Defined Area Outstanding Bonds issued for the Defined Area Utility System and any additional bonds that the District may hereafter issue for the Defined Area Utility System as well as to pay the expenses of assessing and collecting such taxes. The Board is further authorized to levy another separate annual ad valorem tax, without legal limitation as to rate and amount, on all taxable property within the District, including the Defined Area, in sufficient amount to pay the principal of and interest on the District 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 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 2017, 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 2017, 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 2017, 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.

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.

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 Defined Area. 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 – Authority,” 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” and 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 2018 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 2018.

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 "DEFINED AREA 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; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material. The term "material" when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Order makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information

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

Limitations and Amendments

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

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

The District's audited financial statements for the year ended December 31, 2017, were prepared by McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountant, Houston, Texas, and have been included herein as "APPENDIX A." McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountant, has consented to the publication of such financial statements in this Official Statement.

Certification as to Official Statement

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

Updating of Official Statement

If, subsequent to the date of 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

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-8
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET	9-12
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION	13
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES	14-15
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES	16
NOTES TO FINANCIAL STATEMENTS	17-35
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL-GENERAL FUND	37
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL-SPECIAL REVENUE FUND	38
SUPPLEMENTARY INFORMATION REQUIRED BY THE WATER DISTRICT FINANCIAL MANAGEMENT GUIDE	
NOTES REQUIRED BY THE WATER DISTRICT FINANCIAL MANAGEMENT GUIDE (Included in the notes to financial statements)	
SERVICES AND RATES	40-42
GENERAL FUND EXPENDITURES	43-44
INVESTMENTS	45
TAXES LEVIED AND RECEIVABLE	46-47
LONG-TERM DEBT SERVICE REQUIREMENTS	48-57
CHANGE IN LONG-TERM BOND DEBT	58-60
COMPARATIVE SCHEDULES OF REVENUES AND EXPENDITURES GENERAL FUND AND DEBT SERVICE FUND - FIVE YEARS	61-64
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS	65-66

McCALL GIBSON SWEDLUND BARFOOT PLLC

Certified Public Accountants

13100 Wortham Center Drive
Suite 235
Houston, Texas 77065-5610
(713) 462-0341
Fax (713) 462-2708
E-Mail: mgsb@mgsbpllc.com

9600 Great Hills Trail
Suite 150W
Austin, Texas 78759
(512) 610-2209
www.mgsbpllc.com

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Northampton Municipal
Utility District
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Northampton Municipal Utility District (the "District"), as of and for the year ended December 31, 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
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 Extension 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

	<u>2017</u>	<u>2016</u>	<u>Change Positive (Negative)</u>
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><u>37,915,000</u></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><u>37,722,035</u></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.

THIS PAGE INTENTIONALLY LEFT BLANK

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

	General Fund	Special Revenue Fund
ASSETS		
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)		
TOTAL ASSETS	\$ 5,877,311	\$ 147,337
 DEFERRED OUTFLOWS OF RESOURCES		
Deferred Charges on Refunding Bonds	\$ - 0 -	\$ - 0 -
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 5,877,311	\$ 147,337

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**

	General Fund	Special Revenue Fund
LIABILITIES		
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		
TOTAL LIABILITIES	\$ 1,066,957	\$ 147,337
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows:		
Property Taxes	\$ 1,557,104	\$ - 0 -
FUND BALANCES		
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	
TOTAL FUND BALANCES	\$ 3,253,250	\$ - 0 -
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 5,877,311	\$ 147,337
NET POSITION		
Net Investment in Capital Assets		
Restricted for:		
Debt Service		
Capital Projects		
Unrestricted		
TOTAL NET POSITION		

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

<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$	\$	\$ 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>
\$ 2,645,481	\$ - 0 -	\$ 4,202,585	\$ (60,303)	\$ 4,142,282
\$	\$	\$ 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.

