

OFFICIAL STATEMENT DATED OCTOBER 5, 2010

THE DELIVERY OF THE BONDS IS SUBJECT TO THE OPINIONS OF BOND COUNSEL AS TO THE VALIDITY OF THE BONDS AND OF SPECIAL TAX COUNSEL, TO THE EFFECT THAT INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAXATION, UNDER EXISTING STATUTES, REGULATIONS, PUBLISHED RULINGS AND COURT DECISIONS, AS DESCRIBED UNDER "TAX MATTERS" HEREIN. SEE "LEGAL MATTERS" AND "TAX MATTERS" HEREIN FOR A DISCUSSION OF THE OPINIONS OF BOND COUNSEL AND SPECIAL TAX COUNSEL, INCLUDING A DESCRIPTION OF ALTERNATIVE MINIMUM TAX CONSEQUENCES FOR CORPORATIONS.

The District has designated the Bonds as "Qualified Tax-Exempt Obligations" for financial institutions. See "TAX MATTERS — Qualified Tax-Exempt Obligations" herein.

NEW ISSUE — Book-Entry-Only

Ratings: Standard & Poor's Ratings Services
(AGM Insured). "AAA" (negative outlook)
 See "BOND INSURANCE" and "RATINGS" herein

\$2,450,000

PALMER PLANTATION MUNICIPAL UTILITY DISTRICT NO. 1

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

WATERWORKS AND SEWER SYSTEM COMBINATION

UNLIMITED TAX AND REVENUE REFUNDING BONDS, SERIES 2010

Dated: November 1, 2010

Due: September 1, as shown below

Principal on the above-described bonds (the "Bonds") is payable by the paying agent/registrar, initially, The Bank of New York Mellon Trust Company, N.A. (the "Paying Agent," "Registrar" or the "Paying Agent/Registrar") in Dallas, Texas. Interest on the Bonds is payable on March 1, 2011 (four-month interest payment) and on each September 1 and March 1 thereafter until maturity. The Bonds will be issued as fully registered Bonds in the denomination of \$5,000 or integral multiples thereof. The Bonds are not subject to redemption prior to their scheduled maturities.

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

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.) ("AGM" or the "Insurer").



MATURITIES, AMOUNTS, INTEREST RATES AND PRICES

<u>Principal Amount</u>	<u>Maturity (September 1)</u>	<u>Interest Rate</u>	<u>Initial Reoffering Yield*</u>	<u>Principal Amount</u>	<u>Maturity (September 1)</u>	<u>Interest Rate</u>	<u>Initial Reoffering Yield*</u>
\$ 25,000	2011	2.00%	0.80%	\$480,000	2014	4.00%	1.75%
440,000	2012	3.00	1.20	510,000	2015	4.00	2.15
460,000	2013	3.00	1.35	535,000	2016	4.00	2.45

* Information with respect to the initial reoffering yields of the Bonds has been provided by the Underwriters (hereinafter defined). Initial reoffering yields represent the initial offering price to the public of a substantial amount of the Bonds for each maturity, which may be changed for subsequent purchasers.

The proceeds of the Bonds will be applied to refund certain outstanding bonds of Palmer Plantation Municipal Utility District No. 1 (the "District") and to pay certain costs incurred in connection with the issuance of the Bonds. See "PLAN OF FINANCING — Use of Bond Proceeds." The Bonds, when issued, will constitute valid and binding obligations of the District and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District, and are further payable from and secured by a pledge of and lien on certain Net Revenues (as defined herein), if any, of the District's waterworks and sewer system (the "System"), to the extent and upon the conditions described herein. The System is not expected to produce sufficient Net Revenues to make significant contributions, if any, to future debt service payments. See "THE BONDS — Source of Payment." Neither the State of Texas, Harris County, Texas, the City of Missouri City, Texas, nor any political subdivision other than the District shall be obligated to pay the principal of and interest on the Bonds. Neither the faith and credit nor the taxing power of the State of Texas, Harris County, Texas, nor the City of Missouri City, Texas, is pledged to the payment of the principal of and interest on the Bonds.

The Bonds will be delivered when, as and if issued, subject to the approval of the Attorney General of Texas; Paul A. Philbin & Assoc., P.C., Houston, Texas, Bond Counsel; and McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Special Tax Counsel. Certain legal matters will be passed upon for the Underwriters by McCall, Parkhurst & Horton L.L.P., Dallas, Texas. Delivery of the Bonds is expected on or about November 16, 2010.

TABLE OF CONTENTS

USE OF INFORMATION IN OFFICIAL STATEMENT	3
SALE AND DISTRIBUTION OF THE BONDS	4
Underwriting	4
Prices and Marketability	4
Securities Laws	4
BOND INSURANCE	5
Bond Insurance Policy	5
Assured Guaranty Municipal Corp. (Formerly Known as Financial Security Assurance Inc.)	5
BOND INSURANCE RISK FACTORS	7
RATINGS	7
OFFICIAL STATEMENT SUMMARY	9
INTRODUCTION	15
THE BONDS	15
General	15
Book-Entry-Only System	15
Use of Certain Terms in Other Sections of this Official Statement	17
Record Date	17
Assignments, Transfers and Exchanges	17
Successor Registrar	18
Source of Payment	18
Redemption of the Bonds	18
Defeasance	18
Amendments to Bond Order	19
Dissolution	19
Authorization of the Bonds	19
Legal Ability to Issue Additional Debt	19
Remedies in Event of Default	20
Bankruptcy Limitation to Registered Owners' Rights	21
Legal Investment and Eligibility to Secure Public Funds in Texas	21
PLAN OF FINANCING	22
Use of Bond Proceeds	22
Refunded Bonds	22
The Non-Refunded Bonds	22
Sources and Uses of Funds	23
AERIAL PHOTOGRAPH OF THE DISTRICT	24
PHOTOGRAPHS WITHIN THE DISTRICT	25
PHOTOGRAPHS WITHIN THE DISTRICT	26
DISTRICT DEBT	27
General	27
Bonded Indebtedness	27
Estimated Direct and Overlapping Debt Statement	28
Debt Service Requirements	29
TAX PROCEDURES	29
Exempt Property	29
County-Wide Appraisal District	30
Assessment and Levy	30
District and Taxpayer Remedies	31
Rollback of Operation and Maintenance Tax Rate	31
Collection	31
District's Rights in the Event of Tax Delinquencies	32
TAX DATA	32
Authority to Levy Taxes	32
Maintenance Tax	32
Exemptions	33

Historical Values and Tax Collection History	33
Analysis of Tax Base	34
Principal 2010 Property Owners	34
Tax Rate Calculations	35
Estimated Overlapping Taxes	36
THE DISTRICT	36
Authority	36
Description	36
Management of the District	37
DEVELOPMENT	38
THE SYSTEM	38
Regulation	38
Description	39
Waterworks and Sewer System Operating Statement	41
INVESTMENT CONSIDERATIONS	42
General	42
Factors Affecting Taxable Values and Tax Payments	42
Tax Collection Limitations	44
Production of Net Revenues	44
Registered Owners' Remedies and Bankruptcy	44
Marketability	44
Future Debt	44
Competitive Nature of Houston Residential Housing Market	45
Continuing Compliance with Certain Covenants	45
Environmental Regulation	45
LEGAL MATTERS	47
Legal Opinions	47
No Arbitrage	48
No-Litigation Certificate	48
No Material Adverse Change	48
TAX MATTERS	48
Opinion	48
Collateral Federal Income Tax Consequences	49
State, Local and Foreign Taxes	50
Qualified Tax-Exempt Obligations for Financial Institutions	50
VERIFICATION OF ACCURACY OF MATHEMATICAL COMPUTATION	50
SOURCES OF INFORMATION	50
General	50
Experts	51
Updating of Official Statement	51
Certification of Official Statement	51
Official Statement "Deemed Final"	51
CONTINUING DISCLOSURE OF INFORMATION	52
Annual Reports	52
Material Event Notices	52
Availability of Information	52
Limitations and Amendments	52
Compliance With Prior Undertakings	53

APPENDIX A - LOCATION MAP

APPENDIX B - ACCOUNTANTS' REPORT AND FINANCIAL STATEMENTS

APPENDIX C - SPECIMEN OF MUNICIPAL BOND INSURANCE POLICY

USE OF INFORMATION IN OFFICIAL STATEMENT

No dealer, broker, salesman or other person has been authorized by the District or the Underwriters 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 Underwriters.

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 an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

All of the summaries of the statutes, resolutions, orders, contracts, audits, 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 upon payment of the costs for duplication thereof.

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

The Underwriters (defined below) have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

Neither the District nor the Underwriter make any representations as to the accuracy, completeness, or adequacy of the information supplied by The Depository Trust Company for use in this Official Statement.

This Official Statement contains "forward-looking" statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, which generally can be identified with words or phrases such as "anticipates," "believes," "could," "estimates," "expects," "foresees," "may," "predict," "should," "will" or other words or phrases of similar import. All statements included in this Official Statement that any person expects or anticipates will, should or may occur in the future are forward-looking statements. These statements are based on assumptions and analyses made in light of experience and perceptions of historical trends, current conditions and expected future developments as well as other factors the District believes are appropriate in the circumstances. However, whether actual results and developments conform with expectations and predictions is subject to a number of risks and uncertainties, including, without limitation, the information discussed under "INVESTMENT CONSIDERATIONS" in this Official Statement, as well as additional factors beyond the District's control. The important risk factors and assumptions described under that caption and elsewhere herein could cause actual results to differ materially from those expressed in any forward-looking statement. All of the forward-looking statements made in this Official Statement are qualified by these cautionary statements.

Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.) ("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 “BOND INSURANCE” and “APPENDIX C - SPECIMEN OF MUNICIPAL BOND INSURANCE POLICY.”

SALE AND DISTRIBUTION OF THE BONDS

Underwriting

RBC Capital Markets Corporation and First Southwest Company (together referred to herein as the “Underwriter” or the “Underwriters”), have agreed to purchase the Bonds from the District for \$2,580,987.00 plus accrued interest on the Bonds from October 1, 2010, to the date of delivery. The obligation of the Underwriters to purchase the Bonds is subject to certain conditions contained in the Bond Purchase Agreement. The Underwriters may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into unit investment trusts) and others at prices lower than public offering price stated on the cover page hereof. The initial offering price may be changed from time to time by the Underwriters.

Prices and Marketability

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

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

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 the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein, nor have the Bonds been registered or qualified under the securities laws of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any other jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdictions.

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.) (“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 C” 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. (Formerly Known as Financial Security Assurance Inc.)

AGM is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Assured Guaranty Municipal Holdings Inc. (“Holdings”). Holdings is 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. No shareholder of AGL, Holdings or AGM is liable for the obligations of AGM.

Effective November 9, 2009, Financial Security Assurance Inc. changed its name to Assured Guaranty Municipal Corp.

AGM's financial strength is rated “AAA” (negative outlook) by Standard and Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business (“S&P”) and “Aa3” (negative outlook) by Moody's Investors Service, Inc. (“Moody's”). On February 24, 2010, Fitch, Inc. (“Fitch”), at the request of AGL, withdrew its “AA” (Negative Outlook) insurer financial strength rating of AGM at the then current rating level. 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. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of any security guaranteed by AGM. AGM does not guarantee the market price 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 May 17, 2010, S&P published a Research Update in which it affirmed its “AAA” counterparty credit and financial strength ratings on AGM. At the same time, S&P continued its negative outlook on AGM. Reference is made to the Research Update, a copy of which is available at www.standardandpoors.com, for the complete text of S&P’s comments.

In a press release dated February 24, 2010, Fitch announced that, at the request of AGL, it had withdrawn the “AA” (Negative Outlook) insurer financial strength rating of AGM at the then current rating level. Reference is made to the press release, a copy of which is available at www.fitchratings.com for the complete text of Fitch’s comments.

On December 18, 2009, Moody's issued a press release stating that it had affirmed the “Aa3” insurance financial strength rating of AGM, with a negative outlook. Reference is made to the press release, a copy of which is available at www.moody.com, for the complete text of Moody’s comments.

There can be no assurance as to any further ratings action that Moody’s or S&P may take with respect to AGM.

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, 2009, which was filed by AGL with the Securities and Exchange Commission (the "SEC") on March 1, 2010, AGL's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010, which was filed by AGL with the SEC on May 10, 2010, and AGL's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2010, which was filed by AGL with the SEC on August 9, 2010.

Capitalization of AGM

At June 30, 2010, AGM's consolidated policyholders' surplus and contingency reserves were approximately \$2,264,680,337 and its total net unearned premium reserve was approximately \$2,259,557,420, in each case, in accordance with statutory accounting principles.

Incorporation of Certain Documents by Reference

Portions of the following documents filed by AGL with the SEC that related 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, 2009 (which was filed by AGL with the SEC on March 1, 2010);
- (ii) The Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010 (which was filed by AGL with the SEC on May 10, 2010); and
- (iii) The Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2010 (which was filed by AGL with the SEC on August 9, 2010).

All information relating to AGM included in, or as exhibits to, documents filed by AGL pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, 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. (formerly known as Financial Security Assurance Inc.): 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

Any information regarding AGM included herein under the caption "BOND INSURANCE - Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.)" 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.

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 "BOND INSURANCE."

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 Policy for such payments. However, in the event of any acceleration of the due date of such principal by reason of mandatory redemption 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 prepayment of the Bonds by the District which is recovered by the District from the bond owner as a voidable preference under applicable bankruptcy law is covered by the insurance policy, however, such payments will be made by the Insurer at such time and in such amounts as would have been due absent such prepayment by the District unless the 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 Insurer without appropriate consent. The Insurer may direct and must consent to any remedies and the Insurer's consent may be required in connection with amendments to any applicable bond documents.

In the event the 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 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 Insurer and its claim paying ability. The 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 Insurer and of the ratings on the Bonds insured by the 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 "BOND INSURANCE" and "RATINGS" herein.

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

Neither the District or Underwriters have made independent investigation into the claims paying ability of the Insurer and no assurance or representation regarding the financial strength or projected financial strength of the 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 Insurer, particularly over the life of the investment. See "BOND INSURANCE" herein for further information provided by the Insurer and the Policy, which includes further instructions for obtaining current financial information concerning the Insurer.

RATINGS

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

The Bonds are expected to receive an insured rating of "AAA" (negative outlook) from Standard & Poor's based upon the issuance of the municipal bond insurance policy by the Insurer at the time of delivery of the Bonds. The underlying credit rating of the District assigned by Standard & Poor's is "A-."

An explanation of the significance of the foregoing rating may only be obtained from Standard & Poor's. The foregoing rating expresses only the view of Standard & Poor's at the time the ratings are given. Furthermore, a security rating is not a recommendation to buy, sell or hold securities. There is no assurance that the rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by Standard & Poor's, if, in its judgment, circumstances so warrant. Any such downward change in or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

The District is not aware of any ratings assigned the Bonds other than the ratings of Standard & Poor's.

OFFICIAL STATEMENT SUMMARY

The following summary of certain information contained herein is qualified in its entirety by the detailed information appearing elsewhere in this Official Statement. The reader should refer particularly to sections that are indicated for more detailed information.

THE BONDS

The Issuer	Palmer Plantation Municipal Utility District No. 1, Fort Bend County, Texas (the "District"), a political subdivision of the State of Texas. See "THE DISTRICT."
Description	Palmer Plantation Municipal Utility District No. 1 Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, Series 2010 (the "Bonds") are dated November 1, 2010, and mature on September 1 of the years and in the principal amounts indicated on the cover page hereof. Interest on the Bonds is payable on March 1, 2011 (four-month interest payment), and on each March 1 and September 1 thereafter until maturity. Bonds are not subject to redemption prior to maturity. The Bonds will be issued pursuant to a bond order (the "Bond Order") adopted by the Board of Directors of the District. See "THE BONDS - General." The Bonds are being issued under the authority of Chapters 49 and 54 of the Texas Water Code, as amended, and Chapter 1207, Texas Government Code.
Book-Entry-Only System	The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC, pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar 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").
Source of Payment	Principal of and interest on the Bonds are payable from the proceeds of an annual ad valorem tax, levied upon all taxable property located within the District, which under Texas law is not limited as to rate or amount, and are further payable from and secured by a pledge of and lien on certain Net Revenues (as defined herein), if any, of the District's waterworks and sewer system (the "System"), to the extent and upon the conditions described herein. The System is not expected to produce sufficient Net Revenues to make significant contributions, if any, to future debt service payments. The Bonds are obligations of the District and are not obligations of the City of Missouri City, Texas, Fort Bend County, the State of Texas or any political subdivision other than the District. See "THE BONDS - Source of Payment," "TAX DATA - Tax Rate Calculations," and "INVESTMENT CONSIDERATIONS - Factors Affecting Taxable Values and Tax Payments - Maximum Impact on District Tax Rates."
Other Characteristics	The Bonds will be issued in fully registered form in the denomination of \$5,000 each, or integral multiples thereof.

Use of Proceeds	Proceeds of the sale of the Bonds will be applied to refund certain maturities of the District's Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1998 (the "Series 1998 Bonds") in the aggregate principal amount of \$2,425,000 (the "Refunded Bonds"). The Bonds are being issued to reduce the District's debt service payments, and will accomplish present value savings in the District's debt service. See "PLAN OF FINANCING." The proceeds of the Bonds also will be used to pay the costs of issuance of the Bonds.
Payment Record	In addition to the Series 1998 Bonds, the District has issued Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1985 (the "Series 1985 Bonds"), Unlimited Tax Refunding Bonds, Series 1990 (the "Series 1990 Refunding Bonds"), Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1991 (the "Series 1991 Bonds"), Unlimited Tax Refunding Bonds, Series 1996 (the "Series 1996 Refunding Bonds"); Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2000 (the "Series 2000 Bonds") and Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, Series 2005 (the "Series 2005 Refunding Bonds"). Collective reference is made in this Official Statement to the Series 1985 Bonds, the Series 1990 Refunding Bonds, the Series 1991 Bonds, the Series 1996 Refunding Bonds, the Series 1998 Bonds, the Series 2000 Bonds and the Series 2005 Refunding Bonds as the "Outstanding Bonds." The District has never defaulted in the timely payment of principal of and interest on the Outstanding Bonds. After issuance of the Bonds, the aggregate principal amount of the Outstanding Bonds, less the Refunded Bonds, will be \$3,015,000 (the "Remaining Outstanding Bonds"), and the aggregate principal amount of the District's total direct bonded indebtedness, including the Bonds, will be \$5,465,000. See "DISTRICT DEBT - Debt Service Requirements."
Authorized but Unissued Bonds . .	\$5,125,000 for waterworks, sanitary sewer, and drainage facilities, and for refunding purposes (after issuance of the Bonds). See "THE BONDS - Legal Ability to Issue Additional Debt."
Municipal Bond Insurance	AGM. See "BOND INSURANCE"
Municipal Bond Ratings	Standard & Poor's Ratings Services (AGM)....."AAA" (negative outlook). See "RATINGS."
Qualified Tax-Exempt Obligations	The District has designated the Bonds as "qualified tax-exempt obligations" pursuant to Section 265 (b) of the Internal Revenue Code of 1986. See "TAX MATTERS - Qualified Tax-exempt Obligations."
Legal and Tax Opinions	Paul A. Philbin & Assoc., P.C., Houston, Texas, Bond Counsel; and McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Special Tax Counsel. See "LEGAL MATTERS" and "TAX MATTERS."
Verification Agent	Grant Thornton LLP, Certified Public Accountants. See "VERIFICATION OF ACCURACY OF MATHEMATICAL COMPUTATION."

THE DISTRICT

Description	Palmer Plantation Municipal Utility District No. 1, a political subdivision of the State of Texas, was created by order of the Texas Water Commission (the "TWC"), predecessor to the Texas Commission on Environmental Quality (the "TCEQ" or the "Commission") on December 21, 1982. The District contains approximately 416.4 acres of land. The District is located approximately 25 miles southwest of the central business district of Houston, Texas in the northeastern portion of Fort Bend County, Texas. The District is located entirely within the corporate boundaries of the City of Missouri City, Texas. The District is bounded on the south and west by Oyster Creek, on the north by Quail Valley Utility District and on the east by Palmer Plantation Municipal Utility District No. 2. State Highway 6 is located approximately 500 feet from the western boundary of the District, and the intersection of State Highway 6 and FM 1092 is located approximately one mile northwest of the western boundary of the District. The District is located entirely within Fort Bend County and the Fort Bend Independent School District. See "THE DISTRICT - Description," "AERIAL PHOTOGRAPH OF THE DISTRICT," and "APPENDIX A - LOCATION MAP."
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, particularly Chapters 49 and 54 of the Texas Water Code.
Development	The development of the entirety of the land within the District that is available for development is complete. Such land has been developed primarily for single-family residential usage. As of September 15, 2010, the District contained a total of 733 fully developed single-family residential lots which contained 598 single-family residences, including two residences under construction. The owner of approximately 59 vacant fully developed single-family residential lots that are available for home construction, as is reflected on the District's 2010 tax roll, is Marhaba Partners Limited Partnership. The owner of approximately 10 vacant fully developed single-family residential lots that are available for home construction is Leeland Real Properties, LLC. Certain fully developed lots located within the District on which home construction has not commenced or been completed are owned by individual purchasers. See "TAX DATA - Principal 2010 Property Owners." There is currently no home construction activity within the District. The development of the aforementioned aggregate of 733 single-family residential lots is complete in the following subdivisions: Palmer Plantation at Lake Olympia, Sections 1 and 2 (240 total lots), The Peninsulas at Lake Olympia, Sections 1 through 4 (145 total lots), Harbor View Village at Lake Olympia, Sections 1 and 2 (42 total lots), Lakeside Estates at Lake Olympia, Sections 1 and 2 (2 lots), Parkview Village at Lake Olympia, Section 1 (64 lots), Lakeside Village at Lake Olympia (27 lots), Flamingo Estates at Lake Olympia (6 lots), Swan Isle at Lake Olympia, Sections 1 through 3 (84 total lots), and Flamingo Island at Lake Olympia, Sections 1 and 2 (123 total lots). In addition to the approximately 218.10 net acres available for development contained in such subdivisions, development of land used and expected to be used for commercial purposes has resulted in the development of an approximate 10.73-acre tract which has been provided perimeter trunk water, sewer and drainage facilities and street paving. The District financed its portion of the cost of acquiring and constructing the components of the water supply and

distribution, wastewater collection and treatment, and storm drainage system (the "System") that serve the entirety of the District with the proceeds of the Outstanding Bonds. See "THE SYSTEM - Description" and "THE BONDS - Legal Ability to Issue Additional Debt." An amenities complex including a pool, bath house, two lighted tennis courts, and a dock area has been completed to serve the development. In addition, a 28 slip marina and boat ramp to serve non-gasoline powered boats, an eight lane community pool and bathhouse, parking lot and playground have been constructed to serve the development. The District contains approximately 9.4 acres owned by the Fort Bend Independent School District on which the Fort Bend Independent School District has constructed the Palmer Plantation Elementary School. Approximately 178 acres located within the District have been or are expected to be dedicated as drainage easements or other easements for public purposes, boulevards, are contained in lakes, recreation reserves, District facilities sites, various pipeline easements, or are otherwise not available or expected to be available for development. See "DEVELOPMENT."

