

**ADDENDUM DATED FEBRUARY 20, 2017 TO THE  
OFFICIAL STATEMENT DATED FEBRUARY 13, 2017**

**CHAMPIONS MUNICIPAL UTILITY DISTRICT**

**(Formerly known as Harris County Fresh Water Supply District No. 52)**

(A political subdivision of the State of Texas located within Harris County, Texas)

**\$4,435,000**

**UNLIMITED TAX BONDS, SERIES 2017**

On the inside front cover of the final Official Statement, the CUSIP number of the Term Bond maturing March 1, 2029 was incorrect. The corrected CUSIP number is shown below in bold:

**\$1,610,000 Term Bonds**

\$315,000 Term Bonds, Due March 1, 2029 (c)(d), 3.000% Interest Rate, 3.000% Initial Yield (a)

CUSIP (b) **15870Q AM9**

\$480,000 Term Bonds, Due March 1, 2039 (c)(d), 3.500% Interest Rate, 3.700% Initial Yield (a)

CUSIP (b) 15870Q AX5

\$815,000 Term Bonds, Due March 1, 2042 (c)(d), 3.625% Interest Rate, 3.800% Initial Yield (a)

CUSIP (b) 15870Q BA4

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(a) Initial yield represents the initial reoffering yield to the public which has been established by the Underwriter for public offerings and which subsequently may be changed. The initial yields indicated above represent the lower of the yields resulting when priced to maturity or to the first call date. Accrued interest from March 1, 2017 is to be added to the price.

(b) CUSIP Numbers have been assigned to the Bonds by CUSIP Global Services and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Underwriter shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.

(c) Bonds maturing on or after March 1, 2025, are subject to redemption prior to maturity at the option of the District, as a whole or from time to time in part, on March 1, 2024, or on any date thereafter, at par plus accrued interest from the most recent interest payment date to the date fixed for redemption. See "THE BONDS—Optional Redemption."

(d) Term Bonds are also subject to mandatory redemption in part by lot or other customary method at a price of par plus accrued interest to the redemption date. See "THE BONDS—Mandatory Redemption."

OFFICIAL STATEMENT DATED FEBRUARY 13, 2017

**THE DELIVERY OF THE BONDS IS SUBJECT TO THE OPINION OF BOND COUNSEL TO THE EFFECT THAT, UNDER EXISTING LAW AND ASSUMING CONTINUING COMPLIANCE WITH COVENANTS IN THE BOND ORDER, INTEREST ON THE BONDS WILL BE EXCLUDABLE FROM GROSS INCOME OF THE OWNERS THEREOF FOR FEDERAL INCOME TAX PURPOSES AND IS NOT SUBJECT TO THE ALTERNATIVE MINIMUM TAX ON INDIVIDUALS OR, EXCEPT AS DESCRIBED HEREIN, CORPORATIONS. SEE "LEGAL MATTERS -- TAX EXEMPTION" HEREIN.**

*The District has designated the Bonds as "qualified tax-exempt obligations" for purposes of the calculation of interest expense by financial institutions which may own the Bonds. See "TAX MATTERS-- Qualified Tax-Exempt Obligations for Financial Institutions."*

**NEW ISSUE  
BOOK-ENTRY ONLY  
CUSIP No. 15870Q**

**RATINGS: (S&P- BAM) "AA" (stable outlook)  
(See "BOND INSURANCE" herein)  
(Moody's--underlying) "A3"**

**CHAMPIONS MUNICIPAL UTILITY DISTRICT**  
(Formerly known as Harris County Fresh Water Supply District No. 52)  
(A political subdivision of the State of Texas located within Harris County, Texas)  
**\$4,435,000**  
**UNLIMITED TAX BONDS, SERIES 2017**

**Bonds Dated: March 1, 2017**

**Due: March 1, as shown on inside cover**

The \$4,435,000 Unlimited Tax Bonds, Series 2017 (the "Bonds") are obligations solely of Champions Municipal Utility District (the "District") and are not obligations of the State of Texas; Harris County, Texas; the City of Houston, Texas; or any other political subdivision or agency. See "THE BONDS--Source of and Security for Payment."

Interest on the Bonds will accrue from March 1, 2017, and will be payable September 1, 2017 and each March 1 and September 1 thereafter, and will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds are issuable only in fully registered form in principal denominations of \$5,000 or integral multiples thereof initially registered solely in the name of Cede & Co., as registered owner (a "Registered Owner") and nominee for The Depository Trust Company, New York, New York ("DTC"), acting as securities depository for the Bonds, until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only. So long as Cede & Co. is the registered owner of the Bonds, as nominee for DTC, the Bonds shall be payable to Cede & Co., which will in turn, remit such amount to DTC participants for subsequent disbursement to the beneficial owners of the Bonds. See "THE BONDS--Book-Entry-Only System."

Principal of and the redemption price for the Bonds are payable by BOKF, NA, Austin, Texas or any successor paying agent/registrant (the "Paying Agent/Registrar"). Interest on the Bonds will be payable by check mailed on or before the interest payment date to registered owners shown on the records of the Paying Agent/Registrar on the fifteenth (15<sup>th</sup>) day of the month preceding each interest payment date or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and the registered owner at the risk and expense of the registered owner. See "THE BONDS--Description."

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

SEE INSIDE COVER PAGE FOR MATURITY SCHEDULE



The Bonds, when issued, will constitute valid and legally 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 within the District. See "THE BONDS--Source of and Security for Payment." The Bonds are subject to special investment considerations described herein. See "RISK FACTORS." **Neither the State of Texas, Harris County, Texas, the City of Houston, Texas, nor any political subdivision other than the District shall be obligated to pay the principal of and interest on the Bonds.**

The Bonds will be delivered when, as, and if issued by the District and accepted by the initial purchaser of the Bonds (the "Underwriter"), subject among other things to the approval of the initial Bonds by the Attorney General of the State of Texas and by the approval of certain legal matters by Johnson Petrov LLP, Houston, Texas, Bond Counsel. Certain legal matters will be passed upon for the District by Orrick, Herrington & Sutcliffe LLP, Houston, Texas, Disclosure Counsel. Delivery of the Bonds is expected on March 20, 2017, in Austin, Texas.