NORTHAMPTON 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

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

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

The difference between the net carrying amount of the refunded bonds and the requisition 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

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

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	<u>(36,282,035)</u>	<u>(44,868,609)</u>

Total Net Postion - Governmental Activities \$ 1,897,785

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

THIS PAGE INTENTIONALLY LEFT BLANK

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

	General Fund	Special Revenue Fund
REVENUES		
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	
	<u>\$ 5,254,498</u>	<u>\$ 647,041</u>
TOTAL REVENUES		
EXPENDITURES/EXPENSES		
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		
	<u>\$ 4,756,008</u>	<u>\$ 647,041</u>
TOTAL EXPENDITURES/EXPENSES		
EXCESS (DEFICIENCY) OF REVENUES OVER		
EXPENDITURES	<u>\$ 498,490</u>	<u>\$ -0-</u>
OTHER FINANCING SOURCES (USES)		
Transfers In (Out)	<u>\$ 226,208</u>	<u>\$ -0-</u>
NET CHANGE IN FUND BALANCES	<u>\$ 724,698</u>	<u>\$ -0-</u>
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION -		
JANUARY 1, 2017	<u>2,528,552</u>	<u></u>
FUND BALANCES/NET POSITION -		
DECEMBER 31, 2017	<u>\$ 3,253,250</u>	<u>\$ -0-</u>

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

Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
\$ 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)	
<u>1,103,963</u>		<u>1,103,963</u>	<u>143,378</u>	<u>1,247,341</u>
<u>\$ 2,232,559</u>	<u>\$ 290,516</u>	<u>\$ 7,926,124</u>	<u>\$ (345,944)</u>	<u>\$ 7,580,180</u>
<u>\$ 221,644</u>	<u>\$ (219,170)</u>	<u>\$ 500,964</u>	<u>\$ (500,964)</u>	<u>\$ -0-</u>
<u>\$ -0-</u>	<u>\$ (226,208)</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
\$ 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
DECEMBER 31, 2017

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
DECEMBER 31, 2017

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
DECEMBER 31, 2017**

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
DECEMBER 31, 2017**

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:

	<u>Cash</u>	<u>Certificates of Deposit</u>	<u>Total</u>
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	<u>336,953</u>		<u>336,953</u>
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
DECEMBER 31, 2017

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:

<u>Fund and Investment Type</u>	<u>Fair Value</u>	<u>Maturities in Years</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>
<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
DECEMBER 31, 2017**

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
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 1,936,448	\$	\$	\$ 1,936,448
Construction in Progress	358,438	3,950,862	3,820,745	488,555
Total Capital Assets Not Being Depreciated	\$ 2,294,886	\$ 3,950,862	\$ 3,820,745	\$ 2,425,003
Capital Assets Subject to Depreciation				
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
Total Capital Assets Subject to Depreciation	\$ 42,199,975	\$ 3,820,745	\$ - 0 -	\$ 46,020,720
Less Accumulated Depreciation				
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
Total Accumulated Depreciation	\$ 12,495,921	\$ 1,469,798	\$ - 0 -	\$ 13,965,719
Total Depreciable Capital Assets, Net of Accumulated Depreciation	\$ 29,704,054	\$ 2,350,947	\$ - 0 -	\$ 32,055,001
Total Capital Assets, Net of Accumulated Depreciation	\$ 31,998,940	\$ 6,301,809	\$ 3,820,745	\$ 34,480,004

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

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
DECEMBER 31, 2017

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
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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.

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

	<u>The District</u>	<u>Oakmont</u>	<u>Total</u>
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
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

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 75th Texas Legislature, in 1999. The Act empowers the Authority to provide for the conservation, preservation, protection, recharge and prevention of waste of groundwater, and for the reduction of groundwater withdrawals. The Authority is overseeing that its participants comply with the Harris-Galveston Subsidence District pumpage requirements.

The Authority charges a fee, based on the amount of water pumped from a well, to the owner of wells located within the boundaries of the Authority, unless exempted. This fee enables the Authority to fulfill its purpose and regulatory functions. The fee for 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.