INVESTMENT CONSIDERATIONS

THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS AS SET FORTH IN THIS OFFICIAL STATEMENT. PROSPECTIVE PURCHASERS SHOULD CAREFULLY EXAMINE THE ENTIRE OFFICIAL STATEMENT BEFORE MAKING THEIR INVESTMENT DECISIONS, ESPECIALLY THE PORTION OF THE OFFICIAL STATEMENT ENTITLED "INVESTMENT CONSIDERATIONS."

SELECTED FINANCIAL INFORMATION
(Unaudited)

2010 Assessed Valuation		\$142,017,101(a)
(As of January 1, 2010)		
See "TAX DATA" and "TAX PROCEDURES."		
Direct Debt:		
Remaining Outstanding Bonds		\$ 3,015,000
The Bonds		<u>2,450,000</u>
Total		\$ 5,465,000(b)
Estimated Overlapping Debt		\$13,162,740(b)(c)
Direct and Estimated Overlapping Debt		\$18,627,740(b)(c)
Ratio of Direct Debt to:	2010 Assessed Valuation (\$142,017,101)	3.85%
	See "DISTRICT DEBT."	
Ratio of Direct and Estimated		
Overlapping Debt to:	2010 Assessed Valuation (\$142,017,101)	13.12%
	See "DISTRICT DEBT."	
Bond Fund Balance as of September 15, 2010		\$ 766,966(d)
General Fund Balance as of September 15, 2010		\$ 291,919
Average Percentage of Total Tax Collections 1999-2008		99.86%
Percentage of Tax Collections 2009 Tax Levy		96.44%
(As of August 31, 2010. In process of collection.)		
2010 Tax Rate Per \$100 of Assessed Valuation		
Debt Service Tax	\$0.662	
Maintenance Tax	<u>0.073</u>	
Total		\$0.735(c)
Average Annual Debt Service Requirements of the Bonds and		
the Remaining Outstanding Bonds (2011-2016)		\$1,032,081
Maximum Annual Debt Service Requirement of the Bonds and		
the Remaining Outstanding Bonds (2015)		\$1,036,725
Tax Rate per \$100 of Assessed Valuation required to pay Average Annual		
Debt Service Requirements of the Bonds and the Remaining Outstanding Bonds		
(2011-2016) at 95% Tax Collections		
Based Upon 2010 Assessed Valuation		\$0.77
Tax Rate per \$100 of Assessed Valuation Required to Pay		
Maximum Annual Debt Service Requirements of the Bonds		
and the Remaining Outstanding Bonds (2015) at 95% Tax Collections		
Based Upon 2010 Assessed Valuation		\$0.77

- (a) As of January 1, 2010. All property located in the District is valued by the Fort Bend Central Appraisal District (the "Appraisal District") at 100% of estimated value as of January 1 of each year. The value of all taxable property is certified annually by the Fort Bend County Appraisal Review Board (the "Appraisal Review Board") before it becomes the final Assessed Valuation of such property for a given year. Such sum includes certain values which have not been certified by the Appraisal Review Board, including the value of certain properties which has been proposed by the Appraisal District but protested by the owners thereof to the Appraisal District. The Appraisal District has proposed the valuation of such protested properties to be \$6,327,050. See "TAX PROCEDURES."
- (b) Excludes the Refunded Bonds. See "DISTRICT DEBT."
- (c) The entirety of the District is located within the corporate limits of Missouri City, Texas. In 2009, Missouri City levied a tax of \$0.5284 per \$100 of Assessed Valuation. Such tax is in addition to taxes levied by the District, and, as described in this Official Statement under the caption "TAX DATA - Estimated Overlapping Taxes," the aggregate of the 2009 tax levies of all units of government which levy taxes against the property located within the District plus the District's 2010 tax levy is 3.16016 per \$100 of Assessed Valuation. See "INVESTMENT CONSIDERATIONS - Factors Affecting Taxable Values and Tax Payments."
- (d) Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the Bond Fund. See "PLAN OF FINANCING." Such fund balance gives effect to the timely payment by the District of the entirety of its debt service payments that were due in 2010.

**PALMER PLANTATION MUNICIPAL UTILITY DISTRICT NO. 1
WATERWORKS AND SEWER SYSTEM COMBINATION
UNLIMITED TAX AND REVENUE REFUNDING BONDS
SERIES 2010**

INTRODUCTION

This Official Statement provides certain information with respect to the issuance by Palmer Plantation Municipal Utility District No. 1, Fort Bend County, Texas (the "District") of its Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, Series 2010 (the "Bonds").

There follow 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 upon request and payment of the costs of duplication therefor. Certain capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Bond Order (hereinafter defined), except as otherwise indicated herein.

THE BONDS

General

The following is a description of certain terms and conditions of the Bonds, which description is qualified in its entirety by reference to the resolution of the Board of Directors of the District (the "Board") authorizing the issuance of the Bonds (the "Bond Order"). A copy of the Bond Order may be obtained from the District upon request and payment of the costs of duplication thereof. The Bond Order authorizes the issuance and sale of the Bonds and prescribes the terms, conditions and provisions for the payment of the principal of and interest on the Bonds by the District. The Bond Order also approves and authorizes execution of the Escrow Agreement with the Escrow Agent (as such terms are hereinafter defined) and the Bond Purchase Agreement with the Underwriters.

The Bonds are dated November 1, 2010, and will mature on September 1 of the years and in the principal amounts indicated on the cover page hereof. The Bonds will accrue interest from November 1, 2010 (or the most recent interest payment date to which interest has been paid or duly provided for) at the stated interest rates indicated on the cover page of this Official Statement. Interest on the Bonds is payable on March 1, 2011 (four-month interest payment), and on each September 1 and March 1 thereafter until maturity. The Bonds will be issued as fully registered bonds in the denomination of \$5,000 or any integral multiple thereof. Principal of the Bonds will be payable by the paying agent/registrar, initially, The Bank of New York Mellon Trust Company, N.A., currently in Dallas, Texas, or any successor paying agent/registrar (the "Paying Agent," "Registrar," or the "Paying Agent/Registrar").

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

Book-Entry-Only System

The Depository Trust Company ("DTC"), New York, New York, 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 requested by an authorized representative of DTC. One fully-registered certificate will be issued for the Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest 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 companies, 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 companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

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

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

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

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, 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, Paying Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment 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, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or Paying Agent. 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 transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

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

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-Only System, 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-Only System, and, (ii) except as described above, notices that are to be given to registered owners under the Order will be given only to DTC.

Record Date

The record date for payment of the interest on any regularly scheduled interest payment date is defined as the 15th day of the month (whether or not a business day) preceding such interest payment date.

Assignments, Transfers and Exchanges

In the event the book-entry-only system is discontinued, each Bond shall be transferable only upon the presentation and surrender thereof at the corporate trust office of the Registrar in Dallas, Texas, duly endorsed for transfer, or accompanied by an assignment duly executed by the Registered Owner or his authorized representative in form satisfactory to the Registrar. Upon due presentation of any Bond in proper form for transfer, the Registrar shall authenticate and deliver in exchange therefor, within three (3) business days after such presentation, a new Bond or Bonds, registered in the name of the transferee or transferees, in authorized denominations and of the same maturity and aggregate principal amount and bearing interest at the same rate as the Bond or Bonds so presented.

All Bonds are exchangeable upon presentation and surrender thereof at the corporate trust office of the Registrar in Dallas, Texas, for a Bond or Bonds of like maturity and interest rate and in any authorized denomination, in an aggregate amount equal to the unpaid principal amount of the Bond or Bonds presented for exchange. Neither the District nor the Registrar shall be required to transfer or exchange any Bond during the fifteen (15) day period next preceding any interest payment date or to transfer or exchange any Bond called for redemption during the thirty (30) day period prior to the date fixed for redemption of such Bonds. The District or the Registrar may require the Owner of any Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the transfer or exchange of such Bond. Any fee or charge of the Registrar for such transfer or exchange shall be paid by the District.

Successor Registrar

Provision is made in the Bond Order for replacing the Registrar. If the District replaces the Registrar, such Registrar shall, promptly upon the appointment of a successor, deliver the Registrar's records to the successor Registrar, and the successor Registrar shall act in the same capacity as the previous Registrar. Any successor Registrar selected by the District shall be a commercial bank; a trust company organized under the laws of the State of Texas; or other entity duly qualified and legally authorized to serve and perform the duties of the Registrar for the Bonds.

Source of Payment

- Taxes -

The Bonds, when issued, will constitute valid and binding obligations of the District, and the principal thereof and the interest thereon, together with the principal of and interest on the Remaining Outstanding Bonds (hereinafter defined) and such additional tax bonds of the District as may hereafter be issued by the District, if any, are payable from and secured by the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount levied against all taxable property located within the District. See "TAX PROCEDURES" and "TAX DATA - Tax Rate Calculations" for tax adequacy, manner of assessing and collecting taxes, and the remedy to the District in the event of tax delinquencies; and "Registered Owners' Remedies" below for the remedies available to Bondholders in the event of default in the performance of any of the covenants set forth in the Bond Order or in the event of default in the payment of principal of or interest on the Bonds.

- Net Revenues -

The Bonds and the Remaining Outstanding Bonds are further payable from and secured by a pledge of and lien on certain Net Revenues, if any, of the System. Net Revenues are basically defined in the Bond Order as all income that is derived from the ownership and operation of the District's System as the same is purchased, constructed or otherwise acquired, which remains after deducting the operation and maintenance expenses of the System, but not including income derived from contracts that is pledged for payment of any special project bonds that may be issued. It is not expected that the Net Revenues will ever be sufficient to contribute to debt service payments. See "INVESTMENT CONSIDERATIONS - Production of Net Revenues," "THE SYSTEM - Waterworks and Sewer System Operating Statement" and "APPENDIX B - ACCOUNTANTS' REPORT AND FINANCIAL STATEMENTS."

The Bonds are solely obligations of Palmer Plantation Municipal Utility District No. 1 and are not obligations of the State of Texas, Fort Bend County, Texas, the City of Missouri City, Texas, or any political subdivision or agency other than the District.

Redemption of the Bonds

The Bonds are not subject to redemption prior to their scheduled maturities.

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, 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, (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, and which mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds.

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

There is no assurance that the current law will not be changed in the future in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds.

Amendments to Bond Order

The District may, without the consent of or notice to any Registered Owners 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.

Dissolution

The property within the District lies entirely within the corporate limits of the City of Missouri City, Texas (the "City"). Under Texas law, the District may be dissolved by the City without the District's consent, upon two-third vote of the City Council. If the District is dissolved, the City must assume the District's assets and obligations. The City currently has within its boundaries all or portions of several water districts, which provide the only water and wastewater services to City residences. The City provides no such services.

The District makes no representation with regard to dissolution, and cannot predict whether dissolution will ever occur. The District makes no representation as to the ability of the City to make debt service payments should dissolution occur.

Authorization of the Bonds

The Bonds are issued pursuant to the authority of the Bond Order; Article XVI, Section 59 of the Texas Constitution; Chapters 49 and 54 of the Texas Water Code, as amended; Chapter 1207, Texas Government Code, and elections held within and for the District on February 18, 1984. See "Legal Ability to Issue Additional Debt" below.

Legal Ability to Issue Additional Debt

The District has reserved the right in the Bond Order to issue additional bonds. Following the issuance of the Bonds, the District will have the right to issue an additional \$5,125,000 in bonds for waterworks, sanitary sewer, and drainage facilities, and for refunding purposes, as approved by the District's voters at an election held on February 18, 1984.

The District has the right to issue the aforementioned bonds without the necessity of further voter authorization. Before issuing the \$5,125,000 in bonds described above for waterworks, sanitary sewer, and drainage facilities, the District would have to obtain approval of the Texas Commission on Environmental Quality (the "TCEQ" or the "Commission")

for the issuance of such bonds and the projects to be financed thereby. In addition to the above-mentioned bonds, the District has the right to issue such additional tax bonds as may be hereafter approved by the voters of the District. The District also has the right to issue revenue bonds, revenue notes, bond anticipation notes and tax anticipation notes without 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 voter approval. The Bond Order places no limitation on the amount of additional bonds which may be issued by the District.

The District is also authorized by law to engage in fire-fighting activities and is authorized to issue bonds payable from taxes for such purpose. Before the District may issue bonds for fire-fighting activities payable from taxes, 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. The Board has not considered calling an election at this time for such purposes.

The District has authority to incur certain types of indebtedness and pledge its maintenance tax to the payment thereof without further voter authorization with respect to such maintenance tax. See "TAX DATA - Maintenance Tax."

The District is authorized by statute to develop parks and recreational facilities, including the issuing of bonds payable from taxes for such purpose. Before the District could issue park bonds payable from taxes, the following actions would be required: (a) preparation of a detailed park plan; (b) authorization of park bonds by the qualified voters in the District; (c) approval of the park project and bonds by the TCEQ; and (d) approval of the bonds by the Attorney General of Texas. If the District does issue park bonds, the outstanding principal amount of such bonds may not exceed an amount equal to one percent of the value of the taxable property in the District. The Board has not considered authorizing the preparation of a park plan or calling a park bond election at this time.

If additional debt obligations are issued in the future by the District, such issuance may increase gross debt/property valuation ratios and might adversely affect the investment security of the Bonds. See "INVESTMENT CONSIDERATIONS - Future Debt."

Remedies in Event of Default

Texas law and the Bond Order provide that in the event of default by the District in payment of principal of or interest on any of the Bonds when due, or, in the event that the District fails to make the payments required to be made into the Bond Fund or any other fund or defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in the Bond Order, the Registered Owners shall be entitled to a writ of mandamus issued by a court of competent jurisdiction compelling and requiring the District and the officials thereof to observe and perform the covenants, obligations, or conditions prescribed by the Bond Order.

Any delay or omission to exercise any right or power occurring upon any default shall not impair any such default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

Except for mandamus, the Bond Order does not specifically provide for remedies to a Registered Owner in the event of a District default, nor does it 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. Consequently, the remedy of mandamus is a remedy which may have to be relied upon from year to year by the Registered Owners. Even if the Registered Owners could obtain a judgment against the District, such judgment could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within 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. Certain traditional legal remedies also may not be available.

The enforceability of the rights and remedies of the Registered Owners may be further limited by federal bankruptcy laws related to bankruptcy, reorganization, or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. Specifically, the District may voluntarily file a petition for protection from creditors under the federal bankruptcy laws. During the pendency of the bankruptcy proceedings the remedy for mandamus would not be available to the Registered Owners unless authorized by a federal bankruptcy judge. Additionally, the right of the District to seek judicial foreclosure of any tax lien upon property within the District may be stayed. See “Bankruptcy Limitation to Registered Owners' Rights” below.

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. Such legislation requires that the TCEQ investigate the financial condition of the District and authorize the District to proceed only if 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. The rights and remedies of the Registered Owners would be adjusted in accordance with the confirmed plan of adjustment of the District's debt. See “INVESTMENT CONSIDERATIONS.”

The District may not be placed into bankruptcy involuntarily.

Legal Investment and Eligibility to Secure Public Funds in Texas

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

PLAN OF FINANCING

Use of Bond Proceeds

Proceeds of the sale of the Bonds will be applied to refund certain maturities of the District's Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1998 (the "Series 1998 Bonds") in the aggregate principal amount of \$2,425,000 (the "Refunded Bonds"). The Bonds are being issued to reduce the District's debt service payments, and will accomplish present value savings in the District's debt service. The proceeds also will be used to pay the costs of issuance of the Bonds.

Refunded Bonds

<u>Years</u>	<u>Series 1998 Bonds Maturity September 1</u>
2012	\$ 425,000
2013	455,000
2014	485,000
2015	515,000
2016	<u>545,000</u>
	\$2,425,000

Redemption Date: 11/17/10

Aggregate Principal Amount of Refunded Bonds \$2,425,000

The Refunded Bonds, and the interest due thereon, are to be paid on the redemption date from funds to be deposited with The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, as paying agent for the Refunded Bonds (the "Paying Agent for the Refunded Bonds").

The Bond Order provides that from the proceeds of the sale of the Bonds, the District will deposit with the Paying Agent for the Refunded Bonds the amount necessary to accomplish the discharge and final payment of the Refunded Bonds. Such funds will be held by the Paying Agent for the Refunded Bonds in a segregated payment account (the "Payment Account"). At the time of delivery of the Bonds, Grant Thornton LLP, will verify to the District, the Paying Agent for the Refunded Bonds and the Financial Advisor that the monies held in the Payment Account are sufficient to pay, when due, the principal of and interest on the Refunded Bonds. By the deposit of the cash with the Paying Agent for the Refunded Bonds and the making of irrevocable arrangements for the giving of notice of redemption of the Refunded Bonds, the terms of the prior order of the District securing payment of the Refunded Bonds shall have been satisfied and such Refunded Bonds will no longer be considered outstanding except for the payment out of amounts so deposited, and the amounts so deposited in the Payment Account will constitute firm banking arrangements under Texas law for the discharge and final payment of the Refunded Bonds.

The Non-Refunded Bonds

In addition to the Series 1998 Bonds, the District has issued Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1985 (the "Series 1985 Bonds"), Unlimited Tax Refunding Bonds, Series 1990 (the "Series 1990 Refunding Bonds"), Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1991 (the "Series 1991 Bonds"), Unlimited Tax Refunding Bonds, Series 1996 (the "Series 1996 Refunding Bonds"); Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2000 (the "Series 2000 Bonds") and Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, Series 2005 (the "Series 2005 Refunding Bonds"). Collective reference is made in this Official Statement to the Series 1985 Bonds, the Series 1990 Refunding Bonds, the Series 1991 Bonds, the Series 1996 Refunding Bonds, the Series 1998 Bonds, the Series 2000 Bonds and the Series 2005 Refunding Bonds as the "Outstanding Bonds." The District has never defaulted in the

timely payment of principal of and interest on the Outstanding Bonds. After issuance of the Bonds, the aggregate principal amount of the Outstanding Bonds, less the Refunded Bonds, will be \$3,015,000 (the "Remaining Outstanding Bonds"), and the aggregate principal amount of the District's total direct bonded indebtedness, including the Bonds, will be \$5,465,000. See "DISTRICT DEBT - Debt Service Requirements."

The principal amounts and maturity dates of the Series 1998 Refunding Bonds and Series 2005 Refunding Bonds which are not being refunded (the "Non-Refunded Bonds") and remain outstanding as of the date of this Official Statement are as follows.