## MATURITY SCHEDULE

**Bonds Dated: March 1, 2017**

**Due: March 1, as shown below**

### \$2,825,000 Serial Bonds

<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Initial Yield(a)</u>	<u>CUSIP (b)</u>	<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Initial Yield(a)</u>	<u>CUSIP (b)</u>
2018	\$110,000	3.000%	1.200%	15870Q AA5	***	***	***	***	***
2019	115,000	3.000%	1.300%	15870Q AB3	2030(c)	\$165,000	3.000%	3.100%	15870Q AN7
2020	115,000	3.000%	1.500%	15870Q AC1	2031(c)	175,000	3.000%	3.200%	15870Q AP2
2021	120,000	3.000%	1.700%	15870Q AD9	2032(c)	180,000	3.125%	3.300%	15870Q AQ0
2022	125,000	3.000%	1.900%	15870Q AE7	2033(c)	190,000	3.250%	3.400%	15870Q AR8
2023	125,000	3.000%	2.100%	15870Q AF4	2034(c)	200,000	3.250%	3.450%	15870Q AS6
2024	130,000	3.000%	2.250%	15870Q AG2	2035(c)	205,000	3.375%	3.500%	15870Q AT4
2025(c)	135,000	3.000%	2.450%	15870Q AH0	2036(c)	215,000	3.375%	3.550%	15870Q AU1
2026(c)	145,000	3.000%	2.600%	15870Q AJ6	2037(c)	225,000	3.500%	3.600%	15870Q AV9
2027(c)	150,000	3.000%	2.750%	15870Q AK3					

### \$1,610,000 Term Bonds

\$315,000 Term Bonds, Due March 1, 2029 (c)(d), 3.000% Interest Rate, 3.000% Initial Yield (a)  
CUSIP (b) 15870Q AK3M9

\$480,000 Term Bonds, Due March 1, 2039 (c)(d), 3.500% Interest Rate, 3.700% Initial Yield (a)  
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\$815,000 Term Bonds, Due March 1, 2042 (c)(d), 3.625% Interest Rate, 3.800% Initial Yield (a)  
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(a) Initial yield represents the initial reoffering yield to the public which has been established by the Underwriter for public offerings and which subsequently may be changed. The initial yields indicated above represent the lower of the yields resulting when priced to maturity or to the first call date. Accrued interest from March 1, 2017 is to be added to the price.

(b) CUSIP Numbers have been assigned to the Bonds by CUSIP Global Services and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Underwriter shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.

(c) Bonds maturing on or after March 1, 2025, are subject to redemption prior to maturity at the option of the District, as a whole or from time to time in part, on March 1, 2024, or on any date thereafter, at par plus accrued interest from the most recent interest payment date to the date fixed for redemption. See “THE BONDS—Optional Redemption.”

(d) Term Bonds are also subject to mandatory redemption in part by lot or other customary method at a price of par plus accrued interest to the redemption date. See “THE BONDS—Mandatory Redemption.”

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

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## **USE OF INFORMATION IN OFFICIAL STATEMENT**

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

This Official Statement is not to be used 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, orders, contracts, audited financial statements, engineering and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from the District, c/o Johnson Petrov LLP, 2929 Allen Parkway, Suite 3150, Houston, Texas 77019-6100 upon payment of duplication costs.

This Official Statement contains, in part, estimates, assumptions and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions or matters of opinion, or 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. 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 Underwriter and thereafter only as specified in "PREPARATION OF THE OFFICIAL STATEMENT-- Updating of Official Statement" and "CONTINUING DISCLOSURE OF INFORMATION."

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

## **SALE AND DISTRIBUTION OF THE BONDS**

### **Prices and Marketability**

The delivery of the Bonds is conditioned upon the receipt by the District of a certificate executed and delivered by the Underwriter prior to delivery of the Bonds stating the prices at which a substantial amount of the Bonds of each maturity has been sold to the public. For this purpose, the term "public" shall not include any person who is a bond house, broker or similar person acting in the capacity of underwriter or wholesaler. Otherwise, the District has no understanding with the Underwriter or control regarding the reoffering yields or prices of the Bonds. Information concerning reoffering yields or prices is the sole responsibility of the Underwriter.

THE PRICES AND OTHER TERMS RESPECTING THE OFFERING AND SALE OF THE BONDS MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER AFTER THE BONDS ARE RELEASED FOR SALE, AND THE BONDS MAY BE OFFERED AND SOLD AT PRICES OTHER THAN THE INITIAL OFFERING PRICES, INCLUDING SALES TO DEALERS WHO MAY SELL THE BONDS INTO INVESTMENT ACCOUNTS. IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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

### **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.

### **Underwriter**

After requesting competitive bids for the Bonds, the District accepted the bid resulting in the lowest net interest cost, which bid was tendered by Robert W. Baird & Co., Inc. (the "Underwriter") bearing the interest rates shown on the inside cover page hereof, at a price of 97.953540% of the par value thereof plus accrued interest to the date of delivery which resulted in a net effective interest rate of 3.502277% as calculated pursuant to Chapter 1204, Texas Government Code, as amended (the "IBA" method).

The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into unit investment trusts) and others at prices lower than the public offering price stated on the inside cover page hereof. The initial offering price may be changed from time to time by the Underwriter.

### **Municipal Bond Rating**

In connection with the sale of the Bonds, the District made application to Moody's Investors Service, Inc. ("Moody's"), which has assigned a rating of "A3" to the Bonds. An explanation of the significance of such rating may be obtained from Moody's. The rating reflects only the view of Moody's and the District makes no representation as to the appropriateness of such rating.

S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P") is expected to assign its municipal rating of "AA" (stable outlook) to the Bonds, as a result of a municipal bond insurance policy issued by Build America Mutual Assurance Company at the time of delivery of the Bonds (see "BOND INSURANCE" and "APPENDIX B—Specimen Municipal Bond Insurance Policy"). An explanation of the significance of such rating may be obtained from S&P. The rating reflects only the view of S&P and the District makes no representation as to the appropriateness of such rating.

The District can make no assurance that the Moody's or S&P ratings will continue for any period of time or that such rating will not be revised downward or withdrawn entirely by Moody's or S&P if in the judgment of Moody's or S&P circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

### **Texas Ethics Commission Form 1295 and Certification of Filing**

Effective January 1, 2016, pursuant to Texas Government Code § 2252.908 (the "Interested Party Disclosure Act" or the "Act"), the District may not award the Bonds to an bidder/underwriter unless the bidder/underwriter and each

syndicate member have provided to the District a completed, signed and notarized Texas Ethics Commission Form 1295 ("TEC Form 1295") which has been assigned a certificate number by the Texas Ethics Commission (the "TEC"). The Underwriter has submitted a TEC Form 1295 in conformity with the Act, and the District has acknowledged the Underwriter's TEC Form 1295 in conformity with the Act.

## **SUMMARY**

The following information is a summary of certain information contained herein and is qualified in its entirety by the more detailed information and financial statements appearing elsewhere in this Official Statement, reference to which is made for all purposes. This summary should not be detached and should be used in conjunction with more complete information contained herein.