THIS PAGE INTENTIONALLY LEFT BLANK

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)
REVENUES			
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
TOTAL REVENUES	<u>\$ 5,229,725</u>	<u>\$ 5,254,498</u>	<u>\$ 24,773</u>
EXPENDITURES			
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)
TOTAL EXPENDITURES	<u>\$ 4,512,379</u>	<u>\$ 4,756,008</u>	<u>\$ (243,629)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 717,346</u>	<u>\$ 498,490</u>	<u>\$ (218,856)</u>
OTHER FINANCING SOURCES(USES)			
Transfers In (Out)	<u>\$ -0-</u>	<u>\$ 226,208</u>	<u>\$ 226,208</u>
NET CHANGE IN FUND BALANCE	\$ 717,346	\$ 724,698	\$ 7,352
FUND BALANCE - JANUARY 1, 2017	<u>2,528,552</u>	<u>2,528,552</u>	<u></u>
FUND BALANCE - DECEMBER 31, 2017	<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**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Wastewater Service	\$ 605,944	\$ 647,041	\$ 41,097
Investment Revenues	72		(72)
TOTAL REVENUES	<u>\$ 606,016</u>	<u>\$ 647,041</u>	<u>\$ 41,025</u>
EXPENDITURES			
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
TOTAL EXPENDITURES	<u>\$ 606,016</u>	<u>\$ 647,041</u>	<u>\$ (41,025)</u>
NET CHANGE IN FUND BALANCE	\$ -0-	\$ -0-	\$ -0-
FUND BALANCE - JANUARY 1, 2017	<u> </u>	<u> </u>	<u> </u>
FUND BALANCE - DECEMBER 31, 2017	<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**

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

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

2. RETAIL SERVICE PROVIDERS

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

Based on the rate order approved October 16, 2017.

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons over Minimum Use</u>	<u>Usage Levels</u>
WATER:	\$ 20.00	7,000	N	\$ 1.50 \$ 2.00 \$ 2.50 \$ 3.50 \$ 5.00	7,001 to 12,000 12,001 to 20,000 20,001 to 30,000 30,001 to 75,000 75,001 and over
WASTEWATER:	\$ 44.35 *		Y		
SURCHARGE:					
Regional Water Authority Fees				\$ 3.34	1,000 and over

District employs winter averaging for wastewater usage? _____ X
Yes No

Total monthly charges per 10,000 gallons usage: Water: \$24.50 Wastewater: \$44.35 Surcharge: \$33.40 Total: \$102.25

* Includes garbage fee of \$20.00.

See accompanying independent auditor's report.

**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"	1,967	1,948	x 1.0	1,948
1"	96	94	x 2.5	235
1½"	2	2	x 5.0	10
2"	34	34	x 8.0	272
3"			x 15.0	
4"	2	2	x 25.0	50
6"	1	1	x 50.0	50
8"	3	3	x 80.0	240
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	\$ <u>78,358</u>
SOLID WASTE DISPOSAL	\$ <u>409,336</u>
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	<u>276,277</u>
TOTAL PARKS AND RECREATION	\$ <u>1,643,215</u>
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	<u>11,657</u>
TOTAL OTHER EXPENDITURES	\$ <u>1,133,863</u>
TOTAL EXPENDITURES	\$ <u><u>4,756,008</u></u>

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**

Fund	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Accrued Interest Receivable at End of Year
<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	<u>2,016,910</u>	<u> </u>
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	<u>310,343</u>	<u>776</u>
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

	Maintenance Taxes		Debt Service Taxes		Road Taxes	
TAXES RECEIVABLE - JANUARY 1, 2017	\$ 1,158,098		\$ 1,777,948		\$ 119,884	
Adjustments to Beginning Balance	40,925	\$ 1,199,023	79,693	\$ 1,857,641	12,390	\$ 132,274
Original 2017 Tax Levy	\$ 1,480,751		\$ 2,255,798		\$ 265,771	
Adjustment to 2017 Tax Levy	51,861	1,532,612	78,893	2,334,691	9,208	274,979
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	293,407	1,467,938	404,038	2,226,473	14,772	146,441
TAXES RECEIVABLE - DECEMBER 31, 2017		\$ 1,263,697		\$ 1,965,859		\$ 260,812
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		366		527		
TOTAL		\$ 1,263,697		\$ 1,965,859		\$ 260,812