<u>Years</u>	<u>Series 1998 Refunding Bonds Maturity September 1</u>	<u>Series 2005 Refunding Bonds Maturity September 1</u>
2011	\$400,000	\$415,000
2012		420,000
2013		430,000
2014		440,000
2015		450,000
2016		<u>460,000</u>
	<u>\$400,000</u>	<u>\$2,615,000</u>
Total principal amount of Remaining Outstanding Bonds		\$3,015,000

Sources and Uses of Funds

The proceeds from the sale of the Bonds will be applied as follows:

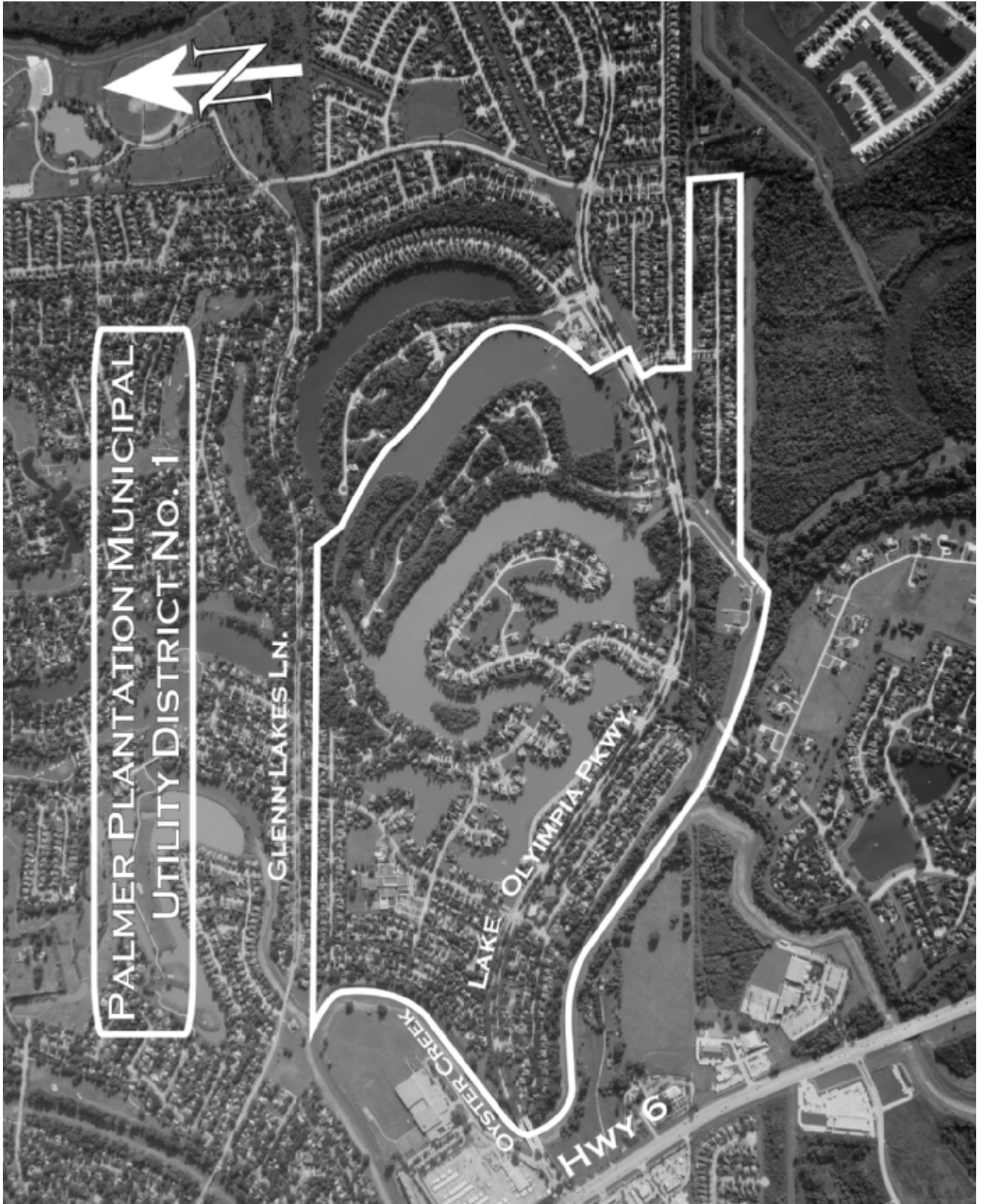
SOURCES OF FUNDS:

Par Amount of Bonds	\$2,450,000.00
Plus: Original Issue Premium	161,612.00
Accrued Interest	<u>3,687.50</u>
Total Sources of Funds	\$2,615,299.50

USES OF FUNDS:

Deposit with Paying Agent/Registrar for Refunded Bonds	\$2,449,829.04
Deposit Accrued Interest to Bond Fund	3,687.50
Expenses:	
Underwriters Discount	30,625.00
Municipal Bond Insurance Premium and Other Issuance Expenses	<u>131,157.96</u>
Total Uses of Funds	\$2,615,299.50

AERIAL PHOTOGRAPH OF THE DISTRICT
(taken September, 2010)



PHOTOGRAPHS WITHIN THE DISTRICT
(taken September, 2010)



PHOTOGRAPHS WITHIN THE DISTRICT
(taken September, 2010)



DISTRICT DEBT

General

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

Bonded Indebtedness

2010 Assessed Valuation	\$142,017,101(a)
(As of January 1, 2010)	
See "TAX DATA" and "TAX PROCEDURES."	
Direct Debt:	
Remaining Outstanding Bonds	\$ 3,015,000
The Bonds	<u>2,450,000</u>
Total	\$ 5,465,000(b)
Estimated Overlapping Debt	\$13,162,740(b)(c)
Direct and Estimated Overlapping Debt	\$18,627,740(b)(c)
Ratio of Direct Debt to: 2010 Assessed Valuation (\$142,017,101)	3.85%
Ratio of Direct and Estimated Overlapping Debt to: 2010 Assessed Valuation (\$142,017,101)	13.12%
Bond Fund Balance as of September 15, 2010	\$ 766,966(d)
General Fund Balance as of September 15, 2010	\$ 291,919

-
- (a) As of January 1, 2010. All property located in the District is valued by the Fort Bend Central Appraisal District (the "Appraisal District") at 100% of estimated value as of January 1 of each year. The value of all taxable property is certified annually by the Fort Bend County Appraisal Review Board (the "Appraisal Review Board") before it becomes the final Assessed Valuation of such property for a given year. Such sum includes certain values which have not been certified by the Appraisal Review Board, including the value of certain properties which has been proposed by the Appraisal District but protested by the owners thereof to the Appraisal District. The Appraisal District has proposed the valuation of such protested properties to be \$6,327,050. See "TAX PROCEDURES."
 - (b) Excludes the Refunded Bonds.
 - (c) The entirety of the District is located within the corporate limits of Missouri City, Texas. In 2009, Missouri City levied a tax of \$0.5284 per \$100 of Assessed Valuation. Such tax is in addition to taxes levied by the District, and, as described in this Official Statement under the caption "TAX DATA - Estimated Overlapping Taxes," the aggregate of the 2009 tax levies of all units of government which levy taxes against the property located within the District plus the District's 2010 tax levy is 3.16016 per \$100 of Assessed Valuation. See "INVESTMENT CONSIDERATIONS - Factors Affecting Taxable Values and Tax Payments."
 - (d) Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the Bond Fund. See "PLAN OF FINANCING." Such fund balance gives effect to the timely payment by the District of the entirety of its debt service payments that were due in 2010.

Estimated Direct and Overlapping Debt Statement

The following statement indicates the direct and estimated overlapping debt of the District. The table includes the estimated amount of indebtedness of governmental entities overlapping the District, defined as outstanding bonds payable from ad valorem taxes, and the estimated percentages and amounts of such indebtedness attributable to property located within the District. This information is based upon data secured from the individual jurisdictions and/or the Texas Municipal Reports published by the Municipal Advisory Council of Texas. The calculations by which the statement was derived were made in part by comparing the reported assessed valuation of the property in the overlapping taxing jurisdictions with the Assessed Valuation of property within the District. No effect has been given to the tax burden levied by any applicable taxing jurisdiction for maintenance and operational or other purposes.

	<u>Outstanding Debt</u> <u>As of September 15, 2010</u>	<u>Percent</u>	<u>Amount</u>
Fort Bend County	\$468,950,000	0.3600%	\$ 1,688,430
Fort Bend Independent School District	975,666,197	0.6437	6,280,654
City of Missouri City (a)	146,310,000	3.3938	4,965,408
Houston Community College System	198,780,000	0.1148	<u>228,248</u>
TOTAL ESTIMATED OVERLAPPING DEBT			\$13,162,740
TOTAL DIRECT DEBT (b)			<u>5,465,000</u>
TOTAL DIRECT AND ESTIMATED OVERLAPPING DEBT			\$18,627,740
Ratio of Total Direct and Estimated Overlapping Debt to:			
2010 Assessed Valuation (\$142,017,101)			13.12%

- (a) The entirety of the District is located within the corporate limits of the City of Missouri City, Texas. See “THE DISTRICT - Description.”
- (b) See “Bonded Indebtedness” above.

Under Texas law ad valorem taxes levied by each taxing authority other than the District create a lien which is on a parity with the lien in favor of the District on all taxable property within the District. In addition to the ad valorem taxes required to retire the foregoing direct and overlapping debt, the various taxing authorities mentioned above are also authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administration and/or general revenue purposes. Certain of the jurisdictions have in the past levied such taxes. The District has the power to assess, levy and collect ad valorem taxes for operation and maintenance purposes, and, although the District has not heretofore levied a maintenance tax, such taxes have been authorized by the duly qualified voters of the District in an amount not to exceed \$0.20 per \$100 of assessed valuation. See “TAX DATA - Maintenance Tax.”

Debt Service Requirements

The following schedule sets forth the debt service requirements of the Outstanding Bonds, less the debt service requirements of the Refunded Bonds, plus the principal and interest requirements of the Bonds.

<u>Year Ending December 31</u>	<u>Current Total Debt Service</u>	<u>Less Debt Service on Refunded Bonds</u>	<u>Plus: – The Bonds –</u>		<u>New Debt Service</u>
			<u>Principal</u>	<u>Interest</u>	
2011	\$1,047,321	\$ 117,611	\$ 25,000	\$ 73,750	\$1,028,460
2012	1,043,996	542,611	440,000	88,000	1,029,385
2013	1,049,109	552,424	460,000	74,800	1,031,485
2014	1,051,789	560,584	480,000	61,000	1,032,205
2015	1,051,865	566,940	510,000	41,800	1,036,725
2016	<u>1,049,530</u>	<u>571,705</u>	<u>535,000</u>	<u>21,400</u>	<u>1,034,225</u>
	\$6,293,610	\$2,911,875	\$2,450,000	\$360,750	\$6,192,485

Average Annual Requirements - Subsequent to Issuance of the Bonds (2011-2016) \$1,032,081
 Maximum Annual Requirement - Subsequent to Issuance of the Bonds (2015) \$1,036,725

See “TAX DATA - Tax Rate Calculations” and “INVESTMENT CONSIDERATIONS - Maximum Impact on District Tax Rates” for a discussion of the District's projected tax rates and the effect of the issuance of the Bonds thereon.

TAX PROCEDURES

Exempt Property

Except for certain exemptions provided by Texas law, all real property and tangible personal property and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District; however, no effort is expected to be made by the Appraisal District described below to assess taxes against tangible or intangible personal property not devoted to commercial or industrial use. Principal categories of exempt real 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; nonprofit cemeteries; and certain property owned by qualified charitable, religious, veterans, fraternal, or educational organizations. Partially exempt to the extent of \$5,000 to \$12,000 of assessed value is property owned by a disabled veteran or by the spouse or certain children of a deceased disabled veteran or a veteran who died while on active duty depending on the disability rating of the veteran. A veteran who receives a disability rating of 100% is entitled to the exemption for the full amount of the residential homestead. Also partially exempt, if approved by the Board or at an election called by the Board upon petition of at least 20% of the number of the qualified voters who voted in the District's preceding election, are residence homesteads of certain persons who are disabled or at least 65 years old to the extent of \$3,000 of appraised value or such higher amount as the Board or the District's voters may approve. The District's tax assessor is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District's obligation to pay tax-supported debt incurred prior to adoption of the exemption by the District.

The Board may exempt up to 20% of the market value of residential homesteads from ad valorem taxation. Such exemption would be in addition to any other applicable exemptions provided by law. However, if ad valorem taxes have previously been pledged for the payment of debt and the reduction or cessation of the levy would impair the obligation of the contract by which the debt was created, then the Board may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged.

Freeport goods are exempted from taxation by the District. Freeport goods are goods, wares, merchandise, other tangible personal property and ores, other than oil, natural gas and other petroleum products, which have been acquired or brought into the state for assembling, storing, manufacturing, repair, maintenance, processing or fabricating or used to repair or maintain aircraft of a certified air carrier and shipped out of the state within 175 days.

Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of “goods-in-transit.” “Goods-in-transit” is defined by a provision of the Tax Code, which is effective for tax years 2008 and thereafter, as personal property acquired or imported into Texas and transported to another location in the State or outside the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. The Tax Code provision permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax goods-in-transit during the following tax years. A taxpayer may receive only one of the freeport exemptions or the goods-in-transit exemptions for items of personal property.

The City of Missouri City and Fort Bend County may designate all or part of the area within the District as a reinvestment zone, and Fort Bend County, the City of Missouri City and the District may thereafter enter into tax abatement agreements with owners of real property within the zone with each taxing jurisdiction's agreement affecting its own tax roll. The tax abatement agreements exempt from ad valorem taxation by the applicable taxing jurisdiction (including the District with the District's consent) for a period of up to 10 years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with a comprehensive plan. In certain instances, personal property also may be eligible for tax abatement. Each taxing jurisdiction has discretion to determine terms for its tax abatement agreements without regard to the terms approved by other taxing jurisdictions.

County-Wide Appraisal District

The Texas Property Tax Code (the “Property Tax Code”) establishes an appraisal district and an appraisal review board in each county of the State of Texas. The appraisal district is governed by a board of directors elected by the governing bodies of cities, towns and school districts that participate in the appraisal district and of the county. Conservation and reclamation districts such as the District may participate, to a limited extent, in such election. The board of directors selects a chief appraiser to manage the appraisal office of the appraisal district. All taxing units within Fort Bend County, including the District, are included in the Appraisal District. The Appraisal District is responsible for appraising property within the District, subject to review by the county appraisal review board. The appraisal roll as approved by the county appraisal review board must be used by the District in establishing its tax rolls and tax rate. The valuation and assessment of taxable property within the District is governed by the Texas Property Tax Code.

Under current Texas law, the District is responsible for the levy and collection of its taxes and will continue to be so responsible unless the Board, or the qualified voters of the District or of Fort Bend County, at an election held for such purpose determines to transfer such functions to the Appraisal District or another taxing unit.

Assessment and Levy

Generally, all taxable property in the District (other than any qualifying agricultural and timberland) must be appraised at 100% of market value as of January 1 of each tax year, subject to review and approval by the Appraisal Review Board. However, houses held for sale by a developer or builder which remain unoccupied, are not leased or rented and produce no income, are required to be assessed at the price for which they would sell as a unit to a purchaser who would continue the owner's business. Valuation on an inventory basis could reduce the assessed value of builder inventory within the District. See “TAX DATA - Principal 2010 Property Owners.” The Property Tax Code requires each appraisal district to implement a plan providing for reappraisal of all real property in the appraisal district at least once every three years. It is not known what frequency of reappraisal will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone or county-wide basis.

The Property Tax Code permits land designated for agricultural use 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. Provisions of the Property Tax Code are complex and are not fully summarized here. Landowners wishing to avail themselves of the agricultural use designation must apply for the designation, and the appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. If a claimant receives the designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including for three years for agricultural use and for five years for agricultural land and timberland, prior to the loss of the designation.

The chief appraiser must give written notice on May 15, or as soon thereafter as practicable to each owner if the appraised value of his property is greater than it was in the preceding year, if the appraised value of the property is greater than the value rendered by the property owner, or if the property was not on the appraisal roll in the preceding year. In addition, the chief appraiser must give written notice to each property owner whose property was reappraised in the current year or if ownership of the property changed during the preceding year. The appraisal review board has the ultimate responsibility for determining the value of all taxable property within the District; however, any owner who has timely filed notice with the appraisal review board may appeal the final determination by the appraisal review board by filing suit in Texas district court. Prior to such appeal and prior to the delinquency date, however, the owner must pay the tax due on the amount of value of the property involved that is not in dispute or the amount of tax paid in the prior year, whichever is greater, or the amount of tax due under the order from which the appeal is taken. In the event of such suit, the value of the property is determined by the court, or a jury if requested by any party. Additionally, the District is entitled to challenge certain matters before the appraisal review board, including the level of appraisals of a certain category of property, the exclusion of property from the appraisal records, or the grant in whole or in part of a partial exemption. The District may not, however, protest a valuation of individual property.

By September 1 of each year, or as soon thereafter as practicable, the rate of taxation is set by the Board based upon the assessed valuation of property within the District as of the preceding January 1 and the amount required to be raised for debt service, maintenance purposes and authorized contractual obligations.

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 compel compliance with the Property Tax Code.

The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property 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 District 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 District's current year's debt service and contract tax rates plus 1.08 times the District's previous year's operation and maintenance tax rate. Thus, the District's debt service and contract tax rates, if any, cannot be changed by a rollback election.

Collection

The District is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. Taxes are due on receipt of the tax bill and become delinquent after January 31 of the following year. The date of the delinquency may be postponed if the tax bills are mailed after September 30 (if the Board has authorized discounts for early payment) or otherwise after January 10. Further, a person who is 65 years of age or older or disabled is entitled

by law to pay current taxes on his residential homestead in installments or to receive a deferral or abatement of delinquent taxes without penalty during the time he owns or occupies his property as his residential homestead. So long as the Board has not transferred responsibility for collection of the taxes to another taxing unit or the Appraisal Districts, the Board may permit payment without penalty or interest of the final tax installment by July 1, if one-half of taxes assessed for the current year are paid prior to December 1. The Board may approve a 3% discount for taxes paid in October, 2% for November and 1% for December. Delinquent taxes are subject to a 6% penalty for the first month of delinquency, 1% for each month thereafter to July 1 and 12% total if any taxes are unpaid on July 1. Delinquent taxes also accrue interest at the rate of 1% per month during the period they remain outstanding. In addition, the Board may impose a further penalty not to exceed 20% on all taxes unpaid on July 1 which is used to defray the cost of engaging an attorney for collection of delinquent taxes.

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. Federal bankruptcy law provides that an automatic stay of actions by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

TAX DATA

Authority to Levy Taxes

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate and amount, on all taxable property within the District in sufficient amount to pay the principal of and interest on the Bonds and the Remaining Outstanding Bonds and any additional bonds payable from taxes which the District may hereafter issue, including an aggregate of \$5,125,000 in principal amount of bonds approved by the District's electors but not issued at the present time, and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Order to levy such a tax from year to year as described more fully above under the caption "THE BONDS - Source of Payment."

Maintenance Tax

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for maintenance of the District's improvements, if such maintenance tax is authorized by a vote of the District's electorate. On February 18, 1984, the Board was authorized to levy such a maintenance tax in an amount not to exceed \$0.20 per \$100 of assessed valuation. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds, the Remaining Outstanding Bonds and any tax supported bonds which may be issued in the future. The District has not levied a maintenance tax to date.

Exemptions

To date the Board has not granted any exemptions for homesteads, over age sixty-five (65) or disabled in addition to the exemptions provided by the Texas Constitution. It cannot be predicted what actions future boards may take regarding exemptions.

Historical Values and Tax Collection History

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

<u>Tax Year</u>	<u>Assessed Valuation</u>	<u>Tax Rate(a)</u>	<u>Adjusted Levy</u>	<u>% Collections Current & Prior Years (b)</u>	<u>Tax Year Ending</u>
1999	\$ 96,975,042	\$1.080	\$1,047,330	100.00%	2000
2000	108,657,151	0.950	1,032,243	100.00	2001
2001	119,957,440	0.880	1,055,625	100.00	2002
2002	128,268,075	0.810	1,039,133	99.99	2003
2003	134,880,541	0.790	1,065,556	99.99	2004
2004	136,301,100	0.780	1,063,148	99.99	2005
2005	140,598,272	0.740	1,040,449	99.94	2006
2006	143,244,211	0.700	1,002,730	99.91	2007
2007	144,942,206	0.680	985,607	99.68	2008
2008	153,952,876	0.680	1,046,880	99.14	2009
2009	152,053,883	0.690	1,049,172	96.44(c)	2010
2010	142,017,101	0.735	1,043,826	(d)	2011

(a) Per \$100 of Assessed Valuation.

(b) Such percentages reflect cumulative total collections for each year from the time each respective annual tax was levied through August 31, 2010. The amount of tax collected for each levy on a current basis (by September 30 of the year following each respective levy) is not reflected in this statement.

(c) As of August 31, 2010. In process of collection.

(d) Levied September 15, 2010.

Analysis of Tax Base

The following table illustrates the composition of property located within the District during the past five years.

Type of Property	2010		2009		2008	
	Assessed Value	%	Assessed Value	%	Assessed Value	%
Land	\$ 41,116,180	28.95%	\$ 42,705,860	28.09%	\$ 41,696,820	27.08%
Improvements	100,865,190	71.02	115,252,320	75.80	116,843,200	75.90
Uncertified	5,694,345	4.01	0	0.00	0	0.00
Personal Property	1,024,670	0.72	1,035,890	0.68	2,603,310	1.69
Exemptions	<u>(6,683,284)</u>	<u>(4.70)</u>	<u>(6,940,187)</u>	<u>(4.56)</u>	<u>(7,190,454)</u>	<u>(4.67)</u>
Total	\$142,017,101	100.00%	\$152,053,883	100.00%	\$153,952,876	100.00%

Type of Property	2007		2006	
	Assessed Value	%	Assessed Value	%
Land	\$ 40,808,850	28.16%	\$ 38,659,100	26.99%
Improvements	107,838,850	74.40	107,662,830	75.16
Personal Property	2,224,600	1.53	2,078,591	1.45
Exemptions	<u>(5,930,094)</u>	<u>(4.09)</u>	<u>(5,156,310)</u>	<u>(3.60)</u>
Total	\$144,942,206	100.00%	\$143,244,211	100.00%

Principal 2010 Property Owners

The following table lists, from information supplied by the District's Tax Assessor/Collector, principal District taxpayers, type of property owned by such taxpayers, and the Assessed Valuation of such property as of January 1, 2010:

<u>Property Owner</u>	<u>Type of Property</u>	<u>2010 Assessed Valuation</u>	<u>% 2010 Assessed Valuation</u>
Marhaba Partners Limited Partnership	Land	\$2,179,820	1.53%
Kurt Carr	Home	1,175,670	0.83
Bellaire Professional Building	Acreage	1,004,430	0.71
Chicago Title Insurance Company	Commercial	945,100	0.67
Shareef Khan	Home	911,310	0.64
Gary D. Owens	Home	837,380	0.59
Simon W. Hendershot, III	Home	748,700	0.53
Leeland Real Properties, LLC	Land	731,410	0.52
Rangarajan Madabhushi	Home	704,910	0.50
Burke T. Bradley	Home	<u>697,670</u>	<u>0.49</u>
		\$9,936,400	7.01%

Tax Rate Calculations

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 of Assessed Valuation which would be required to meet certain debt service requirements if no growth in the District occurs beyond the 2010 Assessed Valuation. The calculations also assume collection of 95% of taxes levied, the sale of no additional bonds by the District other than the Bonds and the Remaining Outstanding Bonds, and no use of District funds on hand. As is outlined above under the caption “Historical Values and Tax Collection History,” as of August 31, 2010, the District had collected an average of its annual total property taxes of 99.86% for the period 1999 through 2008, and had collected 96.44% of its 2009 tax levy.