### **-The District-**

Issuer/Description	Champions Municipal Utility District (the "District"), a political subdivision of the State of Texas, was created by the Texas Water Rights Commission (predecessor to the Texas Commission on Environmental Quality ("TCEQ")) as Harris County Fresh Water Supply District No. 52 in 1961 and changed its name effective October 6, 2016. The District is located in northwestern Harris County, Texas, in the Champions Forest area, about 18 miles northwest of downtown Houston, east of FM 149 and west of IH 45 between FM 1960 and Cypress Creek, and encompasses approximately 861.70 acres. The District's 2017 population is estimated at 4,000. The District is located within the exclusive extraterritorial jurisdiction of the City of Houston. See "THE DISTRICT--Description."
Authority	The rights, powers, privileges, authority and functions of the District are established by the general laws of the State of Texas pertaining to municipal utility districts, including particularly Chapters 49 and 54 of the Texas Water Code, as amended. See "THE DISTRICT--Authority."
Development Within The District	Land within the District has been developed as the completed residential subdivisions of Champions Northwest, North, East, South and West; Champions Glen; Champions Colony III; Kings Row; Champions Celebrity Colony; Champions Place; Champions Way; Champions Bend Estates; and Hamlet at Champions. As of January 2017, there were approximately 1,392 single family homes constructed in the District. The District also contains a recreation center, a school, a church, an office building and several commercial establishments. See "THE DISTRICT--Development."

### **- The Bonds -**

Description	The District's \$4,435,000 Unlimited Tax Bonds, Series 2017 (the "Bonds") are dated March 1, 2017 and interest will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds bear interest from such date at the rates per annum set forth on the inside cover page hereof, which interest is payable September 1, 2017 and each March 1 and September 1 thereafter until the earlier of maturity or redemption. The Bonds mature serially on March 1 in each year 2018 through 2027 and in each year 2030 through 2037, in the principal amounts set forth on the inside cover page hereof (herein the "Serial Bonds") and on March 1 in the years 2029, 2039 and 2042 (herein the "Term Bonds"). The Term Bonds are subject to mandatory redemption as described herein under "THE BONDS--Mandatory Redemption." Bonds scheduled to mature on or after March 1, 2025, are subject to optional redemption at the option of the District on any date on or after March 1, 2024, at a price of par plus accrued interest to the date of redemption. See "THE BONDS--Description" and "--Optional Redemption."
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Source of Payment	Principal of and interest on the Bonds are payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. The Bonds are obligations of the District and are not obligations of Harris County, Texas; the City of Houston, Texas; the State of Texas; or any political subdivision other than the District. See "THE BONDS--Source of and Security for Payment."
Use of Proceeds	Proceeds of the Bonds will be used for water system rehabilitation, elevated and ground storage tank recoating, water well rehabilitation, wastewater system rehabilitation, new wastewater force main installation, removal of existing wastewater treatment plant, lift station rehabilitation shared with Cypress Forest Public Utility District, and the purchasing of wastewater treatment capacity at Kleinwood Wastewater Treatment Plant, together with associated contingencies and engineering fees and the costs of issuance of the Bonds. See "THE BONDS — Use and Distribution of Bond Proceeds."
Payment Record	The District has never defaulted on the payment of any bonded indebtedness. See "DISTRICT DEBT."
Qualified Tax-Exempt Obligations	The District has designated the Bonds as "qualified tax-exempt obligations" pursuant to Section 265(b) of the Internal Revenue Code of 1986, as amended, and represents that the total amount of tax-exempt bonds (including the Bonds) issued by it during the calendar year 2017 is not reasonably expected to exceed \$10,000,000. See "TAX MATTERS--Qualified Tax-Exempt Obligations."
Book-Entry Only System	The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC") pursuant to the Book-Entry Only System described herein. Beneficial ownership of the Bonds may be acquired in principal denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal and interest on the Bonds will be payable by BOKF, NA, Austin, Texas, the initial paying agent/registrar to Cede & Co. and Cede & Co. will make distribution of the amounts so paid to the beneficial owners of the Bonds (see "THE BONDS--Book-Entry Only System").
Municipal Bond Rating	The District has made application to Moody's Investors Service, Inc. ("Moody's"), which has assigned a rating of "A3" to the Bonds based upon the District's underlying credit. See "SALE AND DISTRIBUTION OF THE BONDS--Municipal Bond Rating."
Municipal Bond Rating and Municipal Bond Insurance	S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P") is expected to assign a municipal rating of "AA" (stable outlook) as a result of a municipal bond insurance policy issued by Build America Mutual Assurance Company. See "SALE AND DISTRIBUTION OF THE BONDS--Municipal Bond Rating," "BOND INSURANCE" and "APPENDIX B--Specimen Municipal Bond Insurance Policy."
Bond Counsel	Johnson Petrov LLP, Houston, Texas, Houston, Texas. See "LEGAL MATTERS" and "TAX MATTERS."
Disclosure Counsel	Orrick, Herrington & Sutcliffe LLP, Houston, Texas.
Financial Advisor	Blitch Associates, Inc., Houston, Texas.

## RISK FACTORS

THE PURCHASE AND OWNERSHIP OF THE BONDS ARE SUBJECT TO SPECIAL RISK FACTORS AND ALL PROSPECTIVE PURCHASERS ARE URGED TO EXAMINE CAREFULLY THE ENTIRE OFFICIAL STATEMENT WITH RESPECT TO THE INVESTMENT SECURITY OF THE BONDS, INCLUDING PARTICULARLY THE SECTION CAPTIONED "RISK FACTORS.

### - Financial Highlights - (Unaudited)

2016 Taxable Assessed Valuation (100% of Market Value)	\$345,606,994	(a)
Direct Debt (the Bonds)	\$4,435,000	
Estimated Overlapping Debt	<u>20,498,348</u>	(b)
Direct and Estimated Overlapping Debt	<u>\$24,933,348</u>	
Direct Debt Ratios:		
Direct Debt to Value	1.28%	
Direct & Estimated Overlapping Debt to Value	7.22%	
2016 Tax Rate per \$100 of Assessed Value		
Debt Service	\$0.0802	
Maintenance	<u>0.2500</u>	
Total	<u>\$0.3302</u>	
Average Annual Debt Service Requirements (2018/42)	\$264,574	
Maximum Annual Debt Service Requirements (2042)	\$290,166	
Tax Rate Required to pay such Requirements at 95% Collection		
Average (2018/2042)	\$0.0806	
Maximum (2042)	\$0.0884	
Fund Balances as of January 9, 2017 (Cash & Investments)		
General Fund	\$2,571,482	
Debt Service Fund	\$20,000	(c)
Capital Projects Fund	\$0	

(a) Certified by the Harris County Appraisal District (the "Appraisal District"). See "TAX PROCEDURES."