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
DISTRICT WIDE:				
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	(82,794,856)	(64,455,327)	(62,736,244)	(59,616,162)
TOTAL PROPERTY VALUATIONS	\$ 613,044,675	\$ 560,624,823	\$ 503,980,879	\$ 386,488,809
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.33	\$ 0.33	\$ 0.36	\$ 0.36
Maintenance ***	0.25	0.25	0.25	0.25
TOTAL TAX RATES PER \$100 VALUATION	\$ 0.58	\$ 0.58	\$ 0.61	\$ 0.61
ADJUSTED TAX LEVY*	\$ 3,555,660	\$ 3,251,624	\$ 3,074,284	\$ 2,357,582
DEFINED AREA :				
PROPERTY VALUATIONS	\$ 91,659,783	\$ 77,891,935	\$ 55,308,676	\$ 10,765,269
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***	0.04	0.045	0.64	0.64
TOTAL TAX RATES PER \$100 VALUATION	\$ 0.64	\$ 0.640	\$ 0.64	\$ 0.64
ADJUSTED TAX LEVY*	\$ 586,622	\$ 498,508	\$ 353,976	\$ 68,898
PERCENTAGE OF TOTAL TAXES COLLECTED TO TOTAL TAXES LEVIED				
	17.19 %	99.22 %	99.70 %	99.79 %

**

* 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				
	\$ 175,000	\$ 16,875	\$	191,875

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			
	\$ 2,175,000	\$ 1,271,344	\$ 3,446,344

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

SERIES - 2015

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.

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

DEFINED AREA
SERIES - 2016

Due During Fiscal Years Ending December 31	Principal Due September 1	Interest Due March 1/ September 1	Total
2018	\$ 170,000	\$ 187,262	\$ 357,262
2019	180,000	183,862	363,862
2020	185,000	180,262	365,262
2021	190,000	176,562	366,562
2022	195,000	172,762	367,762
2023	205,000	168,570	373,570
2024	210,000	163,857	373,857
2025	220,000	158,920	378,920
2026	225,000	153,420	378,420
2027	235,000	147,458	382,458
2028	245,000	140,878	385,878
2029	250,000	134,018	384,018
2030	260,000	126,518	386,518
2031	270,000	118,718	388,718
2032	280,000	110,348	390,348
2033	290,000	101,668	391,668
2034	300,000	92,242	392,242
2035	310,000	82,492	392,492
2036	320,000	71,952	391,952
2037	330,000	61,072	391,072
2038	345,000	49,852	394,852
2039	355,000	37,950	392,950
2040	365,000	25,702	390,702
2041	380,000	13,110	393,110
	<u>\$ 6,315,000</u>	<u>\$ 2,859,455</u>	<u>\$ 9,174,455</u>

See accompanying independent auditor's report.

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

DEFINED AREA
ROAD SERIES - 2016

Due During Fiscal Years Ending December 31	Principal Due September 1	Interest Due March 1/ September 1	Total
2018	\$ 75,000	\$ 79,453	\$ 154,453
2019	75,000	78,515	153,515
2020	80,000	77,391	157,391
2021	80,000	75,991	155,991
2022	85,000	74,392	159,392
2023	90,000	72,606	162,606
2024	90,000	70,806	160,806
2025	95,000	68,782	163,782
2026	95,000	66,406	161,406
2027	100,000	63,794	163,794
2028	105,000	61,044	166,044
2029	110,000	57,894	167,894
2030	110,000	54,594	164,594
2031	115,000	51,294	166,294
2032	120,000	47,844	167,844
2033	125,000	43,794	168,794
2034	130,000	39,575	169,575
2035	135,000	35,188	170,188
2036	135,000	30,632	165,632
2037	140,000	26,075	166,075
2038	145,000	21,350	166,350
2039	150,000	16,275	166,275
2040	155,000	11,025	166,025
2041	160,000	5,600	165,600
	<u>\$ 2,700,000</u>	<u>\$ 1,230,320</u>	<u>\$ 3,930,320</u>

See accompanying independent auditor's report.

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

REFUNDING SERIES - 2016

Due During Fiscal Years Ending December 31	Principal Due March 1	Interest Due March 1/ September 1	Total
2018	\$ 20,000	\$ 168,050	\$ 188,050
2019	20,000	167,650	187,650
2020	20,000	167,250	187,250
2021	20,000	166,850	186,850
2022	245,000	164,200	409,200
2023	245,000	159,300	404,300
2024	250,000	154,350	404,350
2025	260,000	146,650	406,650
2026	190,000	137,650	327,650
2027	195,000	129,950	324,950
2028	190,000	122,250	312,250
2029	190,000	114,650	304,650
2030	195,000	106,950	301,950
2031	645,000	90,150	735,150
2032	675,000	63,750	738,750
2033	705,000	36,150	741,150
2034	735,000	11,025	746,025
2035			
2036			
2037			
2038			
2039			
2040			
2041			
	<u>\$ 4,800,000</u>	<u>\$ 2,106,825</u>	<u>\$ 6,906,825</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 6