Average Annual Debt Service Requirements (2011-2016)	\$1,032,081
Tax Rate of \$0.77 on the 2010 Assessed Valuation (\$142,017,101) produces	\$1,038,855
Maximum Debt Service Requirement (2015)	\$1,036,725
Tax Rate of \$0.77 on the 2010 Assessed Valuation (\$142,017,101) produces	\$1,038,855

The District has levied a debt service tax in 2010 of \$0.662 per \$100 of Assessed Valuation, and a maintenance tax of \$0.073 per \$100 of Assessed Valuation. As the above table indicates, a tax rate of \$0.77 per \$100 of Assessed Valuation would be required to pay the maximum debt service requirement on the Bonds and the Remaining Outstanding Bonds unless taxable values in the District increase beyond the 2010 Assessed Valuation, assuming that the District will have a tax collection rate of 95%, no use of debt service funds available to the District in addition to tax receipts, and the issuance of no bonds by the District in addition to the Remaining Outstanding Bonds and the Bonds. However, as is illustrated above and under the caption “Historical Values and Tax Collection History,” as of August 31, 2010, the District had collected an average of 99.86% of its 1999 through 2008 tax levies, and its 2009 levy, which is in the process of collection, is 96.44% collected. Based upon such historical tax collections, the District’s 2010 tax levy of \$0.662 per \$100 of Assessed Valuation is sufficient to pay the average annual debt service requirements on the Bonds and the Remaining Outstanding Bonds assuming the District’s 2010 Assessed Valuation, no use of debt service funds available to the District in addition to tax receipts, and the issuance of no bonds by the District in addition to the Remaining Outstanding Bonds and the Bonds. Moreover, although neither Texas law nor the Bond Resolution requires that any specific amount be retained in the Debt Service Fund at any time, the District expects to apply earnings from the investment of monies held in the Debt Service Fund to meet the debt service requirements of the Bonds and the Outstanding Bonds. The District has in the past applied earnings from the investment of monies held in the Debt Service Fund to meet the debt service requirements of the Outstanding Bonds as is delineated in “APPENDIX B - ACCOUNTANTS’ REPORT AND FINANCIAL STATEMENTS” that is appended to this Official Statement. Therefore, the District anticipates that it will be able to meet debt service requirements on the Bonds and the Outstanding Bonds without increasing the tax rate for debt service above the debt service rate which the District has levied for 2010 - \$0.662 per \$100 of Assessed Valuation. However, the District can make no representation that the taxable property values in the District will increase in the future or will maintain a value sufficient to support the aforementioned tax rate or to justify continued payment of taxes by property owners. See “TAX PROCEDURES” and “INVESTMENT CONSIDERATIONS - Factors Affecting Taxable Values and Tax Payments.”

Estimated Overlapping Taxes

Property located within the District is subject to taxation by several taxing authorities in addition to the District. Set forth below is a compilation of all 2009 taxes levied upon property located within the District by such additional authorities, plus the District's 2010 tax levy. Under Texas law, ad valorem taxes levied by each taxing authority other than the District entitled to levy taxes against property located within the District create a lien which is on a parity with the tax lien of the District. In addition to the ad valorem taxes required to make the debt service payments on bonded debt of the District and of such other jurisdictions (see "DISTRICT DEBT- Estimated Direct and 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.

<u>Taxing Jurisdiction</u>	<u>2009 Tax Rate Per \$100 of Assessed Valuation</u>
The District	\$0.73500(a)
Fort Bend Independent School District	1.30500
Fort Bend County	0.49976
City of Missouri City (b)	0.52840
Houston Community College District	<u>0.09200</u>
Estimated Total Tax Rate	<u>\$3.16016</u>

- (a) The District has levied a debt service tax of \$0.662 per \$100 of Assessed Valuation and a maintenance tax of \$0.073 per \$100 of Assessed Valuation for 2010.
- (b) The entirety of the District is located within the corporate limits of the City of Missouri City, Texas, and is subject to taxation by the City. The City levied a tax during 2009 of \$0.5284 per \$100 of Assessed Valuation. The combination of the City's levy of \$0.5284 per \$100 of Assessed Valuation and the District's 2010 levy of \$0.735 per \$100 of Assessed Valuation results in a combined tax rate of \$1.2634 per \$100 of Assessed Valuation. This combined rate is higher than the tax levy of many municipal utility districts in the area of the District. See "INVESTMENT CONSIDERATIONS - Factors Affecting Taxable Values and Tax Payments."

THE DISTRICT

Authority

The District is a municipal utility district created by order of the Texas Water Commission, predecessor to the TCEQ, dated December 21, 1982, pursuant to the authority of Chapter 54, Texas Water Code, and Article XVI, Section 59 of the Texas Constitution. The creation of the District was confirmed at an election held within the District on February 18, 1984, by a vote of 3 "For" to 0 "Against." 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, particularly Chapters 49 and 54, Texas Water Code, as amended. The principal functions of the District are to finance, construct, own, and operate waterworks, wastewater, and drainage facilities and to provide such facilities and services to the customers of the District. The District, if approved by the voters within the District, the TCEQ, and other governmental entities having jurisdiction, may establish, operate, and maintain a fire department, independently or with one or more other conservation and reclamation districts, and provide such facilities and services to the customers of the District. The District is subject to the continuing supervision of the TCEQ in certain matters.

Description

When created, the District contained approximately 358.9 acres of land. Through certain annexations, the District now contains approximately 416.4 acres. The District is located approximately twenty-five miles southwest of the central business district of Houston, Texas in the northeastern portion of Fort Bend County, Texas. The District is located

entirely within the corporate boundaries of the City of Missouri City, Texas. The District is located entirely within Fort Bend County and the Fort Bend Independent School District. The District is bounded on the south and west by Oyster Creek, on the north by Quail Valley Utility District, and on the east by Palmer Plantation Municipal Utility District No. 2 (“MUD No. 2”). Texas State Highway 6 is located approximately 500 feet from the western boundary of the District, and the intersection of Texas State Highway 6 and FM 1092 is located approximately one mile northwest of the western boundary of the District. See “APPENDIX A - LOCATION MAP.”

Management of the District

The District is governed by the Board, consisting of five directors. The Board has control over and management supervision of all affairs of the District. Directors serve four-year staggered terms, and elections are held within the District in May in even-numbered years. The current members and officers of the Board, along with their respective terms of office, are listed below.

<u>Name</u>	<u>Title</u>	<u>Term Expires May</u>
Tara Wagner	President	2014
Mike Ware	Vice President	2014
Terri Ellis	Secretary	2014
Lynn Macko	Deputy Secretary	2012
Larry J. Eaton	Director	2012

The District does not have a general manager or any other employee, but has contracted for services as follows:

Bookkeeper - The District has contracted with Municipal Accounts & Consulting, L.P., Houston, Texas for bookkeeping services. According to Municipal Accounts & Consulting, L.P., it presently serves 300 utility districts as bookkeeper.

Tax Assessor/Collector - The District has engaged Thomas W. Lee and Assessments of the Southwest, Inc., Friendswood, Texas as the District's Tax Assessor/Collector. According to Mr. Lee, he presently serves 135 utility districts as tax assessor/collector.

Utility System Operator - Quail Valley Utility District is the general operator of the District's System. According to Quail Valley Utility District, it is currently employed as utility system operator for eleven utility districts.

Auditor - The District has employed BKD, LLP, Certified Public Accountants, to audit its financial statements for the year ending December 31, 2009. A copy of the District's audit for the fiscal year ended December 31, 2009, is included as “APPENDIX B” to this Official Statement.

Consulting Engineers - The District has employed the firm of LJA Engineering & Surveying, Inc., Houston, Texas as Consulting Engineer (the “Engineer”) in connection with overall planning activities and the design of the System.

Legal Counsel - The District employs Paul A. Philbin & Assoc., P.C., Houston, Texas, as general counsel and as Bond Counsel in connection with the issuance of the Bonds. Payment to Bond Counsel by the District of legal fees for services rendered in connection with the issuance of the Bonds is based upon a percentage of the Bonds actually issued and sold and therefore such fees are contingent on the issuance, sale and delivery of the Bonds. See “LEGAL MATTERS.”

Special Tax Counsel - McCall, Parkhurst & Horton, L.L.P., Dallas, Texas, serves as Special Tax Counsel to the District in connection with the issuance of the Bonds. The fees to be paid Special Tax Counsel for services rendered in connection with the issuance of the Bonds are contingent on the issuance, sale and delivery of the Bonds.

Financial Advisor - The District has engaged Rathmann & Associates, L.P., as financial advisor (the "Financial Advisor") to the District. The fees to be paid the Financial Advisor for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued and sold. Therefore, the payment of such fees is contingent upon the sale and delivery of the Bonds.

DEVELOPMENT

The development of the entirety of the land within the District that is available for development is complete. Such land has been developed primarily for single-family residential usage. As of September 15, 2010, the District contained a total of 733 fully developed single-family residential lots which contained 598 single-family residences, including two residences under construction. The owner of approximately 59 vacant fully developed single-family residential lots that are available for home construction, as is reflected on the District's 2010 tax roll, is Marhaba Partners Limited Partnership. The owner of approximately 10 vacant fully developed single-family residential lots that are available for home construction is Leeland Real Properties, LLC. Certain fully developed lots located within the District on which home construction has not commenced or been completed are owned by individual purchasers. See "TAX DATA - Principal 2010 Property Owners." There is currently no home construction activity within the District. The development of the aforementioned aggregate of 733 single-family residential lots is complete in the following subdivisions: Palmer Plantation at Lake Olympia, Sections 1 and 2 (240 total lots), The Peninsulas at Lake Olympia, Sections 1 through 4 (145 total lots), Harbor View Village at Lake Olympia, Sections 1 and 2 (42 total lots), Lakeside Estates at Lake Olympia, Sections 1 and 2 (2 lots), Parkview Village at Lake Olympia, Section 1 (64 lots), Lakeside Village at Lake Olympia (27 lots), Flamingo Estates at Lake Olympia (6 lots), Swan Isle at Lake Olympia, Sections 1 through 3 (84 total lots), and Flamingo Island at Lake Olympia, Sections 1 and 2 (123 total lots). In addition to the approximately 218.10 net acres available for development contained in such subdivisions, development of land used and expected to be used for commercial purposes has resulted in the development of an approximate 10.73-acre tract which has been provided perimeter trunk water, sewer and drainage facilities and street paving. The District financed its portion of the cost of acquiring and constructing the components of the water supply and distribution, wastewater collection and treatment, and storm drainage system (the "System") that serve the entirety of the District with the proceeds of the Outstanding Bonds. See "THE SYSTEM - Description" and "THE BONDS - Legal Ability to Issue Additional Debt." An amenities complex including a pool, bath house, two lighted tennis courts, and a dock area has been completed to serve the development. In addition, a 28 slip marina and boat ramp to serve non-gasoline powered boats, an eight lane community pool and bathhouse, parking lot and playground have been constructed to serve the development. The District contains approximately 9.4 acres owned by the Fort Bend Independent School District on which the Fort Bend Independent School District has constructed the Palmer Plantation Elementary School. Approximately 178 acres located within the District have been or are expected to be dedicated as drainage easements or other easements for public purposes, boulevards, are contained in lakes, recreation reserves, District facilities sites, various pipeline easements, or are otherwise not available or expected to be available for development.

THE SYSTEM

Regulation

According to the Engineer, the District's water, wastewater and storm drainage facilities (the "System") have been designed in conformance with accepted engineering practices and the requirements of certain governmental agencies having regulatory or supervisory jurisdiction over the construction and operation of such facilities, including, among others, the TCEQ, the City of Missouri City, and Fort Bend County.

Operation of the System is subject to regulation by, among others, the Environmental Protection Agency and the TCEQ. In many cases, regulations promulgated by these agencies have become effective only recently and are subject to further development and revision. The total number of single-family connections estimated at this time for the District upon the full development of its 416.4 acres is 733 with a total estimated population of 2,566 people. The following descriptions are based upon information supplied by the Engineer.

Description

The proceeds of the sale of the Outstanding Bonds were used to finance the construction or acquisition costs of the facilities that serve the 733 single-family connections located in Palmer Plantation at Lake Olympia, Sections 1 and 2, The Peninsulas at Lake Olympia, Sections 1 through 4, Harbor View Village, Sections 1 and 2, Lakeside Estates, Sections 1 and 2, Parkview Village at Lake Olympia, Section 1, Lakeside Village, Flamingo Estates at Lake Olympia, Swan Isle at Lake Olympia, Sections 1 through 3 and Flamingo Island, Sections 1 and 2. Such facilities include underground water distribution, wastewater collection and storm drainage facilities.

- Wastewater Treatment -

The District currently provides wastewater treatment with the capacity to which it is entitled in a joint regional wastewater treatment facility which the District shares with the adjoining Palmer Plantation Municipal Utility District No. 2 ("MUD No. 2") and Fort Bend County Municipal Utility District No. 49 ("MUD No. 49"). The District has entered into an agreement (the "Wastewater Treatment Agreement") with MUD No. 2 and MUD No. 49 which provides for the joint ownership and management of wastewater treatment facilities. The facility contains 600,000 gallons-per-day ("gpd") of capacity. Under the terms of the Wastewater Treatment Agreement, the District is entitled to 37.58% of the capacity in such facilities and bears 37.58% of the costs, including construction costs, related thereto. The District has financed its share of the capacity in the facility under the Wastewater Treatment Agreement with a portion of the proceeds of the sale of the Outstanding Bonds. According to the Engineer, the District's current capacity in the facility is sufficient to provide service to a total of approximately 805 single-family equivalent connections, including all 733 single-family residential connections developed in the District to date, plus the balance of the connections currently projected for the District upon full development of the District as such development is currently planned.

- Water Supply -

The District financed the construction of water supply facilities with a portion of the proceeds of the Outstanding Bonds. The District has entered into an agreement (the "Agreement") with MUD No. 2 and MUD No. 49 which provides for the joint ownership and management of a water supply well and treatment plant (the "Water Plant"). The Water Plant consists of a 1,300 gallons-per-minute ("gpm") water well, a 500,000 gallon storage tank, two 20,000 gallon hydropneumatic tanks, two 1,000 gpm, one 1,500 gpm and one 500 gpm booster pumps and related appurtenances. Under the terms of the Agreement, the District is entitled to 44.20% of the water supply capacity in the Water Plant and bears 44.20% of the costs, including construction costs, related thereto. The District has emergency water interconnection lines with the adjoining Thunderbird Utility District ("Thunderbird") and Fort Bend County Municipal Utility District No. 46 ("MUD No. 46") which connect the District's water supply and distribution system with each district's water supply and distribution system. The interconnection provides the District and Thunderbird and the District and MUD No. 46 with a second source of potable water in the event of emergency. According to the District's Engineer, the District's current pro rata share of the capacity in the Water Plant is sufficient to provide service to 884 single-family equivalent connections, including all 733 single-family residential connections developed in the District to date, plus the balance of the connections currently projected for the District upon full development of the District as such development is currently planned.

- Drainage Improvements -

The District financed its share of the cost of drainage facilities with a portion of the proceeds of the sale of the Outstanding Bonds. Such improvements include (i) the excavation of existing lakes located in the District and the construction of two new lakes to serve as onsite retention lakes, including approximately 569,300 cubic yards of excavation, approximately 28,200 cubic yards of swale excavation, and related appurtenances; and (ii) levee and ditch improvements including approximately 275 linear feet of 60-inch diameter corrugated galvanized metal pipe, three 60-inch flap gates, three 60-inch mechanical sluice gates, approximately 2,655 cubic yards of excavation of Oyster Creek, construction of a levee, and related appurtenances. Such drainage improvements provide adequate drainage to serve all 733 single-family residential connections developed in the District to date. The District has through the construction of such facilities provided sufficient storm water retention to serve the District.

- 100-Year Flood Plain -

According to the District's Engineer, as a result of the aforementioned drainage improvements completed to date, the Federal Emergency Management Agency Flood Hazard Boundary Map currently in effect which covers the land located in the District indicates that no portion of the land contained in the District is located within the 100-year flood plain of any watercourse. However, according to the District's Engineer, the levee and retention system results in a 100-year flood plain defined by the District's Engineer as "internal" to the project which affects a portion of the land comprising The Peninsulas at Lake Olympia, Sections 2 and 3 and a portion of Lakeside Estates. According to the District's Engineer, the house slabs constructed in The Peninsulas at Lake Olympia, Sections 2 and 3 will be constructed above the internal 100-year flood elevation. According to the District's Engineer, (i) such requirements will be incorporated in the building permits issued by the City of Missouri City governing the construction of homes in The Peninsulas at Lake Olympia, Section 2 and 3, and (ii) the City of Missouri City has agreed to issue building permits covering all such lots. Moreover, according to the District's Engineer, it is expected that all house slabs constructed in the District will be constructed above the internal 100-year flood elevation.

Waterworks and Sewer System Operating Statement

The following statement summarizes the operating history of the District's waterworks and sewer system for the fiscal years ended December 31, 2005, through 2009 (audited) and the eight-month period ended August 31, 2010 (unaudited). The summary has been condensed from information contained in the District's audited financial statements for the fiscal years ended December 31, 2005, through 2009, to which reference is made for more complete and further information; and from unaudited information supplied by the District's bookkeeper in the case of the eight-month period ended August 31, 2010. The derivation of Net Revenues which follows excludes depreciation expenses. See "INVESTMENT CONSIDERATIONS - Production of Net Revenues" and "APPENDIX B - ACCOUNTANTS' REPORT AND FINANCIAL STATEMENTS."

	Eight-Month Period Ended August 31, 2010*	Fiscal Year Ended December 31				
		2009	2008	2007	2006	2005
GENERAL FUND						
Property Taxes	\$70,590	\$61,526	\$ 28,417	\$ -	\$ -	\$ -
Water Service	136,661	236,907	217,902	175,082	186,487	190,565
Sewer Service	99,916	155,946	148,557	126,781	94,345	87,777
Surface Water Conversion	66,390	99,032	47,563	13,125	-	-
Penalty and Interest	5,647	9,341	7,876	7,139	6,477	5,287
Tap Connection and Inspection Fees	5,900	2,125	1,100	9,325	3,085	3,130
Investment Income	3,088	6,002	12,030	22,373	26,417	14,615
Other Income	<u>11,799</u>	<u>17,233</u>	<u>9,154</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL REVENUES	\$399,991	\$588,112	\$472,599	\$353,825	\$316,811	\$301,374
EXPENDITURES						
Service Operations:						
Purchased Services	\$187,628	\$280,692	\$197,111	\$155,102	\$158,436	\$129,386
Professional Fees	49,373	60,964	74,458	66,740	48,115	49,849
Contracted Services	48,811	53,650	50,831	45,180	38,584	34,107
Utilities	2,794	4,068	3,692	3,524	3,148	3,068
Repairs and Maintenance	77,773	83,190	113,685	117,165	65,629	62,819
Other Expenditures	38,724	74,002	45,870	42,274	44,471	33,474
Tap Connections	325	850	425	3,975	1,700	1,925
Capital Outlay	<u>-</u>	<u>43,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES	\$405,428	\$600,416	\$486,072	\$433,960	\$360,083	\$314,628
EXCESS REVENUES (EXPENDITURES)	<u>\$ (5,437)</u>	<u>\$ (12,304)</u>	<u>\$(13,473)</u>	<u>\$(80,135)</u>	<u>\$(43,272)</u>	<u>\$(13,254)</u>

* Unaudited.

The District's General Fund balance at December 31, 2009, was \$366,278 (audited), and at September 15, 2010, was \$291,919 (unaudited).

INVESTMENT CONSIDERATIONS

General

The Bonds, which are obligations of the District and not of the State of Texas, Fort Bend County, the City of Missouri City, or any political subdivision other than the District, will be secured by an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District, and are further payable from and secured by a pledge of and lien on certain Net Revenues (as defined herein), if any, of the District's waterworks and sewer system (the "System"), to the extent and upon the conditions described herein. The System is not expected to produce sufficient Net Revenues to make significant contributions, if any, to future debt service payments. See "THE SYSTEM - Waterworks and Sewer System Operating Statement." The ultimate security for payment of the principal of and interest on the Bonds depends upon the ability of the District to (i) collect from the property owners within the District taxes levied against all taxable property located within the District, or, in the event taxes are not collected and foreclosure proceedings are instituted by the District, upon the value of the taxable property with respect to taxes levied by the District and by other taxing authorities, and (ii) generate Net Revenues from the operation of the District's System. The District makes no representations that over the life of the Bonds the property within the District will maintain a value sufficient to justify continued payment of taxes by the property owners, or that any Net Revenues will be generated. The potential increase in taxable valuation of District property is directly related to the economics of the residential housing industry, not only due to general economic conditions, but also due to the particular factors discussed below.

Factors Affecting Taxable Values and Tax Payments

Economic Factors: The land located within the District has been developed for single-family residential purposes. A substantial percentage of the assessed valuation of the property located within the District is attributable to the current market value of single-family residences that have been constructed within the District and of the single-family residential lots that have been developed within the District. The assessed value of such homes and lots is related to general economic conditions affecting the demand for residences. Demand for lots of this type and the construction of residential dwellings thereon can be significantly affected by factors such as interest rates, credit availability, construction costs, energy availability and the prosperity and demographic characteristics of the urban area toward which the marketing of lots and homes is directed. Were the District to experience a significant number of residential foreclosures, the value of all homes within the District could be adversely affected. Although, as of September 15, 2010, the entirety of the developable land located within the District has been developed into a total of 733 fully developed single-family residential lots on 598 of which single-family homes have been constructed (including two homes that are currently under construction) as is described in the sections of this Official Statement entitled "DEVELOPMENT" and "THE SYSTEM," the District cannot predict the pace or magnitude of any home construction that might occur in the District in the future. There is currently no home building activity within the District.

National Economy: There has been a significant downturn in new housing construction in the United States, resulting in a decline in national housing market values. The Houston area, which includes Fort Bend County, has experienced reduced levels of home construction. Although, as of September 15, 2010, the entirety of the developable land located within the District has been developed into a total of 733 fully developed single-family residential lots on 598 of which single-family homes have been constructed (including two homes that are currently under construction) as is described in the sections of this Official Statement entitled "DEVELOPMENT" and "THE SYSTEM," the District cannot predict the pace or magnitude of any home construction that might occur in the District in the future. There is currently no home building activity within the District.

Credit Markets and Liquidity in the Financial Markets: Interest rates and the availability of mortgage and development funding have a direct impact on the construction of homes, particularly short-term interest rates at which homebuilders are able to finance the construction of new homes for sale. Interest rate levels may affect the ability of homebuilders to initiate the construction of new homes for sale. Because of the numerous and changing factors affecting the availability of funds, particularly liquidity in the national credit markets, the District is unable to assess the future availability of such funds for home construction within the District. In addition, since the District is located approximately 25 miles southwest of the central downtown business district of the City of Houston, the success of home construction within the District and growth or maintenance of District taxable

property values are, to a great extent, a function of the Houston metropolitan and regional economies and national credit and financial markets. A continued downturn in the economic conditions of Houston and further decline in real estate and financial markets in the United States could adversely affect homebuilding plans in the District and restrain the growth of the District's property tax base.