(b) See "DISTRICT DEBT--Estimated Overlapping Debt."

(c) Exclusive of six months' interest to be capitalized from Bond proceeds.

**CHAMPIONS MUNICIPAL UTILITY DISTRICT**  
**\$4,435,000**  
**UNLIMITED TAX BONDS, SERIES 2017**

This Official Statement of Champions Municipal Utility District (the "District") is provided to furnish certain information with respect to the sale by the District of its \$4,435,000 Unlimited Tax Bonds, Series 2017 (the "Bonds"). The Bonds are issued pursuant to the Texas Constitution, the general laws of the State of Texas and an order authorizing the issuance of the Bonds (the "Bond Order") adopted by the Board of Directors of the District (the "Board"), Article XVI, Section 59 of the Texas Constitution and Chapters 49 and 51 of the Texas Water Code, as amended. See "THE BONDS."

This Official Statement includes descriptions of the Bonds, the Bond Order and certain other information about the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document, copies of which may be obtained by contacting the District, c/o Johnson Petrov LLP, located at 2929 Allen Parkway, Suite 3150, Houston, Texas 77019-6100.

**THE BONDS**

**Description**

The following is a description of some of the terms and conditions of the Bonds, which description is qualified in its entirety by reference to the Bond Order. A copy of the Bond Order may be obtained upon request to the District and payment of the applicable copying charges.

The Bonds will mature on March 1 of the years and in principal amounts, and will bear interest from March 1, 2017, at the rates per annum, set forth on the inside cover page of this Official Statement. Interest on the Bonds will be payable on September 1, 2017, and semiannually thereafter on each March 1 and September 1 thereafter until the earlier of maturity or redemption. Principal of and interest on the Bonds will be payable to Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC"), by the paying agent/registrar, initially BOKF, NA, Austin, Texas (the "Paying Agent/Registrar"). Cede & Co. will make distribution of the principal and interest so paid to the beneficial owners of the Bonds. For so long as DTC shall continue to serve as securities depository for the Bonds, all transfers of beneficial ownership interest will be made by book-entry only and no investor or other party purchasing, selling or otherwise transferring beneficial ownership of the Bonds is to receive, hold or deliver any Bond certificate.

If at any time, DTC ceases to hold the Bonds as securities depository, then principal of the Bonds will be payable to the registered owner at maturity or redemption upon presentation and surrender at the principal payment office of the Paying Agent/Registrar. Interest on the Bonds will be payable by check, dated as of the interest payment date, and mailed by the Paying Agent/Registrar to the registered owners as shown on the records of the Paying Agent/Registrar at the close of business on the 15<sup>th</sup> day of the month next preceding the interest payment date (the "Record Date"). The Bonds of each maturity will be issued in fully-registered form only in the principal amount of \$5,000 or any integral multiple thereof.

If the specified date for any payment of principal (or redemption price) or interest on the Bonds shall be a Saturday, Sunday or legal holiday or equivalent (other than a moratorium) for banking institutions generally in the City of Houston, Texas, such payment may be made on the next succeeding date which is not one of the foregoing days without additional interest and with the same force and effect as if made on the specified date for such payments.

**Use of Proceeds**

Proceeds of the Bonds will be used for water system rehabilitation, elevated and ground storage tank recoating, water well rehabilitation, wastewater system rehabilitation, new wastewater force main installation, removal of existing

wastewater treatment plant, lift station rehabilitation shared with Cypress Forest Public Utility District, and the purchasing of wastewater treatment capacity at Kleinwood Wastewater Treatment Plant, together with associated contingencies and engineering fees and the costs of issuance of the Bonds.

The costs outlined below have been provided by Lockwood, Andrews & Newman, Inc., the District's consulting engineer (the "Engineer"), and reflect those costs approved by the Texas Commission on Environmental Quality ("TCEQ"). The TCEQ initially approved a bond issue of \$4,835,000, which included two years' capitalized interest. However, the District chose to include only six months' capitalized interest and instead will sell the lesser amount of \$4,435,000 as shown below. Amounts indicated may not add due to rounding.

<b><u>Construction Costs</u></b>	<b><u>As Approved By TCEQ</u></b>	<b><u>Unused TCEQ Authorization</u></b>	<b><u>The Bonds</u></b>
Water Line Replacement–Bermuda Drive	\$270,000		\$270,000
Elevated Storage Tank #1 Recoating	200,000		200,000
Ground Storage Tank #1 Recoating	200,000		200,000
Ground Storage Tank #2 Recoating	200,000		200,000
Offsite Water Well #2 Rehabilitation	100,000		100,000
Wastewater Phase #4 Rehabilitation	747,015		747,015
Wastewater Force Main Installation	334,600		334,600
Remove Wastewater Treatment Plant	140,000		140,000
Cypress Forest PUD Lift Station Upgrade	369,352		369,352
Wastewater Capacity Payments	397,500		397,500
Contingencies (10%)	219,162		219,162
Engineering	<u>774,988</u>		<u>774,988</u>
Total Construction Costs	\$3,952,617		\$3,952,617
<b><u>Non-Construction Costs</u></b>			
Bond Counsel (2.00%)	\$96,700	(\$8,000)	\$88,700
Financial Advisor (1.75%)	67,938	(5,000)	62,938
Two Years' Capitalized Interest (10.0%)	483,500	(372,625)	110,875
Bond Discount (3.00%)	145,050	(12,000)	133,050
Attorney General (0.10%)	4,835	(400)	4,435
TCEQ Fee (0.25%)	12,088	(1,000)	11,088
Bond Application Report	40,000	0	40,000
Bond Issuance Expenses	<u>32,273</u>	<u>(975)</u>	<u>31,298</u>
Total Non-Construction Costs	<u>\$882,383</u>	<u>(\$400,000)</u>	<u>\$482,383</u>
<b><u>The Bonds</u></b>	<b><u>\$4,835,000</u></b>		<b><u>\$4,435,000</u></b>

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

## **Book-Entry-Only System**

*This section describes how ownership of the Bonds are to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by DTC, while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.*

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

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be 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 corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is a 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 a Standard & Poor's rating of "AA+." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Bonds under the DTC system must be made by or through DTC Participants, which will receive a credit for such purchases 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 or 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 interest 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 the 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 nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's

records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the District or Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, Paying Agent/Registrar or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or Paying Agent/Registrar, disbursement of such payments to Direct Participants shall 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 securities depository with respect to the Bonds at any time by giving reasonable notice to the District or Paying Agent/Registrar. Under such circumstances, in the event that a successor securities depository is not obtained, Bonds 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, Bonds will be printed and delivered.