Due During Fiscal Years Ending December 31	Principal Due March 1	Interest Due March 1/ September 1	Total
2018	\$ 290,000	\$ 331,995	\$ 621,995
2019	295,000	326,145	621,145
2020	305,000	320,145	625,145
2021	315,000	313,157	628,157
2022	330,000	305,095	635,095
2023	340,000	296,720	636,720
2024	350,000	287,220	637,220
2025	360,000	276,570	636,570
2026	375,000	265,545	640,545
2027	385,000	254,145	639,145
2028	400,000	242,370	642,370
2029	410,000	230,220	640,220
2030	425,000	217,483	642,483
2031	440,000	203,745	643,745
2032	455,000	189,087	644,087
2033	470,000	173,590	643,590
2034	485,000	157,113	642,113
2035	500,000	139,875	639,875
2036	515,000	121,726	636,726
2037	535,000	102,564	637,564
2038	550,000	81,800	631,800
2039	570,000	59,400	629,400
2040	590,000	36,200	626,200
2041	610,000	12,200	622,200
	<u>\$ 10,300,000</u>	<u>\$ 4,944,110</u>	<u>\$ 15,244,110</u>

See accompanying independent auditor's report.

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

ANNUAL REQUIREMENTS
FOR ALL SERIES

Due During Fiscal Years Ending December 31	Total Principal Due	Total Interest Due	Total Principal and Interest Due
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	1,570,000	1,001,622	2,571,622
2024	1,620,000	958,648	2,578,648
2025	1,685,000	910,195	2,595,195
2026	1,560,000	860,089	2,420,089
2027	1,615,000	811,215	2,426,215
2028	1,545,000	763,021	2,308,021
2029	1,585,000	715,987	2,300,987
2030	1,645,000	666,657	2,311,657
2031	1,730,000	611,676	2,341,676
2032	1,795,000	550,670	2,345,670
2033	1,870,000	486,271	2,356,271
2034	1,940,000	421,924	2,361,924
2035	2,030,000	356,048	2,386,048
2036	2,105,000	283,948	2,388,948
2037	1,255,000	224,805	1,479,805
2038	1,300,000	178,690	1,478,690
2039	1,345,000	129,375	1,474,375
2040	1,395,000	78,271	1,473,271
2041	1,150,000	30,910	1,180,910
	<u>\$ 37,915,000</u>	<u>\$ 15,644,864</u>	<u>\$ 53,559,864</u>

See accompanying independent auditor's report.

THIS PAGE INTENTIONALLY LEFT BLANK

NORTHAMPTON MUNICIPAL UTILITY DISTRICT
CHANGES IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED DECEMBER 31, 2017

Description	Original Bonds Issued	Bonds Outstanding January 1, 2017
Northampton Municipal Utility District Waterworks and Sewer System Unlimited Tax Bonds - Series 2006	\$ 4,000,000	\$ 155,000
Northampton Municipal Utility District Unlimited Tax Park Bonds - Series 2006	1,775,000	70,000
Northampton Municipal Utility District Unlimited Tax Bonds - Series 2010	4,000,000	200,000
Northampton Municipal Utility District Unlimited Tax Refunding Bonds - Series 2010	6,965,000	3,365,000
Northampton Municipal Utility District Unlimited Tax Bonds - Series 2012	2,175,000	2,175,000
Northampton Municipal Utility District Unlimited Tax Bonds - Refunding Bonds - Series 2014	4,320,000	4,235,000
Northampton Municipal Utility District Unlimited Tax Bonds - Series 2015	4,460,000	4,460,000
Northampton Municipal Utility District Defined Area Unlimited Tax Bonds - Series 2016	6,490,000	6,490,000
Northampton Municipal Utility District Defined Area Unlimited Tax Road Bonds - Series 2016	2,700,000	2,700,000
Northampton Municipal Utility District Unlimited Tax Refunding Bonds - Series 2016	4,800,000	4,800,000
Northampton Municipal Utility District Unlimited Tax Bonds - Series 2016	<u>10,300,000</u>	<u>10,300,000</u>
TOTAL	<u>\$ 51,985,000</u>	<u>\$ 38,950,000</u>

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

See accompanying independent auditor's report.