Maximum Impact on District Tax Rates: Assuming no further home construction within the District, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of District property owners to pay their taxes. The 2010 Assessed Valuation of property within the District (see "TAX DATA") is \$142,017,101. After issuance of the Bonds, the maximum annual debt service requirement on the Bonds and the Remaining Outstanding Bonds will be \$1,036,725 (2015) and the average annual debt service requirements will be \$1,032,081 (2010 through 2016, inclusive). The District has levied a debt service tax in 2010 of \$0.662 per \$100 of Assessed Valuation, and a maintenance tax of \$0.073 per \$100 of Assessed Valuation. As is illustrated in this Official Statement under the caption "TAX DATA - Tax Rate Calculations," a debt service tax rate of \$0.662 per \$100 of Assessed Valuation is not sufficient to pay the maximum debt service requirement on the Bonds and the Remaining Outstanding Bonds unless taxable values in the District increase beyond the 2010 Assessed Valuation, assuming that the District will have a tax collection rate of 95%, no use of debt service funds available to the District in addition to tax receipts, and the issuance of no bonds by the District in addition to the Remaining Outstanding Bonds and the Bonds. However, as is illustrated above under the caption "TAX DATA - Historical Values and Tax Collection History," as of August 31, 2010, the District had collected an average of 99.86% of its 1999 through 2008 tax levies, and its 2009 levy, which is in the process of collection, was 96.44% collected. Based upon such historical tax collections, the District's 2010 debt service tax levy of \$0.662 per \$100 of Assessed Valuation is sufficient to pay the average annual debt service requirements on the Bonds and the Remaining Outstanding Bonds assuming the District's 2010 Assessed Valuation, no use of debt service funds available to the District in addition to tax receipts, and the sale of no bonds by the District except the Remaining Outstanding Bonds and the Bonds. Moreover, although neither Texas law nor the Bond Resolution requires that any specific amount be retained in the Debt Service Fund at any time, the District expects to apply earnings from the investment of monies held in the Debt Service Fund to meet the debt service requirements of the Bonds and the Remaining Outstanding Bonds. The District has in the past applied earnings from the investment of monies held in the Debt Service Fund to meet the debt service requirements of the Outstanding Bonds as is delineated in "APPENDIX B - ACCOUNTANTS' REPORT AND FINANCIAL STATEMENTS" that is appended to this Official Statement. Therefore, the District anticipates that it will be able to meet debt service requirements on the Bonds and the Outstanding Bonds without increasing the tax rate for debt service above the debt service rate which the District has levied for 2010 - \$0.662 per \$100 of Assessed Valuation. However, the District can make no representation that the taxable property values in the District will increase in the future or will maintain a value sufficient to support the aforementioned tax rate or to justify continued payment of taxes by property owners. See "TAX PROCEDURES."

The entirety of the District is located within the corporate limits of the City of Missouri City, Texas, and is subject to taxation by the City. The City levied a tax during 2009 of \$0.5284 per \$100 of Assessed Valuation. The combination of the City's levy of \$0.5284 per \$100 of Assessed Valuation and the District's 2010 levy of \$0.735 per \$100 of Assessed Valuation results in a combined levy of \$1.2634 per \$100 of Assessed Valuation, which combined levy is higher than the combination of the tax levies of many municipal utility districts in the greater Houston metropolitan area. The aggregate of the 2009 levies of all other units of government that levy taxes upon the property located within the District, plus the District's 2010 levy, is \$3.16016 per \$100 of Assessed Valuation.

Increases in the District's tax rate to higher levels than the \$0.735 per \$100 of Assessed Valuation rate that the District has levied for 2010 may have an adverse impact upon the sale and construction of homes within the District and the ability of the District to collect, and the willingness of owners of property located within the District to pay, ad valorem taxes levied by the District. In addition, the collection by the District of delinquent taxes owed to it and the enforcement by a Registered Owner of the District's obligations to collect sufficient taxes may be a costly and lengthy process.

Tax Collection Limitations

The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other state and local 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) a bankruptcy court's stay of tax collection procedures against a taxpayer, (c) market conditions limiting the proceeds from a foreclosure sale of taxable property or (d) the taxpayer's right to redeem the property within two years of foreclosure. While the District has a lien on taxable property within the District for taxes levied against such property, such lien can be foreclosed only in a judicial proceeding.

Production of Net Revenues

The Net Revenues, if any, to be derived from the operation of the System are entirely dependent upon sales of water and sewer services to current and future residents and users of the System and related operating expenses. The District does not expect that the operation of the System will produce net operating revenue sufficient to make a substantial contribution, if any, to the District's debt service requirements. See "THE SYSTEM - Waterworks and Sewer System Operating Statement" and "APPENDIX B - ACCOUNTANTS' REPORT AND FINANCIAL STATEMENTS."

Registered Owners' Remedies and Bankruptcy

In the event of default in the payment of principal of or interest on the Bonds, the Registered Owners have a right to seek a writ of mandamus requiring the District to levy adequate taxes each year to make such payments. Except for mandamus, the Bond Resolution 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 the 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 property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within 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 further 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. In this regard, should the District file a petition for protection from creditors under federal bankruptcy laws, the remedy of mandamus or the right of the District to seek judicial foreclosure of its tax lien 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."

Marketability

The District has no understanding (other than the initial reoffering yields) with the Underwriters 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

The District has the right to issue the remaining \$5,125,000 in bonds authorized but unissued for waterworks, sanitary sewer and drainage facilities, and for refunding purposes (see "THE BONDS - Legal Ability to Issue Additional Debt"), and such additional bonds as may hereafter be approved by both the Board and voters of the District. The District also has the right to issue certain other additional bonds, special project bonds, and other obligations described in the Bond Order. All of the remaining \$5,125,000 in bonds authorized for waterworks, sanitary sewer and drainage facilities, and

for refunding purposes, which have heretofore been authorized by the voters of the District may be issued by the District from time to time as needed. If additional bonds are issued in the future and property values have not increased proportionately, such issuance may increase gross debt/property valuation ratios and thereby adversely affect the investment quality or security of the Bonds and the Remaining Outstanding Bonds.

Competitive Nature of Houston Residential Housing Market

The housing industry in the Houston metropolitan area is very competitive, and the District can give no assurance that home construction activity will continue in the District. The competitive position of any home builder in the construction and sale of single-family residential units is affected by most of the factors discussed in this section, and such competitive position is directly related to tax revenues received by the District and the growth and maintenance of taxable values in the District.

Continuing Compliance with Certain Covenants

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

Environmental Regulation

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

1. Requiring permits for construction and operation of water supply wells and wastewater treatment facilities;
2. Restricting the manner in which wastes are released into the air, water, or soils;
3. Restricting or regulating the use of wetlands or other property;
4. Requiring action to prevent or mitigate pollution;
5. Imposing substantial liabilities for pollution resulting from facility operations.

Compliance with environmental laws and regulations can increase the cost of planning, designing, constructing and operating water production and wastewater treatment facilities. Sanctions against a municipal utility district or other type of district (“Utility Districts”) for failure to comply with environmental laws and regulations may include a variety of civil and criminal enforcement measures, including assessment of monetary penalties, imposition of remedial requirements, and injunctive relief as to future compliance of and the ability to operate the Utility District’s water supply, wastewater treatment, and drainage facilities. Environmental laws and regulations can also impact an area’s ability to grow and develop. The following is a discussion of certain environmental concerns that relate to Utility Districts, including the District. It should be noted that changes in environmental laws and regulations occur frequently, and any changes that result in more stringent and costly requirements could materially impact the District.

Air Quality Issues

Air quality control measures required by the United States Environmental Protection Agency (the “EPA”) and the Texas Commission on Environmental Quality (“TCEQ”) may impact new industrial, commercial and residential development in Houston and adjacent areas. Under the Clean Air Act (“CAA”) Amendments of 1990, the eight-county Houston-Galveston area (“HGB area”) – Harris, Galveston, Brazoria, Chambers, Fort Bend, Waller, Montgomery and Liberty counties – was designated by the EPA in 2007 as a severe ozone nonattainment area. Such areas are required to demonstrate progress in reducing ozone concentrations each year until the EPA “8-hour” ozone standards are met. Both the TCEQ and EPA have taken comments on the submission of a new State Implementation Plan (“SIP”) which would account for the severe classification of the HGB area and propose ways of complying with the goals for attainment. On September 23, 2009, the Commission approved proposal of a number of SIP revisions and associated rule revisions for the HGB area for 8-hour ozone standard. The attainment date for severe nonattainment regions is June 15, 2019. To provide for reductions in ozone concentrations as a result of this classification, the EPA and the TCEQ have imposed

increasingly stringent limits on sources of air emissions and require any new source of significant air emissions to provide for a net reduction of air emissions. If the HGB area fails to demonstrate progress in reducing ozone concentrations or fails to meet EPA's standards, EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects, as well as severe emissions offset requirements on new major sources of air emissions for which construction has not already commenced.

In order to comply with the EPA's standards for the HGB area, the TCEQ has proposed SIPs setting emission control requirements, some of which regulate the inspection and use of automobiles. These types of measures could impact how people travel, what distances people are willing to travel, where people choose to live and work, and what jobs are available in the HGB area. In response to the severe ozone nonattainment designation, the TCEQ is now working on additional control technologies for the next SIP submission to the EPA, which it has requested be finalized by April 2010. This means that additional control strategies will need to be implemented in order to achieve attainment, and it is possible that these additional controls could have a negative impact on the HGB area's economic growth and development.

Water Supply & Discharge Issues

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

Pursuant to the Safe Drinking Water Act ("SDWA"), potable (drinking) water provided by the District to more than twenty-five (25) people or fifteen (15) service connections will be subject to extensive federal and state regulation as a public water supply system, which include, among other requirements, frequent sampling and analyses. Further, EPA adopted new drinking water rules in 2006 (the Stage 2 Disinfectants and Disinfection Byproducts Rule; the Long Term 2 Enhanced Surface Water Treatment Rule, and the Ground Water Rule), which the TCEQ adopted on December 19, 2007. These new rules, effective January 10, 2008, may increase costs to public water systems for sampling and treatment. Additionally, the EPA has been charged with establishing maximum contaminant levels (MCLs) for potential drinking water contaminants (both naturally occurring and anthropogenic) such as arsenic, lead, radon, and disinfection by-products (e.g. chlorine). Additional or more stringent regulations or requirements pertaining to these and other drinking water contaminants in the future could require installation of more costly treatment facilities.

Operations of the District's sewer facilities will be subject to regulation under the Federal Clean Water Act and the Texas Water Code. All discharges of pollutants into the nation's navigable waters must comply with the Clean Water Act. The Clean Water Act allows municipal wastewater treatment plants to discharge treated effluent to the extent allowed under permits issued pursuant to the National Pollutant Discharge Elimination System ("NPDES") program, a national program established by the Clean Water Act for issuing, revoking, monitoring and enforcing wastewater discharge permits. On September 14, 1998, EPA authorized Texas to implement the NPDES program, which is called the Texas Pollutant Discharge Elimination System ("TPDES") program.

TPDES permits set limits on the type and quantity of discharge, in accordance with state and federal laws and regulations. Any discharges to water bodies designated as impaired streams in accordance with the Clean Water Act may be precluded from obtaining a TPDES permit if pollutants for which the stream is designated as impaired are among those pollutants being released by a Utility District. Moreover, the Clean Water Act and Texas Water Code require municipal wastewater treatment plants to meet secondary treatment effluent limitations. In addition, under the Clean Water Act, states must identify any bodies of water for which more stringent effluent standards are needed to achieve water quality standards and must establish the maximum allowable daily load of certain pollutants into the water bodies. Total maximum daily loads ("TMDLs") rules can have a significant impact on Utility Districts' ability to obtain and maintain TPDES permits. On April 8, 2009, the Commission approved the adoption of eighteen TMDLs for bacteria in Buffalo and White Oak Bayous and tributaries in the San Jacinto River Basin. These new TMDLs were approved by EPA in June 2009. Utility Districts may be required to expend substantial funds to meet any of these regulatory requirements. If the District fails to achieve compliance with its discharge permits, a private plaintiff or the EPA could institute a civil action for injunctive relief and civil penalties.

Operations of Utility Districts are also potentially subject to stormwater discharge permitting requirements under the Clean Water Act and EPA and TCEQ regulations. The TCEQ issued a general permit for stormwater discharges associated with industrial activities (which was amended and reissued on August 14, 2006) and a general permit for stormwater discharges associated with small municipal separate storm sewer systems (which was issued on August 13, 2007). Utility Districts are also required to develop and implement stormwater pollution prevention plans and stormwater management plans. The District could incur substantial costs to develop and implement such plans as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff. Failure to comply with these requirements may result in the imposition of administrative, civil, and criminal penalties as well as injunctive relief under the Clean Water Act or the Texas Water Code.

Operations of Utility Districts, including the District, are also potentially subject to requirements and restrictions under the Clean Water Act regarding the use and alteration of wetland areas that are within the “waters of the United States.” The District must obtain a permit from the U.S. Army Corps of Engineers if operations of the District require that wetlands be filled, dredged, or otherwise altered.

LEGAL MATTERS

Legal Opinions

The District will furnish the Underwriters a transcript of certain certified proceedings had 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 Paul A. Philbin & Assoc., P.C., 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 ad valorem taxes, without legal limit as to rate or amount, upon all taxable property located within the District, and are further payable from and secured by a pledge of and lien on the Net Revenues, if any, of the System. The District will also furnish the approving legal opinion of McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Special Tax Counsel to the District (“Special Tax Counsel”), to the effect that interest on the Bonds is excludable from gross income for federal income tax purposes under existing statutes, regulations, published rulings and court decisions as described under the caption which follows entitled “TAX MATTERS.

In its capacity as Bond Counsel, Paul A. Philbin & Assoc., P.C. has reviewed the information appearing in this Official Statement under the captions “THE BONDS,” “PLAN OF FINANCING - Refunded Bonds,” “TAX PROCEDURES,” “THE DISTRICT - Authority,” and - “Legal Counsel,” “LEGAL MATTERS - Legal Opinions,” (but only insofar as such caption relates to the opinions of Bond Counsel) and “CONTINUING DISCLOSURE OF INFORMATION,” to determine whether such information fairly summarizes the procedures, law and documents referred to therein. In its capacity as Special Tax Counsel, McCall, Parkhurst & Horton L.L.P., has reviewed the information appearing in this Official Statement under the captions “LEGAL MATTERS - Legal Opinions” (but only insofar as such caption relates to the opinion of Special Tax Counsel) and “TAX MATTERS” to determine whether such information fairly summarizes the procedures, law and documents referred to therein. Bond Counsel and Special Tax Counsel have not, however, independently verified any of the other factual information contained in this Official Statement nor have they 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 such parties' 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 and Special Tax 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. Certain legal matters will be passed upon for the Underwriters by McCall, Parkhurst & Horton L.L.P., Dallas, Texas.

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

TAX MATTERS

Opinion

On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Special Tax Counsel, will render its 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, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes; and (2) will not be included in the alternative minimum taxable income of individuals under section 57(a)(5) of the Code or, except as described below, corporations. Except as stated above, Special Tax Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds.

In rendering its opinion, Special Tax Counsel will rely upon (a) the opinion of Paul A. Philbin & Assoc., P.C. , Bond Counsel, that the Bonds are valid and binding obligations of the District payable from the proceeds of a generally-applicable ad valorem tax, (b) the District's federal tax certificate and the verification report prepared by Grant Thornton LLP, Certified Public Accountants and (c) 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 matter. Failure by the District to observe the aforementioned representations or covenants, could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Special Tax Counsel is conditioned on compliance by the District with such requirements, and Special Tax Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

Special Tax Counsel's opinion represents its legal judgement based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Special Tax Counsel's opinion is not a guarantee of a 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 Issuer with respect to the Bonds or the property financed or refinanced with proceeds of the Bonds. No assurances can be given as to whether or not the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Special Tax Counsel. If an 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.

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, individuals allowed an earned income credit, certain S corporations with accumulated earnings and profits and excess passive investment income, foreign corporations subject to the branch profits tax, taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

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

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

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

State, Local and Foreign Taxes

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

Qualified Tax-Exempt Obligations for Financial Institutions

Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible by such taxpayer in determining taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer which is a "financial institution" allocable to tax-exempt obligations, other than "specified private activity bonds," which are designated by a "qualified small issuer" as "qualified tax-exempt obligations." A "qualified small issuer" is any governmental issuer (together with any subordinate issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term "financial institution" as referring to any corporation described in section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business which is subject to federal or state supervision as a financial institution.

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

VERIFICATION OF ACCURACY OF MATHEMATICAL COMPUTATION

The arithmetical computations of the adequacy of the amounts deposited with the Paying Agent for the Refunded Bonds and certain available funds (if any) to pay, when due, the principal or redemption price of and interest on the Refunded Bonds, was verified by Grant Thornton LLP, Certified Public Accountants. The computations were independently verified by Grant Thornton LLP based upon assumptions and information supplied on behalf of the District.

SOURCES OF INFORMATION

General

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

The District's financial statements for the year ended December 31, 2009, were audited by BKD, LLP, Certified Public Accountants, and have been included herein as "APPENDIX B." BKD, LLP has agreed to the publication of such audit opinion in this Official Statement. A copy of the Management Letter from the District's auditor to the District's Board of Directors relating to the District's financial reporting under Statement of Auditing Standards No. 112, including the District's response thereto, is included in "APPENDIX B."

Experts

The information contained in this Official Statement relating to engineering, to the description of the System generally and, in particular, the engineering information included in the sections captioned “THE DISTRICT,” “DEVELOPMENT” and “THE SYSTEM” has been provided by LJA Engineering & Surveying, Inc., Houston, Texas. Such information has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

The information contained in this Official Statement relating to assessed valuations of property generally and, in particular, that information concerning valuations contained in the sections captioned “TAX DATA” and “DISTRICT DEBT” has been provided by the Fort Bend Central Appraisal District and Thomas W. Lee. The District has included certain information herein in reliance upon Mr. Lee's authority as an expert in the field of tax assessing and real property appraisal.

Updating of Official Statement

If, subsequent to the date of the Official Statement, the District learns, or is notified by the Underwriters, of any adverse event which causes the Official Statement to be materially misleading, and unless the Underwriters elect to terminate its obligation to purchase the Bonds, the District will promptly prepare and supply to the Underwriters an appropriate amendment or supplement to the Official Statement satisfactory to the Underwriters; provided, however, that the obligation of the District to so amend or supplement the Official Statement will terminate upon the earlier of (i) 90 days after the end of the underwriting period as defined in SEC rule 15c2-12 or (ii) the date the Official Statement is filed with the MSRB, but in no case less than 25 days after the “end of the underwriting period.”

Certification of Official Statement

At the time of payment for and delivery of the Bonds, the District will furnish the Underwriters a certificate, executed by the President and Secretary of the Board, acting in their official capacities, to the effect that to the best of their knowledge and belief (a) the information, descriptions and statements of or pertaining to the District contained in this Official Statement, on the date thereof and on the date of delivery were and are true and correct in all material respects; (b) insofar as the District and its affairs, including its financial affairs, are concerned, this Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated herein or necessary to make the statements herein, in the light of the circumstances under which they were made, not misleading; and (c) insofar as the descriptions and statements, including financial data contained in this Official Statement, of or pertaining to entities other than the District and their activities are concerned, such statements and data have been obtained from sources which the District believes to be reliable and that the District has no reason to believe are untrue in any material respect or omit to state any material fact necessary to make the statements herein, in the light of the circumstances under which they were made, not misleading; however, the District has made no independent investigation as to the accuracy or completeness of the information derived from sources other than the District.

Official Statement “Deemed Final”

For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission (the “SEC”), this document, as the same may be supplemented or corrected by the District from time to time, may be treated as an Official Statement with respect to the Bonds described herein “deemed final” by the District as of the date hereof (or of any such supplement or correction) except for the omission of certain information referred to above under the caption “Updating of Official Statement.”

The Official Statement, when further supplemented by adding information specifying the interest rates and certain other information relating to the Bonds, shall constitute a “FINAL OFFICIAL STATEMENT” of the District with respect to the Bonds, as that term is defined in SEC Rule 15c2-12.

CONTINUING DISCLOSURE OF INFORMATION

In the Bond Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (the "MSRB") or any successor to its functions as a repository through its Electronic Municipal Market Access ("EMMA") system.

Annual Reports

The District will provide certain updated financial information and operating data annually to the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement under the headings "DISTRICT DEBT" and "TAX DATA" and in "APPENDIX B" (the Audit). The District will update and provide this information within six months after the end of each fiscal year ending in or after 2010.

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

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

Material Event Notices

The District will also provide timely notices of certain events to the MSRB. The District will provide notice of any of the following events with respect to the Bonds, if such event is material to a decision to purchase or sell Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (7) modifications to rights of holders of the Bonds; (8) Bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes. Neither the Bonds nor the Bond Resolution makes any provision for debt service reserves 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 filed with the MSRB through its EMMA system 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 holders and beneficial owners of Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

The District may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, but only if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with SEC Rule 15c2-12, taking into account any amendments and interpretations of such Rule to the date of such amendment, as well as such changed circumstances, and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. The District may also amend or repeal the agreement if the SEC amends or repeals the applicable provisions of such Rule or a court of final jurisdiction determines that such provisions are invalid, but in either case only to the extent that its right to do so would not prevent the Underwriter from lawfully purchasing the Bonds in the offering described herein. If the District so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under “Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance With Prior Undertakings

The District is in compliance in all material respects with its continuing disclosure agreements made in accordance with SEC Rule 15c2-12 for the last five years.

This Official Statement is duly approved by the Board of Directors of the District as of the date specified on the first page hereof.