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.

## **Registration and Transfer**

The Bonds will be transferable only on the bond register kept by the Paying Agent/Registrar upon surrender and reissuance. The Bonds are exchangeable for an equal aggregate principal of Bonds of the same maturity and of any authorized denomination upon surrender of the Bonds to be exchanged at the principal office of the Paying Agent/Registrar in Austin, Texas. No service charge will be made for any registration, transfer or exchange of Bonds, but the District or the Paying Agent/Registrar may require payment of a sum sufficient to cover any tax or governmental charge payable in connection therewith. Neither the District nor the Paying Agent/Registrar is required to issue, transfer or exchange any Bond during the period beginning at the opening of business on a Record Date and ending at the close of business on the next succeeding interest payment date or to transfer or exchange any Bond selected for redemption, in whole or in part, beginning 15 calendar days prior to the date of the first mailing of any notice of redemption and ending at the close of business on the date of such mailing, 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 Bond.

## **Mandatory Redemption**

The Bonds maturing March 1, 2029, 2039 and 2042 (the “Term Bonds”) are subject to mandatory redemption in part prior to maturity in the amounts and on the dates set out below, at a price equal to the principal amount to be redeemed plus accrued interest to the redemption date:

<u><i>Redemption Date</i></u>	<u><i>Principal Amount</i></u>
<i>\$315,000 Term Bonds Due March 1, 2029</i>	
March 1, 2028	\$155,000
March 1, 2029 (maturity)	160,000
<i>\$480,000 Term Bonds Due March 1, 2039</i>	
March 1, 2038	\$235,000
March 1, 2039 (maturity)	245,000
<i>\$815,000 Term Bonds Due March 1, 2042</i>	
March 1, 2040	\$260,000
March 1, 2041	270,000
March 1, 2042 (maturity)	285,000

The particular Term Bonds to be mandatorily redeemed shall be selected by lot or other customary random selection method. The principal amount of the Term Bonds of a maturity required to be redeemed pursuant to the operation of such mandatory redemption requirements shall be reduced, at the option of and as determined by the District, by the principal amount of any Term Bonds of such maturity which, prior to the date of the mailing of notice of such mandatory redemption, (1) shall have been acquired by the District and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the District, or (3) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

## **Optional Redemption**

The District reserves the right, at its option, to redeem the Bonds maturing on or after March 1, 2025, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof on March 1, 2024, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. If less than all of the Bonds are to be redeemed, the Paying Agent/Registrar shall select by lot those Bonds to be redeemed.

At least thirty (30) days prior to the date fixed for any such redemption a written notice of such redemption shall be given to the registered owner of each Bond or a portion thereof being called for redemption by depositing such notice in the United States mail, first class, postage prepaid, addressed to each such registered owner at his address shown on the registration books of the Paying Agent/Registrar; provided, however, that the failure to receive such notice shall not affect the validity or effectiveness of the proceedings for the redemption of any Bond. By the date fixed for any such redemption due provision shall be made with the Paying Agent/Registrar for the payment of the required redemption price for the Bonds or the portions thereof which are to be so redeemed, plus accrued interest to the date fixed for redemption. If a portion of any Bond shall be redeemed, a substitute Bond having the same maturity date, bearing interest at the same rate, in any integral multiple of \$5,000, and in aggregate principal amount equal to the unredeemed position thereof, will be issued to the registered owner upon the surrender of the Bonds being redeemed, at the expense of the District, all as provided for in the Bond Order.

## **Ownership**

The District, the Paying Agent/Registrar and any agent of either may treat the person in whose name any Bond is registered as the absolute owner of such Bond for the purpose of receiving payment of the principal and the interest thereon, and for all other purposes, whether or not such Bond is overdue. Neither the District, the Paying Agent/Registrar nor any agent of either shall be bound by any notice or knowledge to the contrary. All payments made to the person deemed to be the owner of any Bond in accordance with the Bond Order shall be valid and effective and shall discharge the liability of the District and the Paying Agent/Registrar for such Bond to the extent of the sums paid.

## **Source of and Security for Payment**

The Bonds (together with any additional unlimited tax or combination unlimited tax bonds as may hereafter be issued) are payable as to principal and interest from the proceeds of a continuing, direct, annual ad valorem tax without legal limitation as to rate or amount, levied against all taxable property located within the District. In the Bond Order, the District covenants to levy annually a tax sufficient in amount to pay principal of and interest on the Bonds, full allowance being made for delinquencies and costs of collection. Collected taxes will be placed in the District's Debt Service Fund and used solely to pay principal and interest on the Bonds and on any additional bonds payable from taxes which may be issued. See "Issuance of Additional Debt" below.

## **Replacement of Paying Agent/Registrar**

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

## **Authority for Issuance**

The District currently has no bonds outstanding. A total of \$25,000,000 in unlimited tax bonds for waterworks, sanitary sewer and drainage facilities authorized at an election held within the District for that purpose on May 7, 2016. After issuance of the Bonds, an aggregate of \$20,565,000 principal amount of unlimited tax bonds will remain authorized but unissued. Additionally, unlimited tax refunding bonds in the amount of 150% of the remaining outstanding bonds have been authorized by the District's voters. See "Issuance of Additional Debt."

The Bonds are issued pursuant to the Bond Order; Chapters 49 and 54 of the Texas Water Code, as amended; Chapter 1201, Texas Government Code, as amended; and Article XVI, Section 59 of the Texas Constitution.

## **Issuance of Additional Debt**

The District may issue additional bonds to provide those improvements for which the District was created. Following the issuance of the Bonds, \$20,565,000 unlimited tax bonds authorized by the District's voters will remain unissued. The District does not expect to sell additional bonds within the next year.

According to the District's Engineer, the remaining authorized but unissued bonds will be sufficient to replace and renovate the utility system within the District for the next ten to fifteen years. Depending upon increases in assessed valuation of taxable property within the District and the amount, maturity schedule and time of issuance of such additional bonds, increases in the District's annual tax rate may be required to provide for the payment of the principal of and interest on such additional bonds and the Bonds. Additional tax bonds and/or tax and revenue bonds may be voted in the future. The Board is further empowered to borrow money for any lawful purpose and pledge the revenues of the waterworks and sewer system therefor and to issue bond anticipation notes and tax anticipation notes.

The Bond Order imposes no limitation on the amount of additional bonds which may be issued by the District. Any additional bonds issued by the District may be on a parity with the Bonds, and may dilute the security of the Bonds.

### **Defeasance**

The Bond Order provides that the obligation of the District to make money available to pay the principal of and interest on the Bonds may be terminated by the deposit of money and/or non-callable direct or indirect obligations of the United States of America, sufficient for such purpose, in the manner described in the Bond Order.