Current Year Transactions					
Bonds Sold	Retirements		Bonds Outstanding December 31, 2017	Paying Agent	
	Principal	Interest			
\$	\$ 155,000	\$ 3,100	\$ -0-	Wells Fargo Bank N.A. Houston, TX	
	70,000	1,365	-0-	Wells Fargo Bank N.A. Houston, TX	
	25,000	7,938	175,000	Wells Fargo Bank N.A. Houston, TX	
	470,000	124,025	2,895,000	Wells Fargo Bank N.A. Houston, TX	
		73,562	2,175,000	Regions Bank Houston, TX	
	25,000	115,194	4,210,000	Regions Bank Birmingham, AL	
	115,000	135,744	4,345,000	Regions Bank Houston, TX	
	175,000	184,403	6,315,000	Regions Bank Houston, TX	
		73,273	2,700,000	Regions Bank Houston, TX	
		145,351	4,800,000	Regions Bank Houston, TX	
		240,008	10,300,000	Regions Bank Houston, TX	
<u>\$ - 0 -</u>	<u>\$ 1,035,000</u>	<u>\$ 1,103,963</u>	<u>\$ 37,915,000</u>		

See accompanying independent auditor's report.

NORTHAMPTON MUNICIPAL UTILITY DISTRICT
CHANGES IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED DECEMBER 31, 2017

District Wide:	Tax and Revenue Bonds	Tax Bonds and Refunding Bonds	Park Bonds
Bond Authority:	<u> </u>	<u> </u>	<u> </u>
Authorized by Voters	\$ 10,600,000	\$ 54,700,000	\$ 1,775,000
Amount Issued	<u>10,600,000</u>	<u>30,660,000</u>	<u>1,775,000</u>
Remaining to be Issued	<u>\$ - 0 -</u>	<u>\$ 24,040,000</u>	<u>\$ - 0 -</u>
Defined Area:		Tax Bonds and Refunding Bonds	Road Bonds
Bond Authority:		<u> </u>	<u> </u>
Authorized by Voters		\$ 41,000,000	\$ 17,000,000
Amount Issued		<u>6,490,000</u>	<u>2,700,000</u>
Remaining to be Issued		<u>\$ 34,510,000</u>	<u>\$ 14,300,000</u>
Debt Service Fund cash and investment balances as of December 31, 2017:			<u>\$ 3,057,011</u>
Average annual debt service payment (principal and interest) for remaining term of all debt:			<u>\$ 2,231,661</u>

See accompanying independent auditor's report.

THIS PAGE INTENTIONALLY LEFT BLANK

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

	Amounts		
	2017	2016	2015
REVENUES			
Property Taxes	\$ 1,472,206	\$ 1,614,958	\$ 1,042,385
Water Service	1,086,063	1,136,965	1,001,460
Wastewater Service	1,267,422	1,219,691	1,126,294
Penalty and Interest	35,902	36,917	37,948
Tap Connection and Inspection Fees	145,278	229,147	90,906
Facility Use Fees	116,464	117,357	109,162
Regional Water Authority Fees	1,068,119	1,002,237	737,987
Investment Revenues	23,637	6,510	3,173
Miscellaneous Revenues	39,407	85,754	95,683
TOTAL REVENUES	\$ 5,254,498	\$ 5,449,536	\$ 4,244,998
EXPENDITURES			
Professional Fees	\$ 325,363	\$ 322,896	\$ 301,728
Contracted Services	542,887	571,679	528,368
Purchased Wastewater Service	432,760	401,395	300,073
Utilities	104,398	128,835	106,945
Repairs and Maintenance	369,999	380,222	213,767
Regional Water Authority Assessments	1,054,157	946,357	652,924
Parks and Recreation	1,366,938	1,288,636	1,104,432
Other	283,229	318,730	250,970
Capital Outlay:			
Parks and Recreation	276,277	44,545	61,614
Other Facilities			21,975
Debt Service:			
Bond Issuance Costs			32,948
TOTAL EXPENDITURES	\$ 4,756,008	\$ 4,403,295	\$ 3,575,744
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 498,490	\$ 1,046,241	\$ 669,254
OTHER FINANCING SOURCES (USES)			
Transfers In (Out)	\$ 226,208	\$ (422,238)	\$ 26,027
NET CHANGE IN FUND BALANCE	\$ 724,698	\$ 624,003	\$ 695,281
BEGINNING FUND BALANCE	2,528,552	1,904,549	1,209,268
ENDING FUND BALANCE	\$ 3,253,250	\$ 2,528,552	\$ 1,904,549