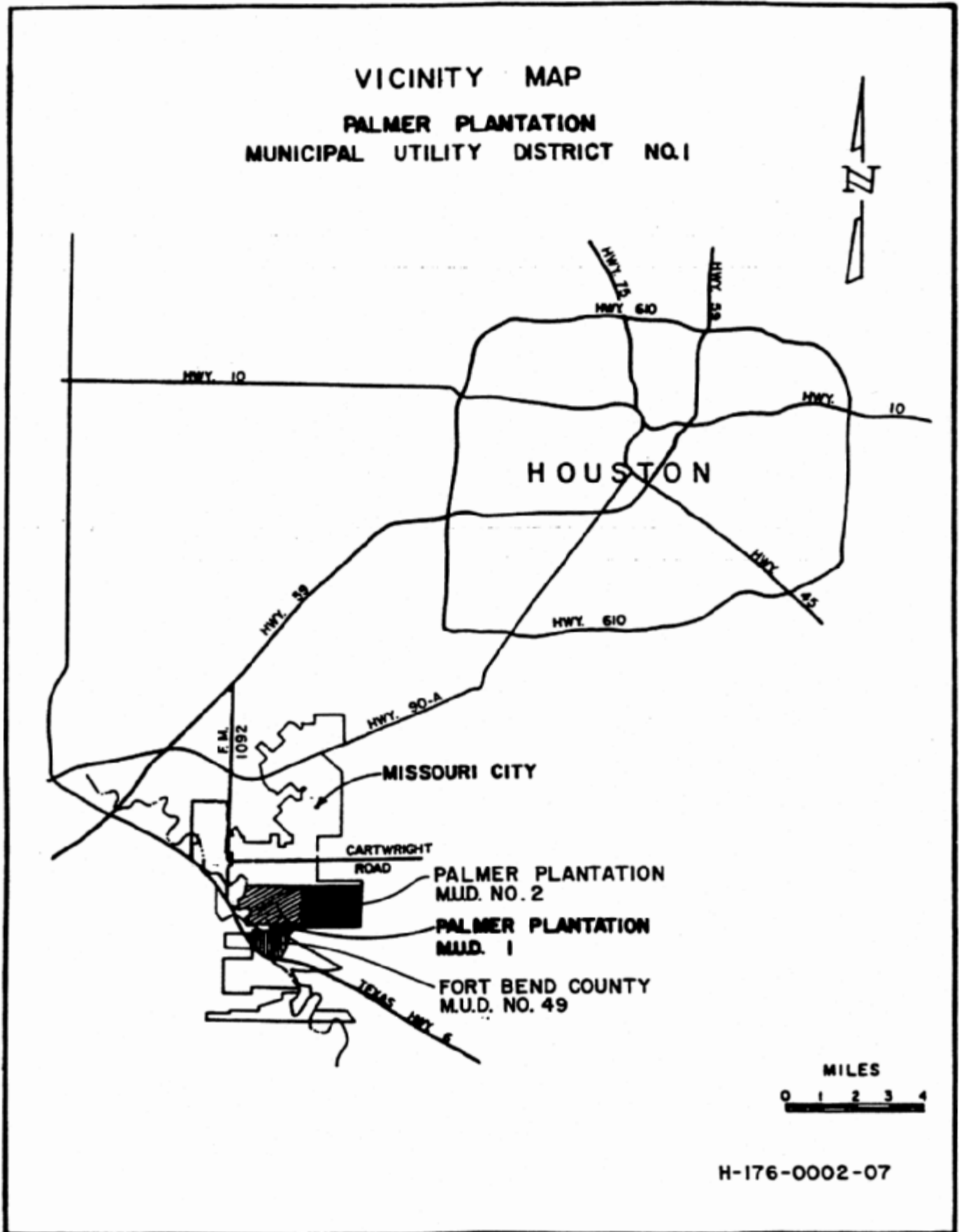
Tara Wagner
President, Board of Directors
Palmer Plantation Municipal Utility
District No. 1

ATTEST:

Terri Ellis
Secretary, Board of Directors
Palmer Plantation Municipal Utility District No. 1

APPENDIX A

LOCATION MAP



H-176-0002-07

APPENDIX B

Palmer Plantation Municipal Utility District No. 1

Fort Bend County, Texas

Accountants' Report and Financial Statements

December 31, 2009

Palmer Plantation Municipal Utility District No. 1
December 31, 2009

Contents

Independent Accountants' Report on Financial Statements and Supplementary Information	1
Management's Discussion and Analysis	2
Basic Financial Statements	
Statement of Net Assets and Governmental Funds Balance Sheet	8
Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances.....	10
Notes to Financial Statements.....	12
Required Supplementary Information	
Budgetary Comparison Schedule – General Fund	26
Budgetary Comparison Schedule – Wastewater Treatment Plant Fund	27
Budgetary Comparison Schedule – Water Plant Fund.....	28
Notes to Required Supplementary Information	29
Supplementary Information	
Supplementary Schedules Included Within This Report	30
Schedule of Services and Rates.....	31
Schedule of General Fund Expenditures.....	32
Schedule of Temporary Investments.....	33
Analysis of Taxes Levied and Receivable	34
Schedule of Long-term Debt Service Requirements by Years	36
Changes in Long-term Bonded Debt.....	39
Comparative Schedule of Revenues and Expenditures – General Fund and Debt Service Fund – Five Years	40
Board Members, Key Personnel and Consultants.....	42

Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Directors
Palmer Plantation Municipal Utility District No. 1
Fort Bend County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Palmer Plantation Municipal Utility District No. 1 as of and for the year ended December 31, 2009, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the District's management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 Palmer Plantation Municipal Utility District No. 1 as of December 31, 2009, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis and budgetary comparison schedules, as listed in the table of contents, are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the District's basic financial statements. We previously expressed unqualified opinions on the 2005 through 2008 basic financial statements. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BKD, LLP

June 29, 2010

Palmer Plantation Municipal Utility District No. 1

Management's Discussion and Analysis

December 31, 2009

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to financial statements. This report also contains supplementary information required by the Governmental Accounting Standards Board and other supplementary information required by the District's state oversight agency, the Texas Commission on Environmental Quality (the Commission).

In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities, which engage in a single governmental program, the provision of water, sanitary sewer and drainage services. Other activities, such as the provision of recreation facilities and solid waste collection, are minor activities and are not budgeted or accounted for as separate programs. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented on the left side of the statements, a column for adjustments is to the right of the fund financial statements and the government-wide financial statements are presented to the right side of the adjustments column. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

Government-wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the District. The District's government-wide financial statements include the statement of net assets and statement of activities, which are prepared using accounting principles that are similar to commercial enterprises. The purpose of the statement of net assets is to attempt to report all of the assets and liabilities of the District. The District reports all of its assets when it acquires or begins to maintain the assets and reports all of its liabilities when they are incurred.

The difference between the District's total assets and total liabilities is labeled as net assets and this difference is similar to the total stockholders' equity presented by a commercial enterprise.

The purpose of the statement of activities is to present the revenues and expenses of the District. Again, the items presented on the statement of activities are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied and expenses are reported when incurred by the District. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues are reported even when they may not be collected for several months or years after the end of the accounting period and expenses are recorded even though they may not have used cash during the current year.

Palmer Plantation Municipal Utility District No. 1

Management's Discussion and Analysis (Continued)

December 31, 2009

Although the statement of activities looks different from a commercial enterprise's statement of income, the financial statement is different only in format, not substance. Whereas the bottom line in a commercial enterprise is its net income, the District reports an amount described as change in net assets, essentially the same thing.

Fund Financial Statements

Unlike government-wide financial statements, the focus of fund financial statements is directed to specific activities of the District rather than the District as a whole. Except for the general fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties or governmental statutes or regulations.

Governmental Funds

Governmental-fund financial statements consist of a balance sheet and a statement of revenues, expenditures and changes in fund balances and are prepared on an accounting basis that is significantly different from that used to prepare the government-wide financial statements.

In general, these financial statements have a short-term emphasis and, for the most part, measure and account for cash and other assets that can easily be converted into cash. For example, amounts reported on the balance sheet include items such as cash and receivables collectible within a very short period of time, but do not include capital assets such as land and water, sewer and drainage systems. Fund liabilities include amounts that are to be paid within a very short period after the end of the fiscal year. The difference between a fund's total assets and total liabilities is labeled the fund balance and generally indicates the amount that can be used to finance the next fiscal year's activities. Likewise, the operating statement for governmental funds reports only those revenues and expenditures that were collected in cash or paid with cash, respectively, during the current period or very shortly after the end of the fiscal year.

Because the focus of the government-wide and fund financial statements is different, there are significant differences between the totals presented in these financial statements. For this reason, there is an analysis in the notes to financial statements that describes the adjustments to fund balances to arrive at net assets presented in the governmental activities column on the statement of net assets. Also, there is an analysis in the notes to financial statements that reconciles the total change in fund balances for all governmental funds to the change in net assets, as reported in the governmental activities column in the statement of activities.

Notes to Financial Statements

The notes to financial statements provide additional information that is essential to a full understanding of the data found in the government-wide and fund financial statements.

Palmer Plantation Municipal Utility District No. 1
Management's Discussion and Analysis (Continued)
December 31, 2009

Financial Analysis of the District as a Whole

The District's overall financial position and operations for the past two years are summarized as follows, based on the information included in the government-wide financial statements.

Summary of Net Assets

	2009	2008
Current and other assets	\$ 2,974,495	\$ 3,164,291
Capital assets	6,031,711	6,125,754
Total assets	<u>\$ 9,006,206</u>	<u>\$ 9,290,045</u>
Long-term liabilities	\$ 6,114,777	\$ 6,866,181
Other liabilities	1,244,074	1,271,790
Total liabilities	<u>\$ 7,358,851</u>	<u>\$ 8,137,971</u>
Net assets:		
Invested in capital assets, net of related debt	\$ (65,504)	\$ (415,122)
Restricted	1,149,574	1,195,056
Unrestricted	563,285	372,140
Total net assets	<u>\$ 1,647,355</u>	<u>\$ 1,152,074</u>

The total net assets of the District increased by \$495,281, or about 43 percent. The majority of the increase in net assets is related to tax revenues intended to pay principal on the District's bonded indebtedness, which is shown as long-term liabilities in the government-wide financial statements. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Summary of Changes in Net Assets

	2009	2008
Revenues:		
Property taxes	\$ 1,046,880	\$ 985,838
Charges for services	735,637	659,936
Other revenues	135,517	120,262
Total revenues	<u>1,918,034</u>	<u>1,766,036</u>

Palmer Plantation Municipal Utility District No. 1
Management's Discussion and Analysis (Continued)
December 31, 2009

Summary of Changes in Net Assets (Continued)

	2009	2008
Expenses:		
Services	\$ 970,245	\$ 1,017,279
Depreciation	137,043	146,781
Interest and fees	315,465	342,139
Total expenses	<u>1,422,753</u>	<u>1,506,199</u>
Change in net assets	495,281	259,837
Net assets, beginning of year	<u>1,152,074</u>	<u>892,237</u>
Net assets, end of year	<u><u>\$ 1,647,355</u></u>	<u><u>\$ 1,152,074</u></u>

Financial Analysis of the District's Funds

The District's combined fund balances as of the end of the fiscal year ended December 31, 2009, were \$1,602,037, a decrease of \$121,501 from the prior year.

The general fund's fund balance decreased by \$5,291 due to service operation expenditures exceeding service revenues.

The wastewater treatment plant fund's fund balance decreased by \$992 due to changes in the District's share of the operating reserve.

The water plant fund's fund balance decreased by \$6,021 due to changes in the District's share of the operating reserve.

The debt service fund's fund balance decreased by \$25,642 due to principal and interest requirements being greater than tax revenues generated.

The capital projects fund's fund balance decreased by \$83,555. This net decrease was due to capital outlay expenditures related to maintenance of the District's facilities.

General Fund Budgetary Highlights

There were several differences between the final budgetary amounts and actual amounts. The major differences between budget and actual were due to water service revenues being higher, as well as professional fees expenditures being lower than anticipated. In addition, capital outlay expenditures were not included in the current year budget. The fund balance as of December 31, 2009, was expected to be \$355,778 and the actual end of year fund balance was \$366,278.

Palmer Plantation Municipal Utility District No. 1
Management's Discussion and Analysis (Continued)
December 31, 2009

Capital Assets and Related Debt

Capital Assets

Capital assets held by the District at the end of the current and previous fiscal years are summarized below.

Capital Assets (Net of Accumulated Depreciation)

	2009	2008
Land and improvements	\$ 2,611,682	\$ 2,611,682
Water facilities	573,260	598,824
Wastewater facilities	1,633,052	1,655,244
Drainage facilities	1,213,717	1,260,004
Total capital assets	\$ 6,031,711	\$ 6,125,754

During the current year, additions to capital assets were as follows:

Portable emergency generator for lift stations	\$ 43,000
--	-----------

Some of the District's bonds were approved by the Commission subject to contribution by the District's developers of 30 percent of certain construction and related engineering costs. As of December 31, 2009, the developers have contributed a total of \$2,303,784, which is included in capital assets.

Debt

The changes in the debt position of the District during the fiscal year ended December 31, 2009, are summarized as follows:

Long-term debt payable, beginning of year	\$ 6,866,181
Decreases in long-term debt	(751,404)
Long-term debt payable, end of year	\$ 6,114,777

At December 31, 2009, the District had \$5,620,000 of unlimited tax bonds authorized, but unissued, for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District.

Palmer Plantation Municipal Utility District No. 1
Management's Discussion and Analysis (Continued)
December 31, 2009

The District's Series 2005 bonds carry an underlying rating of "A-" by Standard & Poor's and carry an "A" rating by virtue of bond insurance issued by National Public Finance Guarantee. During the current year, the insured rating of the Series 2005 bonds was downgraded from a "AA-" and the insured rating for the Series 1998 bonds was withdrawn.

Other Relevant Factors

Relationship to the City of Missouri City

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Missouri City (the City), the District must conform to the City ordinance consenting to the creation of the District. In addition, the District may be annexed by the City without the District's consent. If the District is annexed, the City must assume the District's assets and obligations (including the bonded indebtedness) and abolish the District within 90 days.

Palmer Plantation Municipal Utility District No. 1
Statement of Net Assets and Governmental Funds Balance Sheet
December 31, 2009

	General Fund	Wastewater Treatment Plant	Water Plant	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Assets
Assets								
Cash	\$ 172,570	\$ 8,895	\$ 12,203	\$ 542,324	\$ 120,868	\$ 856,860	\$ -	\$ 856,860
Certificates of deposit	200,000	-	-	850,000	200,000	1,250,000	-	1,250,000
Short-term investments	26,520	-	-	4,855	2,213	33,588	-	33,588
Receivables:								
Property taxes	40,382	-	-	522,457	-	562,839	-	562,839
Service accounts	32,578	-	-	-	-	32,578	-	32,578
Accrued interest	597	-	-	4,068	537	5,202	-	5,202
Accrued penalty and interest	-	-	-	-	-	-	4,388	4,388
Interfund receivable	33,911	7,582	3,172	-	-	44,665	(44,665)	-
Due from participants	-	15,980	6,139	-	-	22,119	-	22,119
Due from others	325	-	-	-	-	325	-	325
Operating deposit	10,216	-	-	-	-	10,216	-	10,216
Capital assets (net of accumulated depreciation):								
Land and improvements	-	-	-	-	-	-	2,611,682	2,611,682
Infrastructure	-	-	-	-	-	-	3,420,029	3,420,029
Deferred bond issuance costs	-	-	-	-	-	-	196,380	196,380
Total assets	\$ 517,099	\$ 32,457	\$ 21,514	\$ 1,923,704	\$ 323,618	\$ 2,818,392	\$ 6,187,814	\$ 9,006,206

Palmer Plantation Municipal Utility District No. 1
Statement of Net Assets and Governmental Funds Balance Sheet (Continued)
December 31, 2009

	General Fund	Wastewater Treatment Plant	Water Plant	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Assets
Liabilities								
Accounts payable	\$ 27,660	\$ 10,667	\$ 4,306	\$ 2,986	\$ 3,171	\$ 48,790	\$ -	\$ 48,790
Accrued interest payable	-	-	-	-	-	-	86,599	86,599
Customer deposits	35,725	-	-	-	-	35,725	-	35,725
Operating deposits	-	13,641	9,763	-	-	23,404	-	23,404
Deferred property tax revenue	76,682	-	-	987,089	-	1,063,771	(14,215)	1,049,556
Interfund payable	10,754	-	-	33,911	-	44,665	(44,665)	-
Long-term liabilities:								
Due within one year	-	-	-	-	-	-	785,000	785,000
Due after one year	-	-	-	-	-	-	5,329,777	5,329,777
Total liabilities	150,821	24,308	14,069	1,023,986	3,171	1,216,355	6,142,496	7,358,851
Fund Balances/Net Assets								
Fund balances:								
Reserved, reported in:								
Special revenue fund	-	8,149	7,445	-	-	15,594	(15,594)	-
Debt service fund	-	-	-	899,718	-	899,718	(899,718)	-
Capital projects fund	-	-	-	-	17,562	17,562	(17,562)	-
Unreserved	366,278	-	-	-	302,885	669,163	(669,163)	-
Total fund balances	366,278	8,149	7,445	899,718	320,447	1,602,037	(1,602,037)	0
Total liabilities and fund balances	\$ 517,099	\$ 32,457	\$ 21,514	\$ 1,923,704	\$ 323,618	\$ 2,818,392		
Net assets:								
Invested in capital assets, net of related debt							(65,504)	(65,504)
Restricted for plant operations							15,594	15,594
Restricted for debt service							831,095	831,095
Restricted for capital projects							302,885	302,885
Unrestricted							563,285	563,285
Total net assets							\$ 1,647,355	\$ 1,647,355

Palmer Plantation Municipal Utility District No. 1
Statement of Activities and Governmental Funds Revenues,
Expenditures and Changes in Fund Balances
Year Ended December 31, 2009

	General Fund	Wastewater Treatment Plant	Water Plant	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
Revenues								
Property taxes	\$ 61,526	\$ -	\$ -	\$ 998,588	\$ -	\$ 1,060,114	\$ (13,234)	\$ 1,046,880
Water service	236,907	-	169,496	-	-	406,403	(66,696)	339,707
Sewer service	155,946	225,935	-	-	-	381,881	(84,983)	296,898
Surface water conversion	99,032	-	-	-	-	99,032	-	99,032
Penalty and interest	9,341	-	-	31,382	-	40,723	(12,047)	28,676
Tap connection and inspection fees	2,125	-	-	-	-	2,125	-	2,125
Investment income	6,002	-	-	26,799	3,684	36,485	-	36,485
Other income	17,233	44,279	6,719	-	-	68,231	-	68,231
Total revenues	588,112	270,214	176,215	1,056,769	3,684	2,094,994	(176,960)	1,918,034
Expenditures/Expenses								
Service operations:								
Surface water conversion	-	-	90,291	-	-	90,291	-	90,291
Purchased services	280,692	-	-	-	-	280,692	(151,679)	129,013
Professional fees	60,964	1,500	1,500	11,108	-	75,072	20,293	95,365
Contracted services	53,650	2,375	2,433	16,021	-	74,479	300	74,779
Utilities	4,068	107,040	42,174	-	-	153,282	-	153,282
Repairs and maintenance	83,190	149,586	34,928	-	-	267,704	66,547	334,251
Other expenditures	74,002	9,713	4,889	3,711	99	92,414	-	92,414
Tap connections	850	-	-	-	-	850	-	850
Capital outlay	43,000	-	-	-	87,140	130,140	(130,140)	-
Depreciation	-	-	-	-	-	-	137,043	137,043
Debt service:								
Principal retirement	-	-	-	765,000	-	765,000	(765,000)	-
Interest and fees	-	-	-	286,571	-	286,571	28,894	315,465
Total expenditures/expenses	600,416	270,214	176,215	1,082,411	87,239	2,216,495	(793,742)	1,422,753
Deficiency of Revenues Over Expenditures	(12,304)	0	0	(25,642)	(83,555)	(121,501)	616,782	

Palmer Plantation Municipal Utility District No. 1
Statement of Activities and Governmental Funds Revenues,
Expenditures and Changes in Fund Balances (Continued)
Year Ended December 31, 2009

	General Fund	Wastewater Treatment Plant	Water Plant	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
Other Financing Sources (Uses)								
Interfund transfers	\$ 7,013	\$ (992)	\$ (6,021)	\$ 0	\$ 0	\$ 0	\$ 0	
Deficiency of Revenues and Transfers In Over Expenditures and Transfers Out	(5,291)	(992)	(6,021)	(25,642)	(83,555)	(121,501)	121,501	
Change in Net Assets							495,281	\$ 495,281
Fund Balances/Net Assets								
Beginning of year	371,569	9,141	13,466	925,360	404,002	1,723,538	-	1,152,074
End of year	<u>\$ 366,278</u>	<u>\$ 8,149</u>	<u>\$ 7,445</u>	<u>\$ 899,718</u>	<u>\$ 320,447</u>	<u>\$ 1,602,037</u>	<u>\$ 0</u>	<u>\$ 1,647,355</u>

Palmer Plantation Municipal Utility District No. 1

Notes to Financial Statements

December 31, 2009

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Palmer Plantation Municipal Utility District No. 1 (the District) was created by an order of the Texas Water Commission, now known as the Texas Commission on Environmental Quality (the Commission), effective December 21, 1982, in accordance with the Texas Water Code, Chapter 54. The District operates in accordance with Chapters 49 and 54 of the Texas Water Code and is subject to the continuing supervision of the Commission. The principal functions of the District are to finance, construct, own and operate waterworks, wastewater and drainage facilities, and to provide such facilities and services to the customers of the District.

The District is governed by a Board of Directors consisting of five individuals who are residents or owners of property within the District and are elected by voters within the District. The Board of Directors sets the policies of the District. The accounting and reporting policies of the District conform to accounting principles generally accepted in the United States of America for state and local governments, as defined by the Governmental Accounting Standards Board. The following is a summary of the significant accounting and reporting policies of the District:

Reporting Entity

The accompanying government-wide financial statements present the financial statements of the District. There are no component units that are legally separate entities for which the District is considered to be financially accountable. Accountability is defined as the District's substantive appointment of the majority of the component unit's governing board. Furthermore, to be financially accountable, the District must be able to impose its will upon the component unit or there must be a possibility that the component unit may provide specific financial benefits to, or impose specific financial burdens on, the District.

The District is a participant in regional water and wastewater treatment facilities, which were formed to provide water and maintain and operate wastewater treatment facilities on behalf of all participants, as further described in Note 7. Operations of the plants are accounted for in the special revenue funds. The Board of Directors of the District has the responsibility of approving budgets, setting rates and determining the day-to-day operations. The District also participates in regional water facilities, which were formed to provide water facilities on behalf of all participants, as further described in Note 7. The Board of Directors of Palmer Plantation Municipal Utility District No. 2 (District No. 2) has the responsibility of determining day-to-day operations. The District retains an ongoing financial interest and responsibility. Additional information relating to the facilities may be obtained from Paul A. Philbin & Assoc., P.C., 6363 Woodway, Suite 725, Houston, Texas 77057-1792.