### **Mutilated, Lost, Stolen or Destroyed Bonds**

The District has agreed to replace mutilated, destroyed, lost or stolen Bonds upon surrender of the mutilated Bonds to the Paying Agent/Registrar, or receipt of satisfactory evidence of such destruction, loss or theft, and receipt by the District and Paying Agent/Registrar of security or indemnity as may be required by either of them to hold them harmless. The District may require payment of taxes, governmental charges and other expenses in connection with any such replacement.

### **Annexation and Consolidation**

Under Texas law, the territory within the District may be annexed by the City of Houston, Texas (the "City") without the consent of the District or its residents. If annexation by the City does occur, the District would be abolished within 90 days after annexation. If the District is abolished, the City must assume the assets, functions and obligations of the District, including the Bonds. No representation is made concerning the likelihood of annexation or the ability of the City to make debt service payments should annexation occur.

The District has the right to consolidate with other districts and, in connection therewith, to provide for the consolidation of its water and sewer system (the "System") with the water and sewer systems of the district or districts with which it is consolidating. Should any such consolidation occur, the net revenues from the operation of the consolidated system would be applied to the payment of principal, interest, redemption price and bank charges on the combination unlimited tax and revenue bonds of the District, if any, and of the district or districts with which the District is consolidated without prejudice to any series of bonds, except that bonds with subordinate liens on net revenues shall continue to be subordinate. No representations are made that the District will ever consolidate its System with other systems.

### **Amendments to the Bond Order**

The District may, without the consent of or notice to any registered owners, amend the Bond Order in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency or formal defect or omission therein. In addition, the District may, with the written consent of the registered owners of a majority in aggregate principal amount of the Bonds then outstanding affected thereby, amend, add to or rescind any of the provisions of the Bond Order; provided that, without the consent of the registered owners of all of the Bonds affected, no such amendment, addition or rescission may (a) extend the time or times of payment of the principal of and interest (or accrual of interest) on the Bonds, or reduce the principal amount thereof or the rate of interest thereon or in any other way modify the terms of payment of the principal of or interest on the Bonds, (b) give preference of any Bond over any other Bond, or (c) extend any waiver of default to subsequent defaults. In addition, a state, consistent with federal law, may in the exercise of its police power make such modifications in the terms and conditions of contractual covenants relating to the payment of indebtedness of a political subdivision as are reasonable and necessary for attainment of an important public purpose.

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

The Bond Order provides that, in the event the District defaults in the observance or performance of any covenant in the Bond Order, including payment when due of the principal of and interest on the Bonds, any registered owner may apply for a writ of mandamus from a court of competent jurisdiction requiring the Board or other officers of the District to

observe or perform any covenants, obligations or conditions prescribed by the Bond Order. Such right is in addition to other rights of the registered owners of the Bonds that may be provided by the laws of the State of Texas.

The Bond Order does not provide additional remedies to a registered owner. Specifically, the Bond Order does not provide for appointment of a trustee to protect and enforce the interests of the registered owners or for the acceleration of maturity of the Bonds upon the occurrence of a default in the District's obligations. Consequently, the remedy of mandamus may have to be relied upon from year to year by the registered owners.

Under Texas law, no judgment obtained against the District may be enforced by execution or a levy against the District's public purpose property. The registered owners cannot themselves foreclose on taxable property within the District or sell property within the District in order to pay principal of and interest on the Bonds. In addition, the enforceability of the rights and remedies of the registered owners may be subject to limitation pursuant to federal bankruptcy laws or other similar laws affecting the rights of creditors of political subdivisions.

### **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. Sections 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 debt; 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 water control and improvement district such as the District must obtain approval of the Texas Commission on Environmental Quality ("TCEQ") prior to filing for bankruptcy. The TCEQ must investigate the financial condition of the District and will authorize the District to proceed only if the TCEQ determines that the District has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

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

### **Legal Investment and Eligibility to Secure Public Funds in Texas**

Pursuant to Chapter 1201, Texas Government Code, and Section 49.186 Texas Water Code, the Bonds, whether rated or unrated, are (a) legal investments for banks, trust companies, building and loan associations, savings and loan associations, insurance companies of all kinds and types, fiduciaries, and trustees, and (b) legal investments and lawful security for the public funds of the State, and all agencies, subdivisions, and instrumentalities of the State, including all counties, cities, towns, villages, school districts, and other political subdivisions or public agencies of the State of Texas. 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 of Texas or any political subdivision or public agency of the State of Texas and are lawful and sufficient security 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 a requirement consistent with such act that the Bonds have a rating of not less than "A" or its equivalent to be legal investments for such

entity's funds. The District makes no representation that the Bonds will be acceptable to banks, savings and loan associations or public entities for investment purposes or to secure deposits of public funds. The District has made no investigation of other laws, regulations or investment criteria which might apply to or otherwise limit the suitability of the Bonds for investment or collateral purposes. Prospective purchasers are urged to carefully evaluate the investment quality of the Bonds as to the suitability of the Bonds for investment or collateral purposes.

## **BOND INSURANCE**

### **Bond Insurance Policy**

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

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

### **Build America Mutual Assurance Company**

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

The address of the principal executive offices of BAM is: 200 Liberty Street, 27<sup>th</sup> Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: [www.buildamerica.com](http://www.buildamerica.com).

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

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

### *Capitalization of BAM*

BAM's total admitted assets, total liabilities, and total capital and surplus, as of December 31, 2016 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$496.7 million, \$65.2 million and \$431.15 million, respectively.

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

BAM's most recent Statutory Annual Statement, which has been filed with the New York State Insurance Department

and posted on BAM's website at [www.buildamerica.com](http://www.buildamerica.com), is incorporated herein by reference and may be obtained, without charge, upon request to BAM at its address provided above (Attention: Finance Department). Future financial statements will similarly be made available when published.