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2014	2013	2017	2016	2015	2014	2013
\$ 975,998	\$ 821,340	28.0 %	29.4 %	24.4 %	22.5 %	24.9 %
846,002	728,175	20.7	20.9	23.6	19.5	22.0
949,019	875,255	24.1	22.4	26.5	21.9	26.5
25,950	31,472	0.7	0.7	0.9	0.6	1.0
653,447	1,420	2.8	4.2	2.1	15.1	
94,057	101,633	2.2	2.2	2.6	2.2	3.1
690,512	666,239	20.3	18.4	17.4	15.9	20.2
1,996	1,137	0.4	0.1	0.1		
98,989	77,571	0.8	1.7	2.4	2.3	2.3
<u>\$ 4,335,970</u>	<u>\$ 3,304,242</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 263,237	\$ 289,276	6.2 %	5.9 %	7.1 %	6.1 %	8.8 %
512,900	497,542	10.3	10.5	12.4	11.8	15.1
306,971	328,594	8.2	7.4	7.1	7.1	9.9
99,271	109,439	2.0	2.4	2.5	2.3	3.3
234,968	237,242	7.0	7.0	5.0	5.4	7.2
616,980	641,190	20.1	17.4	15.4	14.2	19.4
1,030,122	1,024,236	26.0	23.6	26.0	23.8	31.0
427,836	189,231	5.4	5.8	5.9	9.9	5.7
32,589		5.3	0.8	1.5	0.8	
	87,997			0.5		2.7
26,027				0.8	0.6	
<u>\$ 3,550,901</u>	<u>\$ 3,404,747</u>	<u>90.5 %</u>	<u>80.8 %</u>	<u>84.2 %</u>	<u>82.0 %</u>	<u>103.1 %</u>
<u>\$ 785,069</u>	<u>\$ (100,505)</u>	<u>9.5 %</u>	<u>19.2 %</u>	<u>15.8 %</u>	<u>18.0 %</u>	<u>(3.1) %</u>
<u>\$ 64,007</u>	<u>\$ 157,614</u>					
\$ 849,076	\$ 57,109					
360,192	303,083					
<u>\$ 1,209,268</u>	<u>\$ 360,192</u>					

See accompanying independent auditor's report.

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

	Amounts		
	2017	2016	2015
REVENUES			
Property Taxes	\$ 2,397,312	\$ 1,813,256	\$ 1,401,822
Penalty and Interest	40,020	24,483	27,695
Investment Revenues	16,821	5,615	2,904
Miscellaneous Revenues	50	50	75
TOTAL REVENUES	\$ 2,454,203	\$ 1,843,404	\$ 1,432,496
EXPENDITURES			
Tax Collection Expenditures	\$ 87,759	\$ 79,874	\$ 66,533
Debt Service Principal	1,035,000	720,000	925,000
Debt Service Interest and Fees	1,109,800	710,205	618,205
Bond Issuance Costs		200,612	
Payment to Refunded Bond Escrow Agent		43,000	
TOTAL EXPENDITURES	\$ 2,232,559	\$ 1,753,691	\$ 1,609,738
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 221,644	\$ 89,713	\$ (177,242)
OTHER FINANCING SOURCES (USES)			
Transfer In (Out)	\$	\$ 501,207	\$
Long-Term Debt Issued		454,076	210,284
Refunding Bonds		4,800,000	
Payment to Refunded Bond Escrow Agent		(4,900,123)	
Bond Premium		309,948	
TOTAL OTHER FINANCING SOURCES (USES)	\$ - 0 -	\$ 1,165,108	\$ 210,284
NET CHANGE IN FUND BALANCE	\$ 221,644	\$ 1,254,821	\$ 33,042
BEGINNING FUND BALANCE	2,187,950	933,129	900,087
ENDING FUND BALANCE	\$ 2,409,594	\$ 2,187,950	\$ 933,129
TOTAL ACTIVE RETAIL WATER CONNECTIONS	2,084	1,996	1,882
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	2,024	1,940	1,825