Government-wide and Fund Financial Statements

In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities, which engage in a single governmental program, the provision of water, wastewater, drainage and other related

Palmer Plantation Municipal Utility District No. 1

Notes to Financial Statements

December 31, 2009

services. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented with a column for adjustments to convert to the government-wide financial statements.

The government-wide financial statements report information on all of the activities of the District. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Governmental activities generally are financed through taxes, charges for services and intergovernmental revenues. The statement of activities reflects the revenues and expenses of the District.

The fund financial statements provide information about the District's governmental funds. Separate statements for each governmental fund are presented. The emphasis of fund financial statements is directed to specific activities of the District.

The District reports the *general fund* as a major governmental fund. It is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The District has elected to report its wastewater treatment plant, water plant, debt service and capital projects funds as major funds.

The *special revenue funds* account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. The primary source of revenue is participants' fees. The special revenue funds of the District are the wastewater treatment plant and water plant funds.

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

Additionally, the *capital projects fund* accounts for financial resources designated to construct or acquire capital facilities and improvements. Such resources are derived principally from proceeds of the sale of bonds.

Measurement Focus and Basis of Accounting

Government-wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Palmer Plantation Municipal Utility District No. 1

Notes to Financial Statements

December 31, 2009

Nonexchange transactions, in which the District receives (or gives) value without directly giving (or receiving) equal value in exchange, include property taxes and donations. Recognition standards are based on the characteristics and classes of nonexchange transactions. Revenues from property taxes are recognized in the period for which the taxes are levied. Intergovernmental revenues are recognized as revenues, net of estimated refunds and uncollectible amounts, in the accounting period when an enforceable legal claim to the assets arises and the use of resources is required or is first permitted. Donations are recognized as revenues, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met. Amounts received before all eligibility requirements have been met are reported as deferred revenues.

Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and liabilities are generally included on the balance sheet. The statement of governmental funds revenues, expenditures and changes in fund balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in spendable resources. General capital asset acquisitions are reported as expenditures and proceeds of long-term debt are reported as other financing sources. Under the modified accrual basis of accounting, revenues are recognized when both measurable and available. The District considers revenues reported in the governmental funds to be available if they are collectible within 60 days after year-end. Principal revenue sources considered susceptible to accrual include taxes, charges for services and investment income. Other revenues are considered to be measurable and available only when cash is received by the District. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, which are recognized as expenditures when payment is due.

Interfund Transactions

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

Pension Costs

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

Palmer Plantation Municipal Utility District No. 1

Notes to Financial Statements

December 31, 2009

Use of Estimates

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

Investments and Investment Income

Investments in certificates of deposit, mutual funds, U.S. Government and agency securities, and pooled funds which have a remaining maturity of one year or less at the date of purchase are recorded at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market values.

Investment income includes dividends and interest income and the net change for the year in the fair value of investments carried at fair value. Investment income is credited to the fund in which the investment is recorded.

Property Taxes

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

In the governmental funds, property taxes are measurable when levied even though not available. As a result, at December 31, 2009, property taxes receivable and related deferred revenues have been recorded in the governmental funds. In the government-wide statement of net assets, property taxes are considered earned in the budget year for which they are levied. In addition to property taxes levied, any delinquent taxes are recorded net of amounts considered uncollectible.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an individual cost of \$5,000 or more and an estimated useful life of two years or more. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation.

Palmer Plantation Municipal Utility District No. 1

Notes to Financial Statements

December 31, 2009

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over their estimated useful lives as follows:

	<u>Years</u>
Water production and distribution facilities	10-45
Wastewater collection and treatment facilities	10-45
Drainage facilities	10-45

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Gains on refundings are generally deferred and amortized using the effective interest rate method over the life of the bonds. Long-term debt is reported net of the unamortized gain on refundings. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the related debt using the effective interest rate method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Assets/Fund Balance

Fund balances and net assets are reported as restricted when constraints placed on them are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or are imposed by law through constitutional provisions or enabling legislation.

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

Reconciliation of Government-wide and Fund Financial Statements

Amounts reported for net assets of governmental activities in the statement of net assets and fund balances in the governmental funds balance sheet are different because of the items shown on the following page.

Palmer Plantation Municipal Utility District No. 1
Notes to Financial Statements
December 31, 2009

Capital assets used in governmental activities are not financial resources and are not reported in the funds.	\$	6,031,711
Property taxes are not recognized until collected in the funds.		14,215
Penalty and interest on delinquent taxes is not receivable in the current period and is not reportable in the funds.		4,388
Bond issuance costs for governmental activities are not financial resources and are not reported in the funds.		196,380
Accrued interest on long-term liabilities is not payable with current financial resources and is not reported in the funds.		(86,599)
Long-term debt obligations are not due and payable in the current period and are not reported in the funds.		<u>(6,114,777)</u>
Adjustment to fund balance to arrive at net assets.	\$	<u>45,318</u>

Amounts reported for change in net assets of governmental activities in the statement of activities are different from change in fund balance in the governmental funds statement of revenues, expenditures and changes in fund balances because:

Change in fund balance.	\$	(121,501)
Governmental funds report capital outlays as expenditures. However, for government-wide financial statements, the cost of capitalized assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation and noncapitalized costs exceeded capital outlay expenditures in the current period.		(94,043)
Governmental funds report proceeds from sale of bonds and bond anticipation notes because they provide current financial resources to governmental funds. Principal payments on debt are recorded as expenditures. None of these transactions, however, have any effect on net assets.		765,000
Revenues that do not provide current financial resources are not reported as revenues for the funds, but are reported as revenues in the statement of activities.		(25,281)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		<u>(28,894)</u>
Change in net assets of governmental activities.	\$	<u>495,281</u>

Palmer Plantation Municipal Utility District No. 1

Notes to Financial Statements

December 31, 2009

Note 2: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; a surety bond; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities of the State of Texas; or certain collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States.

At December 31, 2009, none of the District's bank balances were exposed to custodial credit risk.

Investments

The District may legally invest in obligations of the United States or its agencies and instrumentalities, direct obligations of Texas or its agencies or instrumentalities, collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, other obligations guaranteed as to principal and interest by the United States or their agencies and instrumentalities, obligations of states, agencies and counties and other political subdivisions with an investment rating not less than "A," certificates of deposit of financial institutions domiciled in Texas, and certain bankers' acceptances, repurchase agreements, mutual funds, commercial paper, guaranteed investment contracts and investment pools.

The District invests in Texas CLASS, an external investment pool that is not SEC-registered. A Board of Trustees, elected by the participants, has oversight of the pool.

At December 31, 2009, the District had investments and maturities as follows:

Type	Maturities in Years				
	Fair Value	Less Than 1	1-5	6-10	More Than 10
Texas CLASS	<u>\$ 33,588</u>	<u>\$ 33,588</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

Palmer Plantation Municipal Utility District No. 1

Notes to Financial Statements

December 31, 2009

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy does not allow investments in certain mortgage-backed securities, collateralized mortgage obligations with a final maturity date in excess of 10 years and interest rate indexed collateralized mortgage obligations. The external investment pool is presented as an investment with a maturity of less than one year because it is redeemable in full immediately.

Credit Risk. Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At December 31, 2009, the District's investments in Texas CLASS were rated "AAA/V1" by Fitch, Inc.

Summary of Carrying Values

The carrying values of deposits and investments shown previously are included in the balance sheet at December 31, 2009, as follows:

Carrying value:	
Deposits	\$ 2,106,860
Investments	33,588
	<hr/>
Total	\$ 2,140,448
	<hr/>

Included in the following statement of net assets captions:

Cash	\$ 856,860
Deposits	1,250,000
Short-term investments	33,588
	<hr/>
Total	\$ 2,140,448
	<hr/>

Investment Income

Investment income of \$36,485 for the year ended December 31, 2009, consisted of interest income.

Note 3: Capital Assets

A summary of changes in capital assets for the year ended December 31, 2009, is presented on the following page.

Palmer Plantation Municipal Utility District No. 1

Notes to Financial Statements

December 31, 2009

Governmental Activities	Balances, Beginning of Year	Additions	Balances, End of Year
Capital assets, non-depreciable:			
Land and improvements	\$ 2,611,682	\$ 0	\$ 2,611,682
Capital assets, depreciable:			
Water production and distribution facilities	1,260,384	-	1,260,384
Wastewater collection and treatment facilities	3,027,652	43,000	3,070,652
Drainage facilities	2,082,913	-	2,082,913
Total capital assets, depreciable	<u>6,370,949</u>	<u>43,000</u>	<u>6,413,949</u>
Less accumulated depreciation:			
Water production and distribution facilities	(661,560)	(25,564)	(687,124)
Wastewater collection and treatment facilities	(1,372,408)	(65,192)	(1,437,600)
Drainage facilities	(822,909)	(46,287)	(869,196)
Total accumulated depreciation	<u>(2,856,877)</u>	<u>(137,043)</u>	<u>(2,993,920)</u>
Total governmental activities, net	<u>\$ 6,125,754</u>	<u>\$ (94,043)</u>	<u>\$ 6,031,711</u>

Note 4: Long-term Liabilities

Changes in long-term liabilities for the year ended December 31, 2009, were as follows:

Governmental Activities	Balances, Beginning of Year	Decreases	Balances, End of Year	Amounts Due in One Year
Bonds payable:				
General obligation bonds	\$ 6,990,000	\$ 765,000	\$ 6,225,000	\$ 785,000
Less deferred refunding amounts	<u>123,819</u>	<u>13,596</u>	<u>110,223</u>	<u>-</u>
Total governmental activities long-term liabilities	<u>\$ 6,866,181</u>	<u>\$ 751,404</u>	<u>\$ 6,114,777</u>	<u>\$ 785,000</u>

Palmer Plantation Municipal Utility District No. 1
Notes to Financial Statements
December 31, 2009

General Obligation Bonds

	<u>Series 1998</u>	<u>Series 2005</u>
Amounts outstanding, December 31, 2009	\$2,825,000	\$3,400,000
Interest rates	4.70% to 5.50%	3.500% to 3.875%
Maturity dates, serially beginning/ending	September 1, 2011/2016	September 1, 2010/2016
Interest payment dates	March 1/ September 1	March 1/ September 1
Callable dates*	September 1, 2006	September 1, 2012

*Or any date thereafter; callable at par plus accrued interest to the date of redemption.

Annual Debt Service Requirements

The following schedule shows the annual debt service requirements to pay principal and interest on general obligation bonds outstanding at December 31, 2009.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 785,000	\$ 259,796	\$ 1,044,796
2011	815,000	232,321	1,047,321
2012	845,000	198,996	1,043,996
2013	885,000	164,109	1,049,109
2014	925,000	126,789	1,051,789
2015-2016	<u>1,970,000</u>	<u>131,395</u>	<u>2,101,395</u>
Total	<u>\$ 6,225,000</u>	<u>\$ 1,113,406</u>	<u>\$ 7,338,406</u>

The bonds are payable from the proceeds of an ad valorem tax levied upon all property within the District, subject to taxation without limitation as to rate or amount, and the Series 1998 bonds are further payable from and secured by a lien on and a pledge of the net revenues to be received from the operation of the District's waterworks and sanitary sewer system.

Bonds voted	\$ 19,420,000
Bonds sold	13,800,000
Refunding bonds voted	19,420,000
Refunding bond authorization used	11,855,000

Palmer Plantation Municipal Utility District No. 1

Notes to Financial Statements

December 31, 2009

Note 5: Significant Bond Order and Commission Requirements

- A. The Bond Orders require that the District levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due. During the year ended December 31, 2009, the District levied an ad valorem debt service tax at the rate of \$0.6400 per \$100 of assessed valuation, which resulted in a tax levy of \$973,501 on the taxable valuation of \$152,109,503 for the 2009 tax year. The interest and principal requirements to be paid from the tax revenues are \$1,044,796. The District will utilize available debt service fund resources to satisfy the requirements.
- B. The Bond Orders state that so long as any of the bonds or coupons remain outstanding, the District covenants that it will at all times keep insured such parts of the system as are customarily insured by municipal corporations and political subdivisions in Texas operating like properties in similar locations under the same circumstances with a responsible insurance company or companies against risk, accidents, or casualties against which and to the extent insurance is customarily carried by such municipal corporations and political subdivisions; provided, however, that at any time while any contractor engaged in construction work shall be fully responsible therefor, the District shall not be required to carry such insurance. At December 31, 2009, the District had real and personal property and boiler and machinery coverage in the amount of \$5,535,000 each and general liability and pollution liability coverage with an aggregate of \$3,000,000 each.

Note 6: Maintenance Taxes

At an election held February 18, 1984, voters authorized a maintenance tax not to exceed \$0.20 per \$100 valuation on all property within the District subject to taxation. During the year ended December 31, 2009, the District levied an ad valorem maintenance tax at the rate of \$0.05 per \$100 of assessed valuation, which resulted in a tax levy of \$76,055 on the taxable valuation of \$152,109,503 for the 2009 tax year. The maintenance tax is being used by the general fund to help pay expenditures of operating the District.

Note 7: Contracts With Other Districts

Regional Wastewater Treatment Facility

On December 10, 1984, the District, Fort Bend County Municipal Utility District No. 49 (District No. 49), and District No. 2 entered into a 40-year agreement to share construction and operation costs of a regional wastewater treatment plant. The District is the operator of the plant and holds title for the benefit of the districts. Construction costs are to be shared based on a pro rata share of costs relative to capacity acquired in the plant. In accordance with the contract, District No. 2 did not

Palmer Plantation Municipal Utility District No. 1

Notes to Financial Statements

December 31, 2009

participate in the acquisition or construction of the initial phase of the interim or permanent 600,000 gallon-per-day plant construction. However, District No. 2 purchased capacity in the plant during a prior year. The District was reimbursed \$145,696 by District No. 2 for certain construction, engineering and interest costs of the plant.

The participating districts and their respective percentage of ownership in the regional wastewater treatment plant are:

The District	37.6 %
District No. 2	41.7
District No. 49	20.7
Total	100.0 %

A summary of the transactions in the wastewater treatment plant fund for the year ended December 31, 2009, is as shown below:

	The District	District No. 2	District No. 49	Totals
Receivable, beginning of year	\$ 4,598	\$ 5,115	\$ 4,218	\$ 13,931
Billings to the districts	84,983	96,169	44,783	225,935
Collections	(81,999)	(92,707)	(41,598)	(216,304)
Receivable, end of year	\$ 7,582	\$ 8,577	\$ 7,403	\$ 23,562
Operating reserve	\$ 8,149	\$ 9,273	\$ 4,368	\$ 21,790

Joint Water Facility

On December 10, 1984, the District and District No. 49 entered into a 40-year agreement to share the construction costs and operation costs of a joint water plant, referred to as water plant No. 1. The District is the operator of water plant No. 1 and holds title for the benefit of the districts. Construction costs are to be shared based on a pro rata share of costs relative to capacity acquired in water plant No. 1.

During a prior year, each district paid or caused to be paid its pro rata share of construction costs and recorded its pro rata share in its respective financial statements. In a prior year, the District was reimbursed \$102,490 by District No. 2 for certain construction, engineering and interest costs of water plant No. 1.

The participating districts and their respective percentage share of ownership in water plant No. 1 are as shown on the following page.

Palmer Plantation Municipal Utility District No. 1

Notes to Financial Statements

December 31, 2009

The District	44.2 %
District No. 2	29.1
District No. 49	<u>26.7</u>
Total	<u><u>100.0 %</u></u>

A summary of the transactions in the water plant fund for the year ended December 31, 2009, is as shown below:

	The District	District No. 2	District No. 49	Totals
Receivable, beginning of year	\$ 9,664	\$ 8,010	\$ 8,392	\$ 26,066
Billings to the districts	66,696	70,157	32,643	169,496
Collections	<u>(73,188)</u>	<u>(75,470)</u>	<u>(37,593)</u>	<u>(186,251)</u>
Receivable, end of year	<u>\$ 3,172</u>	<u>\$ 2,697</u>	<u>\$ 3,442</u>	<u>\$ 9,311</u>
Operating reserve	<u>\$ 7,445</u>	<u>\$ 5,476</u>	<u>\$ 4,287</u>	<u>\$ 17,208</u>

Operational Cost Sharing

In accordance with both agreements, the districts share fixed operating costs of the wastewater treatment plant and water plant No. 1 based on their pro rata share of capacity acquired. Variable costs are allocated based on actual capacity used.

Joint Water Facility

On July 1, 2000, the districts entered into a restated joint water facilities agreement, which includes water plant No. 2 which was constructed by and is owned 100 percent by District No. 2. District No. 2 is the operator of water plant No. 2. All operating costs are shared based on actual capacity used.

During the current year, the District incurred charges of \$124,420 as its share of operating costs.

The condensed audited financial information of District No. 2's joint venture as of and for the year ended December 31, 2009, is as shown on the following page.

Palmer Plantation Municipal Utility District No. 1
Notes to Financial Statements
December 31, 2009

	General Fund
Total assets	\$ 45,779
Total liabilities	\$ 19,018
Total fund balance	26,761
Total liabilities and fund balance	\$ 45,779
Total revenues	\$ 304,385
Total expenditures	304,385
Excess revenues	\$ 0

The District has deposited \$10,216 with the joint facilities as its share of an operating reserve.

Note 8: Risk Management

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

Required Supplementary Information

Palmer Plantation Municipal Utility District No. 1
Budgetary Comparison Schedule – General Fund
Year Ended December 31, 2009

	Original Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Property taxes	\$ 61,000	\$ 61,526	\$ 526
Water service	223,250	236,907	13,657
Sewer service	150,000	155,946	5,946
Surface water conversion	101,523	99,032	(2,491)
Penalty and interest	8,100	9,341	1,241
Tap connection and inspection fees	-	2,125	2,125
Investment income	7,000	6,002	(998)
Other income	-	17,233	17,233
Total revenues	<u>550,873</u>	<u>588,112</u>	<u>37,239</u>
Expenditures			
Service operations:			
Purchased services	278,974	280,692	(1,718)
Professional fees	81,150	60,964	20,186
Contracted services	52,500	53,650	(1,150)
Utilities	5,800	4,068	1,732
Repairs and maintenance	86,700	83,190	3,510
Other expenditures	61,540	74,002	(12,462)
Tap connections	-	850	(850)
Capital outlay	-	43,000	(43,000)
Total expenditures	<u>566,664</u>	<u>600,416</u>	<u>(33,752)</u>
Excess expenditures	(15,791)	(12,304)	3,487
Other Financing Sources			
Interfund transfers	-	7,013	7,013
Excess uses	(15,791)	(5,291)	10,500
Fund Balance, Beginning of Year	<u>371,569</u>	<u>371,569</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 355,778</u>	<u>\$ 366,278</u>	<u>\$ 10,500</u>

Palmer Plantation Municipal Utility District No. 1
Budgetary Comparison Schedule – Wastewater Treatment Plant Fund
Year Ended December 31, 2009

	Original Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Sewer service	\$ 263,475	\$ 225,935	\$ (37,540)
Other income	-	44,279	44,279
Total revenues	<u>263,475</u>	<u>270,214</u>	<u>6,739</u>
Expenditures			
Service operations:			
Professional fees	1,600	1,500	100
Contracted services	2,300	2,375	(75)
Utilities	111,600	107,040	4,560
Repairs and maintenance	140,050	149,586	(9,536)
Other expenditures	7,925	9,713	(1,788)
Total expenditures	<u>263,475</u>	<u>270,214</u>	<u>(6,739)</u>
Excess revenues	-	-	-
Other Financing Uses			
Interfund transfers	-	(992)	(992)
Excess uses	-	(992)	(992)
Fund Balance, Beginning of Year	<u>9,141</u>	<u>9,141</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 9,141</u>	<u>\$ 8,149</u>	<u>\$ (992)</u>

Palmer Plantation Municipal Utility District No. 1
Budgetary Comparison Schedule – Water Plant Fund
Year Ended December 31, 2009

	Original Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Water service	\$ 246,080	\$ 169,496	\$ (76,584)
Other income	-	6,719	6,719
Total revenues	246,080	176,215	(69,865)
Expenditures			
Service operations:			
Surface water conversion	129,500	90,291	39,209
Professional fees	1,600	1,500	100
Contracted services	2,600	2,433	167
Utilities	48,200	42,174	6,026
Repairs and maintenance	58,770	34,928	23,842
Other expenditures	5,410	4,889	521
Total expenditures	246,080	176,215	69,865
Excess revenues	-	-	-
Other Financing Uses			
Interfund transfers	-	(6,021)	(6,021)
Excess uses	-	(6,021)	(6,021)
Fund Balance, Beginning of Year	13,466	13,466	-
Fund Balance, End of Year	\$ 13,466	\$ 7,445	\$ (6,021)

Palmer Plantation Municipal Utility District No. 1
Notes to Required Supplementary Information
December 31, 2009

Budgets and Budgetary Accounting

Annual operating budgets are prepared for the general, wastewater treatment plant and water plant funds by the District's consultants. The budgets reflect resources expected to be received during the year and expenditures expected to be incurred. The Board of Directors is required to adopt the budgets prior to the start of its fiscal year. The budgets are not a spending limitation (a legally restricted appropriation). The original budgets were not amended during 2009.

The District prepares its annual operating budgets on a basis consistent with accounting principles generally accepted in the United States of America. The Budgetary Comparison Schedules – General Fund, Wastewater Treatment Plant Fund and Water Plant Fund present the original and revised budget amounts, if revised, compared to the actual amounts of revenues and expenditures for the current year.