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

*Additional Information Available from BAM*

**Credit Insights Videos.** For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM's analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM's website at [buildamerica.com/creditisights/](http://buildamerica.com/creditisights/). (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

**Credit Profiles.** Prior to the pricing of bonds that BAM has been selected to insure, BAM may prepare a pre-sale Credit Profile for those bonds. These pre-sale Credit Profiles provide information about the sector designation (e.g. general obligation, sales tax); a preliminary summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. Subsequent to closing, for any offering that includes bonds insured by BAM, any pre-sale Credit Profile will be updated and superseded by a final Credit Profile to include information about the gross par insured by CUSIP, maturity and coupon. BAM pre-sale and final Credit Profiles are easily accessible on BAM's website at [buildamerica.com/obligor/](http://buildamerica.com/obligor/). BAM will produce an Credit Profile for all bonds insured by BAM, whether or not a pre-sale Credit Profile has been prepared for such bonds. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

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

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

## THE DISTRICT

### Authority

Champions Municipal Utility District was created as Harris County Fresh Water Supply District No. 52 by the Texas Water Rights Commission (a predecessor to the TCEQ) in 1961. On January 7, 1986, the Texas Water Commission (predecessor to the TCEQ) issued an order converting the District to a municipal utility district. On October 6, 2016, the TCEQ issued *An Order Approving A Request By Harris County Fresh Water Supply District No. 52 To Change Its Name To Champions Municipal Utility District*, effective as of that date. The District is vested with all of the rights, privileges, authority, and functions conferred by the general laws of the State applicable to municipal utility districts, including without limitation those conferred by Chapters 49 and 54, Texas Water Code, as amended. The District is empowered to purchase, construct, operate, acquire, own, and maintain all water and wastewater facilities, improvements and the control and diversion of storm water. The District is additionally empowered to establish, operate and maintain a fire department, independently or with one or more other conservation and reclamation districts, and to issue bonds for such purposes, after approval by the City of Houston and the TCEQ and the District's voters. The District is subject to the continuing supervisory jurisdiction of the TCEQ.

### Description

The District is located in northwestern Harris County, Texas, in the Champions Forest area, about 18 miles northwest of downtown Houston, east of FM 149 and west of IH 45 between FM 1960 and Cypress Creek, and encompasses approximately 861.70 acres. The District lies entirely within the exclusive extraterritorial jurisdiction of the City of Houston and is located within the Cypress-Fairbanks Independent School District.

Land within the District has been developed as the completed residential subdivisions of Champions Northwest, North, East, South and West; Champions Glen; Champions Colony III; Kings Row; Champions Celebrity Colony; Champions Place; Champions Way; Champions Bend Estates; and Hamlet at Champions. As of January 2017, there were approximately 1,392 single family homes constructed in the District. The District also contains a private golf club, a school, a church, an office building and several commercial establishments. Storm water flows into storm sewer mains or roadside ditches which eventually outfall into nearby Cypress Creek or to FM 1960, also known as Cypress Creek Parkway.

According to the Federal Emergency Management Agency's Flood Insurance Rate Maps for Harris County effective October 16, 2013, all of the developed land located within the District lies outside the 100-year flood plain except for detention and drainage facilities, the existing wastewater treatment plant site and portions of the Champions Golf Course.

### Management of the District

The District is governed by the Board of Directors, consisting of five directors, which has management control over and management supervision of all affairs of the District. All Board members own property and/or reside within the District. Directors are elected to serve four-year staggered terms. Elections are held within the District in May of each even-numbered year. The current members and officers of the Board are as follows:

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Robert M. Pryor	President	2020
William S. Dillon	Vice President	2018
Jeffrey Kanaly	Secretary	2018
Scott B. Chenoweth	Assistant Secretary	2020
Austin Ross	Treasurer	2018

The District contracts for the services indicated below:

Auditor - The District's audited financial statements for the year ended June 30, 2016 were prepared by Roth & Eyring, PLLC, Stafford, Texas, Certified Public Accountants. A copy of such audit appears herein as Appendix A.

Bond Counsel - The District employs Johnson Petrov LLP, Houston, Texas, as general counsel and as Bond Counsel in connection with the issuance of the Bonds. The legal fees to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of Bonds actually issued and sold; and therefore, such fees are contingent on the sale and delivery of the Bonds. See "LEGAL MATTERS."

Financial Advisor - The District's financial advisor is Blitch Associates, Inc., Houston, Texas.

Engineer - The consulting engineer for the District is Lockwood, Andrews & Newman, Inc., Houston, Texas.

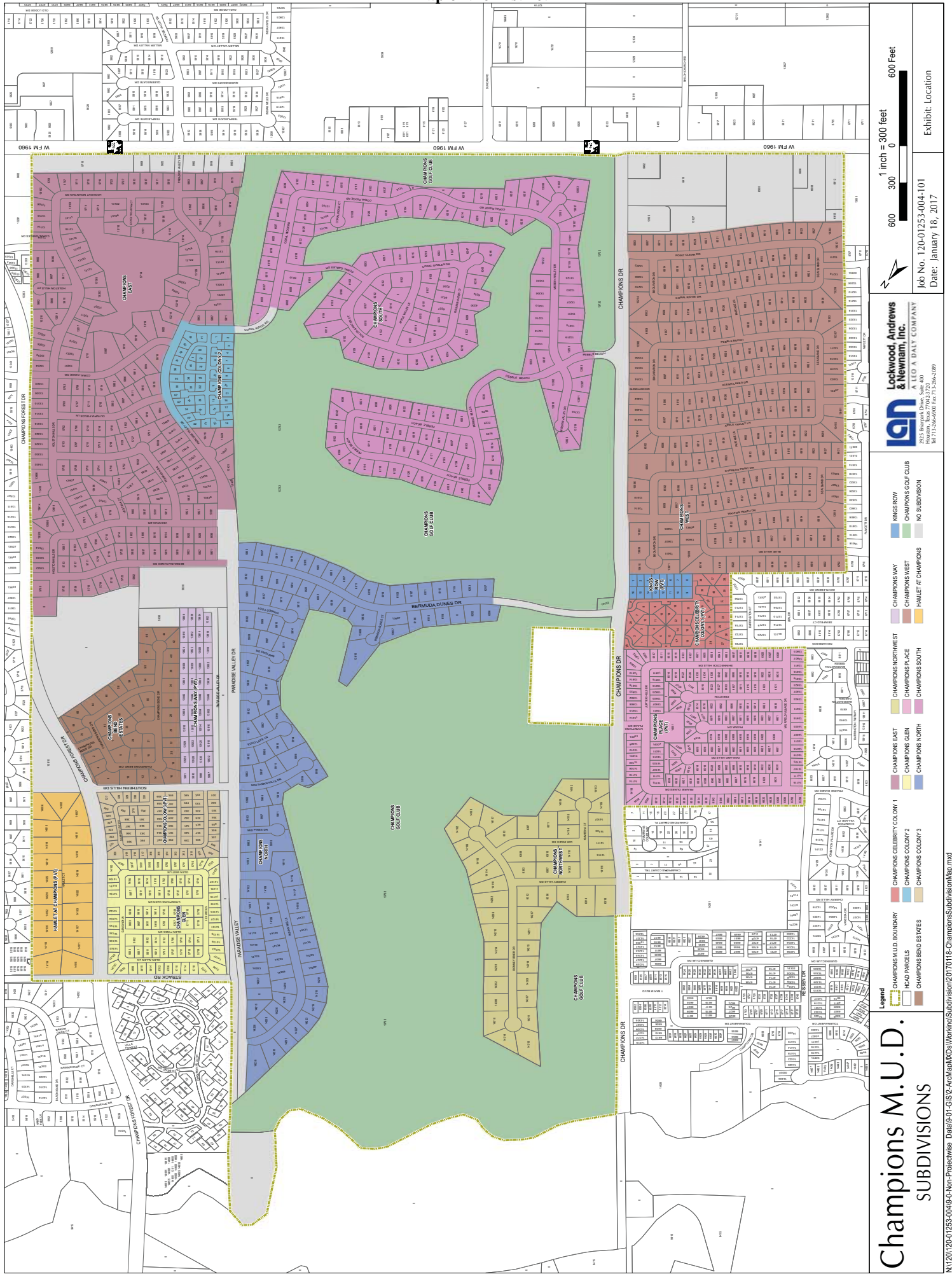
Operator - The District's System is operated by TNG Utility Corp., Spring, Texas.