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2014	2013	2017	2016	2015	2014	2013
\$ 1,318,900	\$ 1,182,729	97.7 %	98.4 %	97.9 %	98.6 %	97.7 %
14,583	22,686	1.6	1.3	1.9	1.1	1.9
4,484	4,092	0.7	0.3	0.2	0.3	0.3
25	1,605					0.1
<u>\$ 1,337,992</u>	<u>\$ 1,211,112</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 51,544	\$ 48,659	3.6 %	4.3 %	4.6 %	3.9 %	4.0 %
830,000	815,000	42.2	39.1	64.6	62.0	67.3
679,172	687,835	45.2	38.5	43.2	50.8	56.8
106,157			10.9		7.9	
			2.3			
<u>\$ 1,666,873</u>	<u>\$ 1,551,494</u>	<u>91.0 %</u>	<u>95.1 %</u>	<u>112.4 %</u>	<u>124.6 %</u>	<u>128.1 %</u>
<u>\$ (328,881)</u>	<u>\$ (340,382)</u>	<u>9.0 %</u>	<u>4.9 %</u>	<u>(12.4) %</u>	<u>(24.6) %</u>	<u>(28.1) %</u>
\$	\$					
4,320,000						
(4,213,138)						
<u>\$ 106,862</u>	<u>\$ - 0 -</u>					
\$ (222,019)	\$ (340,382)					
1,122,106	1,462,488					
<u>\$ 900,087</u>	<u>\$ 1,122,106</u>					
1,818	1,708					
<u>1,766</u>	<u>1,653</u>					

See accompanying independent auditor's report.

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
DECEMBER 31, 2017**

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

District Telephone Number - (713) 739-1060

Board Members	Term of Office (Elected or <u>Appointed</u>)	Fees of Office for the year ended <u>December 31, 2017</u>	Expense Reimbursements for the year ended <u>December 31, 2017</u>	<u>Title</u>
E. C. Thomas	05/14 05/18 (Elected)	\$ 3,600	\$ -0-	President
W. Paul Schneider	05/14 05/18 (Elected)	\$ 4,950	\$ 1,365	1st Vice President
Ryan Bennett	07/17 05/20 (Appointed)	\$ 1,800	\$ -0-	2nd Vice President
Scott Kirkpatrick	05/16 05/20 (Elected)	\$ 5,550	\$ 1,953	Secretary
Roger A. Flood, III	05/16 05/20 (Elected)	\$ 4,350	\$ -0-	Treasurer/ Investment Officer

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

Submission date of most recent District Registration Form (TWC Sections 36.054 and 49.054 July 28, 2017.

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

See accompanying independent auditor's report.

**NORTHAMPTON MUNICIPAL UTILITY DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
DECEMBER 31, 2017**

Key Personnel:	<u>Date Hired</u>	<u>Fees for the year ended December 31, 2017</u>	<u>Title</u>
Jim Sheffield	09/29/03	\$ 138,366	General Manager
Consultants:			
Bacon & Wallace, L.L.P.	01/01/01	\$ 133,950	General Counsel
		\$ -0-	Bond Counsel
McCall Gibson Swedlund Barfoot PLLC	12/16/91	\$ 27,925	Auditor
L&S District Services, LLC	01/15/90	\$ 35,050	Bookkeeper
Perdue Brandon Fielder Collins & Mott, L.L.P.	10/21/96	\$ 9,787	Delinquent Tax Attorney
Jones & Carter, Inc.	12/04/79	\$ 315,040	Engineer
Robert W. Baird & Co. Incorporated	01/19/15	\$ -0-	Financial Advisor
Cindy Schmidt	08/18/14	\$ -0-	Investment Officer
Hays Utility South Corporation	10/14/70	\$ 948,299	Operator
Tax Tech, Inc.	06/17/91	\$ 41,825	Tax Assessor/ Collector

See accompanying independent auditor's report.

APPENDIX B

Specimen Municipal Bond Insurance Policy



MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS: \$ in aggregate principal amount of

Policy No: -N

Effective Date:

Premium: \$

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

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

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

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

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc.
1633 Broadway, New York, N.Y. 10019
(212) 974-0100