Supplementary Information

Palmer Plantation Municipal Utility District No. 1
Supplementary Schedules Included Within This Report
December 31, 2009

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

- [X] Notes Required by the Water District Accounting Manual
See "Notes to Financial Statements," Pages 12-25
- [X] Schedule of Services and Rates
- [X] Schedule of General Fund Expenditures
- [X] Schedule of Temporary Investments
- [X] Analysis of Taxes Levied and Receivable
- [X] Schedule of Long-term Debt Service Requirements by Years
- [X] Changes in Long-term Bonded Debt
- [X] Comparative Schedule of Revenues and Expenditures – General Fund and Debt Service Fund –
Five Years
- [X] Board Members, Key Personnel and Consultants

Palmer Plantation Municipal Utility District No. 1

Schedule of Services and Rates

Year Ended December 31, 2009

1. Services provided by the District:

- | | | |
|--|---|--|
| <input checked="" type="checkbox"/> Retail Water | <input type="checkbox"/> Wholesale Water | <input checked="" type="checkbox"/> Drainage |
| <input checked="" type="checkbox"/> Retail Wastewater | <input type="checkbox"/> Wholesale Wastewater | <input type="checkbox"/> Irrigation |
| <input type="checkbox"/> Parks/Recreation | <input type="checkbox"/> Fire Protection | <input type="checkbox"/> Security |
| <input type="checkbox"/> Solid Waste/Garbage | <input type="checkbox"/> Flood Control | <input type="checkbox"/> Roads |
| <input checked="" type="checkbox"/> Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect) | | |
| <input type="checkbox"/> Other _____ | | |

2. Retail service providers

a. Retail rates for a 5/8" meter (or equivalent):

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate Per 1,000 Gallons Over Minimum</u>	<u>Usage Levels</u>	
Water:	\$ 12.00	6,000	N	\$ 2.00	6,001 to No limit	
Wastewater:	\$ 13.00	5,000	N	\$ 2.25	5,001 to No limit	
Regional water fee:	\$ 1.10	1,000	N	\$ 1.10	1,001 to No limit	
Does the District employ winter averaging for wastewater usage?					Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	
Total charges per 10,000 gallons usage (including fees):			Water	\$ 31.00	Wastewater	\$ 24.25

b. Water and wastewater retail connections:

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFC*</u>
Unmetered	-	-	x1.0	-
≤ 3/4"	392	392	x1.0	392
1"	186	186	x2.5	465
1 1/2"	1	1	x5.0	5
2"	9	9	x8.0	72
3"	1	1	x15.0	15
4"	1	1	x25.0	25
6"	-	-	x50.0	-
8"	-	-	x80.0	-
10"	-	-	x115.0	-
Total water	590	590		974
Total wastewater	578	578	x1.0	578

3. Total water consumption (in thousands) during the fiscal year:

Gallons pumped into the system:	118,035
Gallons billed to customers:	109,229
Water accountability ratio (gallons billed/gallons pumped):	92.54%

*"ESFC" means equivalent single-family connections

Palmer Plantation Municipal Utility District No. 1
Schedule of General Fund Expenditures
Year Ended December 31, 2009

Personnel (including benefits)		\$ -
Professional Fees		
Auditing	\$ 13,400	
Legal	29,299	
Engineering	18,265	
Financial advisor	<u>-</u>	60,964
Purchased Services for Resale		
Bulk water and wastewater service purchases		280,692
Regional Water Fee		-
Contracted Services		
Bookkeeping	14,443	
General manager	-	
Appraisal district	-	
Tax collector	-	
Security	-	
Other contracted services	<u>39,207</u>	53,650
Utilities		4,068
Repairs and Maintenance		83,190
Administrative Expenditures		
Directors' fees	12,750	
Office supplies	1,299	
Insurance	6,330	
Other administrative expenditures	<u>53,623</u>	74,002
Capital Outlay		
Capitalized assets	43,000	
Expenditures not capitalized	<u>-</u>	43,000
Tap Connection Expenditures		850
Solid Waste Disposal		-
Fire Fighting		-
Parks and Recreation		-
Other Expenditures		<u>-</u>
Total expenditures		<u><u>\$ 600,416</u></u>

Palmer Plantation Municipal Utility District No. 1
Schedule of Temporary Investments
December 31, 2009

	Interest Rate	Maturity Date	Face Amount	Accrued Interest Receivable
General Fund				
Certificates of Deposit				
No. 518043	1.25%	02/02/10	\$ 50,000	\$ 149
No. 18584	2.00%	01/28/10	50,000	334
No. 18575	1.30%	04/28/10	50,000	4
No. 18865	1.30%	03/29/10	50,000	110
Texas CLASS	0.26%	Demand	26,520	-
			<u>226,520</u>	<u>597</u>
Debt Service Fund				
Certificates of Deposit				
No. 7140043943	1.74%	08/26/10	130,000	409
No. 3300041257	1.60%	02/20/10	240,000	1,347
No. 509752	1.50%	02/20/10	240,000	1,252
No. 9301014745	1.39%	02/20/10	240,000	1,060
Texas CLASS	0.26%	Demand	4,855	-
			<u>854,855</u>	<u>4,068</u>
Capital Projects Fund				
Certificate of Deposit				
No. 3116002001	1.40%	04/26/10	200,000	537
Texas CLASS	0.26%	Demand	2,213	-
			<u>202,213</u>	<u>537</u>
Totals			<u><u>\$ 1,283,588</u></u>	<u><u>\$ 5,202</u></u>

Palmer Plantation Municipal Utility District No. 1
Analysis of Taxes Levied and Receivable
Year Ended December 31, 2009

	<u>Maintenance Taxes</u>	<u>Debt Service Taxes</u>
Receivable, Beginning of Year	\$ 39,762	\$ 653,928
Additions and corrections to prior years' taxes	<u>(27)</u>	<u>(443)</u>
Adjusted receivable, beginning of year	<u>39,735</u>	<u>653,485</u>
2009 Original Tax Levy	75,485	966,205
Additions and corrections	<u>570</u>	<u>7,296</u>
Adjusted tax levy	<u>76,055</u>	<u>973,501</u>
Total to be accounted for	115,790	1,626,986
Tax collections: Current year	(36,300)	(464,632)
Prior years	<u>(39,108)</u>	<u>(639,897)</u>
Receivable, end of year	<u>\$ 40,382</u>	<u>\$ 522,457</u>
Receivable, by Years		
2009	\$ 39,755	\$ 508,869
2008	529	8,457
2007	98	3,251
2006	-	868
2005	-	659
2004	-	91
2003	-	29
2002	<u>-</u>	<u>233</u>
Receivable, end of year	<u>\$ 40,382</u>	<u>\$ 522,457</u>

Palmer Plantation Municipal Utility District No. 1
Analysis of Taxes Levied and Receivable (Continued)
Year Ended December 31, 2009

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Property Valuations				
Land	\$ 42,705,860	\$ 41,696,820	\$ 40,808,850	\$ 38,692,530
Improvements	113,929,670	116,843,200	107,852,950	107,673,400
Personal property	2,430,850	2,610,890	2,314,600	2,078,591
Exemptions	<u>(6,956,877)</u>	<u>(7,128,774)</u>	<u>(5,796,770)</u>	<u>(5,126,310)</u>
 Total property valuations	 <u>\$ 152,109,503</u>	 <u>\$ 154,022,136</u>	 <u>\$ 145,179,630</u>	 <u>\$ 143,318,211</u>
 Tax Rates per \$100 Valuation				
Debt service tax rates	\$ 0.6400	\$ 0.6400	\$ 0.6600	\$ 0.7000
Maintenance tax rates*	<u>0.0500</u>	<u>0.0400</u>	<u>0.0200</u>	<u>-</u>
 Total tax rates per \$100 valuation	 <u>\$ 0.6900</u>	 <u>\$ 0.6800</u>	 <u>\$ 0.6800</u>	 <u>\$ 0.7000</u>
 Tax Levy	 <u>\$ 1,049,556</u>	 <u>\$ 1,047,352</u>	 <u>\$ 987,221</u>	 <u>\$ 1,003,227</u>
 Percent of Taxes Collected to Taxes Levied**	 <u>48%</u>	 <u>99%</u>	 <u>99%</u>	 <u>99%</u>

*Maximum tax rate approved by voters: \$0.20 approved on February 18, 1984

**Calculated as taxes collected for a tax year divided by taxes levied for that tax year.

Palmer Plantation Municipal Utility District No. 1
Schedule of Long-term Debt Service Requirements by Years
December 31, 2009

Due During Fiscal Years Ending December 31	Series 1998		Total
	Principal Due September 1	Interest Due March 1, September 1	
2010	\$ -	\$ 136,411	\$ 136,411
2011	400,000	136,411	536,411
2012	425,000	117,611	542,611
2013	455,000	97,424	552,424
2014	485,000	75,584	560,584
2015	515,000	51,940	566,940
2016	545,000	26,705	571,705
Totals	<u>\$ 2,825,000</u>	<u>\$ 642,086</u>	<u>\$ 3,467,086</u>

Palmer Plantation Municipal Utility District No. 1
Schedule of Long-term Debt Service Requirements by Years (Continued)
December 31, 2009

Due During Fiscal Years Ending December 31	Series 2005		
	Principal Due September 1	Interest Due March 1, September 1	Total
2010	\$ 785,000	\$ 123,385	\$ 908,385
2011	415,000	95,910	510,910
2012	420,000	81,385	501,385
2013	430,000	66,685	496,685
2014	440,000	51,205	491,205
2015	450,000	34,925	484,925
2016	460,000	17,825	477,825
Totals	<u>\$ 3,400,000</u>	<u>\$ 471,320</u>	<u>\$ 3,871,320</u>

Palmer Plantation Municipal Utility District No. 1
Schedule of Long-term Debt Service Requirements by Years (Continued)
December 31, 2009

Due During Fiscal Years Ending December 31	Annual Requirements For All Series		
	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2010	\$ 785,000	\$ 259,796	\$ 1,044,796
2011	815,000	232,321	1,047,321
2012	845,000	198,996	1,043,996
2013	885,000	164,109	1,049,109
2014	925,000	126,789	1,051,789
2015	965,000	86,865	1,051,865
2016	1,005,000	44,530	1,049,530
Totals	<u>\$ 6,225,000</u>	<u>\$ 1,113,406</u>	<u>\$ 7,338,406</u>

Palmer Plantation Municipal Utility District No. 1
Changes in Long-term Bonded Debt
Year Ended December 31, 2009

	Bond Issues		
	Series 1998	Series 2005	Totals
Interest rates	4.70% to 5.50%	3.500% to 3.875%	
Dates interest payable	March 1/ September 1	March 1/ September 1	
Maturity dates	September 1, 2011/2016	September 1, 2010/2016	
Bonds outstanding, beginning of current year	\$ 2,825,000	\$ 4,165,000	\$ 6,990,000
Retirements, principal	-	765,000	765,000
Bonds outstanding, end of current year	<u>\$ 2,825,000</u>	<u>\$ 3,400,000</u>	<u>\$ 6,225,000</u>
Interest paid during the current year	<u>\$ 136,411</u>	<u>\$ 150,160</u>	<u>\$ 286,571</u>

Paying agent's name and address:

Series 1998 - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

Series 2005 - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

Bond authority:

	Tax Bonds	Other Bonds	Refunding Bonds
Amount authorized by voters	<u>\$ 19,420,000</u>	<u>0</u>	<u>\$ 19,420,000</u>
Amount issued	<u>\$ 13,800,000</u>	<u>0</u>	<u>\$ 11,855,000</u>
Remaining to be issued	<u>\$ 5,620,000</u>	<u>0</u>	<u>\$ 7,565,000</u>

Debt service fund cash and temporary investment balances as of December 31, 2009: \$ 1,397,179

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 1,048,344

Palmer Plantation Municipal Utility District No. 1
Comparative Schedule of Revenues and Expenditures – General Fund
Five Years Ended December 31,

	Amounts				
	2009	2008	2007	2006	2005
General Fund					
Revenues					
Property taxes	\$ 61,526	\$ 28,417	\$ -	\$ -	\$ -
Water service	236,907	217,902	175,082	186,487	190,565
Sewer service	155,946	148,557	126,781	94,345	87,777
Surface water conversion	99,032	47,563	13,125	-	-
Penalty and interest	9,341	7,876	7,139	6,477	5,287
Tap connection and inspection fees	2,125	1,100	9,325	3,085	3,130
Investment income	6,002	12,030	22,373	26,417	14,615
Other income	17,233	9,154	-	-	-
Total revenues	<u>588,112</u>	<u>472,599</u>	<u>353,825</u>	<u>316,811</u>	<u>301,374</u>
Expenditures					
Service operations:					
Purchased services	280,692	197,111	155,102	158,436	129,386
Professional fees	60,964	74,458	66,740	48,115	49,849
Contracted services	53,650	50,831	45,180	38,584	34,107
Utilities	4,068	3,692	3,524	3,148	3,068
Repairs and maintenance	83,190	113,685	117,165	65,629	62,819
Other expenditures	74,002	45,870	42,274	44,471	33,474
Tap connections	850	425	3,975	1,700	1,925
Capital outlay	43,000	-	-	-	-
Total expenditures	<u>600,416</u>	<u>486,072</u>	<u>433,960</u>	<u>360,083</u>	<u>314,628</u>
Excess expenditures	(12,304)	(13,473)	(80,135)	(43,272)	(13,254)
Other Financing Sources (Uses)					
Interfund transfers	7,013	(7,068)	(3,351)	-	(999)
Excess uses	(5,291)	(20,541)	(83,486)	(43,272)	(14,253)
Fund Balance, Beginning of Year	<u>371,569</u>	<u>392,110</u>	<u>475,596</u>	<u>518,868</u>	<u>533,121</u>
Fund Balance, End of Year	<u>\$ 366,278</u>	<u>\$ 371,569</u>	<u>\$ 392,110</u>	<u>\$ 475,596</u>	<u>\$ 518,868</u>
Total Active Retail Water Connections	<u>590</u>	<u>589</u>	<u>586</u>	<u>585</u>	<u>581</u>
Total Active Retail Wastewater Connections	<u>578</u>	<u>573</u>	<u>570</u>	<u>570</u>	<u>566</u>

Percent of Fund Total Revenues

2009	2008	2007	2006	2005
10.5 %	6.0 %	- %	- %	- %
40.3	46.1	49.5	58.9	63.2
26.5	31.4	35.8	29.8	29.1
16.8	10.1	3.8	-	-
1.6	1.7	2.0	2.0	1.8
0.4	0.2	2.6	1.0	1.0
1.0	2.6	6.3	8.3	4.9
2.9	1.9	-	-	-
100.0	100.0	100.0	100.0	100.0
47.7	41.7	43.8	50.0	42.9
10.4	15.7	18.9	15.2	16.5
9.1	10.8	12.8	12.2	11.3
0.7	0.8	1.0	1.0	1.0
14.1	24.1	33.1	20.7	20.8
12.6	9.7	11.9	14.0	11.1
0.1	0.1	1.1	0.5	0.6
7.3	-	-	-	-
102.0	102.9	122.6	113.6	104.2
(2.0) %	(2.9) %	(22.6) %	(13.6) %	(4.2) %

Palmer Plantation Municipal Utility District No. 1
Comparative Schedule of Revenues and Expenditures – Debt Service Fund
Five Years Ended December 31,

	Amounts				
	2009	2008	2007	2006	2005
Debt Service Fund					
Revenues					
Property taxes	\$ 998,588	\$ 973,137	\$ 972,746	\$ 1,050,407	\$ 1,069,394
Penalty and interest	31,382	34,748	17,215	26,126	22,825
Investment income	26,799	44,522	73,526	69,258	39,812
Total revenues	<u>1,056,769</u>	<u>1,052,407</u>	<u>1,063,487</u>	<u>1,145,791</u>	<u>1,132,031</u>
Expenditures					
Current:					
Professional fees	11,108	12,570	4,522	6,554	9,911
Contracted services	16,021	14,998	18,626	11,615	16,395
Other expenditures	3,711	2,085	1,801	1,456	1,662
Debt service:					
Principal retirement	765,000	740,000	700,000	665,000	640,000
Interest and fees	286,571	314,291	351,375	387,425	408,746
Debt defeasance	-	-	-	-	9,000
Bond issuance costs	-	-	-	-	301,498
Total expenditures	<u>1,082,411</u>	<u>1,083,944</u>	<u>1,076,324</u>	<u>1,072,050</u>	<u>1,387,212</u>
Excess revenues (expenditures)	<u>(25,642)</u>	<u>(31,537)</u>	<u>(12,837)</u>	<u>73,741</u>	<u>(255,181)</u>
Other Financing Sources (Uses)					
General obligation bonds issued	-	-	-	-	5,115,000
Deposit with escrow agent	-	-	-	-	(4,805,223)
Total other financing sources	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>309,777</u>
Excess sources (uses)	<u>(25,642)</u>	<u>(31,537)</u>	<u>(12,837)</u>	<u>73,741</u>	<u>54,596</u>
Fund Balance, Beginning of Year	<u>925,360</u>	<u>956,897</u>	<u>969,734</u>	<u>895,993</u>	<u>841,397</u>
Fund Balance, End of Year	<u>\$ 899,718</u>	<u>\$ 925,360</u>	<u>\$ 956,897</u>	<u>\$ 969,734</u>	<u>\$ 895,993</u>

Percent of Fund Total Revenues

2009	2008	2007	2006	2005
94.5 %	92.5 %	91.5 %	91.7 %	94.5 %
3.0	3.3	1.6	2.3	2.0
2.5	4.2	6.9	6.0	3.5
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
1.1	1.2	0.4	0.6	0.9
1.5	1.4	1.8	1.0	1.4
0.3	0.2	0.2	0.2	0.2
72.4	70.3	65.8	58.0	56.5
27.1	29.9	33.0	33.8	36.1
-	-	-	-	0.8
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26.6</u>
<u>102.4</u>	<u>103.0</u>	<u>101.2</u>	<u>93.6</u>	<u>122.5</u>
<u>(2.4) %</u>	<u>(3.0) %</u>	<u>(1.2) %</u>	<u>6.4 %</u>	<u>(22.5) %</u>

Palmer Plantation Municipal Utility District No. 1
Board Members, Key Personnel and Consultants
Year Ended December 31, 2009

Complete District mailing address:	Palmer Plantation Municipal Utility District No. 1 c/o Paul A. Philbin & Assoc., P.C. 6363 Woodway, Suite 725 Houston, Texas 77057-1792
District business telephone number:	713.783.4120
Submission date of the most recent District Registration Form (TWC Sections 36.054 and 49.054):	<u>October 1, 2009</u>
Limit on fees of office that a director may receive during a fiscal year:	<u>\$ 7,200</u>

Board Members	Term of Office Elected & Expires	Fees*	Expense Reimbursements	Title at Year-end
Tara Wagner	Elected 05/06- 05/10	\$ 2,700	\$ 2,882	President
Mike Ware	Elected 05/06- 05/10	1,800	264	Vice President
Terri Ellis	Elected 05/06- 05/10	2,100	2,624	Secretary
Lynn Macko	Elected 05/08- 05/12	2,850	2,682	Deputy Secretary
Larry Eaton	Elected 05/08- 05/12	3,300	2,219	Director

*Fees are the amounts actually paid to a director during the District's fiscal year.

Palmer Plantation Municipal Utility District No. 1
Board Members, Key Personnel and Consultants (Continued)
Year Ended December 31, 2009

Consultants	Date Hired	Fees and Expense Reimbursements	Title
BKD, LLP	01/01/88	\$ 16,400	Auditor
Fort Bend Central Appraisal District	Legislative Action	5,039	Appraiser
LJA Engineering & Surveying, Inc.	01/14/83	54,798	Engineer
Thomas W. Lee, RTA	07/01/01	10,982	Tax Assessor/ Collector
Municipal Accounts & Consulting, L.P.	11/16/05	19,551	Bookkeeper
Paul A. Philbin & Assoc., P.C.	01/14/83	40,407	Attorney
Quail Valley Utility District	06/13/83	327,814	Operator
Rathmann & Associates, L.P.	04/11/03	0	Financial Advisor
 Investment Officer			
Carol Rochetti	11/16/05	N/A	Bookkeeper

Board of Directors
Palmer Plantation Municipal Utility District No. 1
Fort Bend County, Texas

In planning and performing our audit of the financial statements of Palmer Plantation Municipal Utility District No. 1 (the District) as of and for the year ended December 31, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements of the District's financial statements on a timely basis. A deficiency in design exists when a control necessary to meet a control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, a control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We observed the following matters that we consider to be material weaknesses.

Material Weaknesses

The District's management consists of an elected Board of Directors (Directors). Day-to-day operations are performed by private entities (Consultants) under contract with the District. The Directors supervise the performance of the Consultants; however, although Consultants can be part of the District's system of internal control, the Consultants are not members of management. Per auditing standards, management is responsible for design and implementation of the District's system of internal controls.

Per auditing standards, one of the primary controls within the system of internal controls is related to the preparation of the financial statements. Management of the District is responsible for either preparing the financial statements or having the knowledge to determine whether the financial statements have been properly prepared and are free from potential misstatement. The absence of this expertise within management, or a Consultant of the District hired to perform this service, is considered by auditing standards to be a material weakness in internal control over financial reporting.

During the course of performing an audit, it is not unusual for the auditor to prepare various journal entries to correct and present the financial statements on the government-wide basis of accounting. Additionally, we noted adjustments to various accounts, such as operating deposits and interfund transfers, which were necessary in order for the fund financial statements to be in conformity with generally accepted accounting principles. The inability of management (or a Consultant of the District hired to perform this service) to detect these necessary adjustments is considered by auditing standards to be a material weakness in internal control over financial reporting.

Finally, management, or a Consultant of the District, does not prepare the capital asset and depreciation register or post adjustments related to the presentation of the capital assets in the government-wide financial statements. As management is not preparing or reviewing and does not have the expertise to prevent, detect and correct related significant potential misstatements, this is considered by auditing standards to be a material weakness.

Management's Response

The District's Directors are appointed or elected from the general population and do not necessarily have governmental accounting expertise. The Directors engage Consultants who possess industry knowledge and expertise to provide financial services, as well as legal and professional engineering services. The Directors do not feel that the addition of an employee or a Consultant to perform the annual financial reporting process is necessary, nor would it be cost effective.

Management's written response to the material weaknesses identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, the Board of Directors and the Texas Commission on Environmental Quality, and is not intended to be, and should not be, used by anyone other than these specified parties.

June 29, 2010



APPENDIX C

SPECIMEN OF MUNICIPAL BOND INSURANCE POLICY



MUNICIPAL BOND
INSURANCE POLICY

ISSUER:

Policy No.: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. (FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.) ("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. (FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.) has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.
(FORMERLY KNOWN AS FINANCIAL
SECURITY ASSURANCE INC.)

By _____
Authorized Officer

(212) 826-0100