Tax Assessor/Collector - The District's Tax Assessor/Collector is Bob Leared Interests, Inc., Houston, Texas.

#### **Summary of Acreage**

	<u><i>Acres (Approx.)</i></u>
Developed Acreage	827.3
Schools & Church	17.6
Water & Wastewater Sites	6.3
Drainage & Detention	8.5
Parks, Recreation, Open Space & Rights of Way	<u>2.0</u>
Total Acres in District	<u>861.7</u>

### Map of the District



**Photographs Taken in the District (February 2017)**







## **DISTRICT DEBT**

### **Debt Statement**

2016 Taxable Assessed Valuation (100% of Market Value)	\$345,606,994	(a)
Direct Debt (the Bonds)	\$4,435,000	
Estimated Overlapping Debt	<u>20,498,348</u>	(b)
Direct and Estimated Overlapping Debt	<u>\$24,933,348</u>	
Direct Debt Ratios:		
Direct Debt to Value	1.28%	
Direct & Estimated Overlapping Debt to Value	7.22%	
Average Annual Debt Service Requirements (2018/42)	\$264,574	
Maximum Annual Debt Service Requirements (2042)	\$290,166	
Fund Balances as of January 9, 2017 (Cash & Investments)		
General Fund	\$2,571,482	
Debt Service Fund	\$20,000	(c)
Capital Projects Fund	\$0	

(a) Certified by the Harris County Appraisal District (the "Appraisal District"). See "TAX PROCEDURES."

(b) See "Estimated Overlapping Debt," below.

(c) Exclusive of six months' interest to be capitalized from Bond proceeds.

## Estimated Overlapping Debt

The following table indicates the indebtedness, defined as outstanding bonds payable from ad valorem taxes, of governmental entities within which the District is located and the estimated percentages and amounts of such indebtedness attributable to property within the District. This information is based upon data secured from the individual jurisdiction and/or the Texas Municipal Reports. Such figures do not indicate the tax burden levied by the applicable taxing jurisdictions for operation and maintenance or for other purposes. See "TAX DATA--Estimated Overlapping Taxes."

<u><i>Jurisdiction</i></u>	<u><i>Debt As Of January 1, 2017</i></u>	<u><i>Overlapping Percent</i></u>	<u><i>Overlapping Amount</i></u>
Cypress-Fairbanks Independent School District	\$2,303,970,000	0.724%	\$16,680,743
Harris County (a)(b)	2,606,518,414	0.082%	2,137,345
Harris Co Department of Education	7,000,000	0.082%	5,740
Harris Co Flood Control District	83,075,000	0.082%	68,122
Harris Co Hospital District	62,815,000	0.082%	51,508
Lone Star College System	526,080,000	0.193%	1,015,334
Port of Houston Authority	657,994,397	0.082%	<u>539,555</u>
Estimated Overlapping Debt			\$20,498,348
The District (the Bonds)			<u>4,435,000</u>
Total Direct & Estimated Overlapping Debt			<u><u>\$24,933,348</u></u>

(a) Includes \$302,705,000 Toll Tax and Subordinate Lien Road Bonds, which have historically been paid from revenues and not taxes.

(b) Includes \$507,205,000 Flood Control Contract Bonds, payable from Harris County tax funds.

## Debt Service Schedule

The following sets forth the debt service requirements on the Bonds. *(Note: Totals may not add due to rounding)*

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017		\$72,222	\$72,222
2018	\$110,000	142,794	252,794
2019	115,000	139,419	254,419
2020	115,000	135,969	250,969
2021	120,000	132,444	252,444
2022	125,000	128,769	253,769
2023	125,000	125,019	250,019
2024	130,000	121,194	251,194
2025	135,000	117,219	252,219
2026	145,000	113,019	258,019
2027	150,000	108,594	258,594
2028	155,000	104,019	259,019
2029	160,000	99,294	259,294
2030	165,000	94,419	259,419
2031	175,000	89,319	264,319
2032	180,000	83,881	263,881
2033	190,000	77,981	267,981
2034	200,000	71,644	271,644
2035	205,000	64,934	269,934
2036	215,000	57,847	272,847
2037	225,000	50,281	275,281
2038	235,000	42,231	277,231
2039	245,000	33,831	278,831
2040	260,000	24,831	284,831
2041	270,000	15,225	285,225
2042	<u>285,000</u>	<u>5,166</u>	<u>290,166</u>
	<u>\$4,435,000</u>	<u>\$2,251,563</u>	<u>\$6,686,563</u>
Average Annual Debt Service (2018/2042)			\$264,574
Maximum Annual Debt Service (2042)			\$290,166

## **TAX PROCEDURES**

### **Authority To Levy Taxes**

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in sufficient amount to pay the principal of and interest on the Bonds and any additional bonds payable from taxes which the District may hereafter issue, and to pay the expenses of assessing and collecting such taxes. The Board is also authorized to levy and collect annual ad valorem taxes for the administration, operation and maintenance of the District and its properties and for the payment of certain contractual obligations other than bonds if such taxes are authorized by vote of the District's electors at an election. At an election held within the District on November 8, 1983, the voters in the District authorized the levy of a maintenance and operation tax not to exceed \$0.25 per \$100 assessed value. Ad valorem taxes, including a maintenance tax, were levied until 1994, when all debt was retired. No ad valorem tax has been levied by the District between 1995 and 2015. Currently, a maintenance and operation tax of \$0.25 per \$100 assessed value is levied within the District.

### **Exempt Property**

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes, 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 to levy 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; non-profit cemeteries; certain household goods, family supplies and personal effects; and certain property owned by qualified charitable, religious, veterans, youth, fraternal, or educational organizations. Goods, wares, ores, and merchandise (other than oil, gas or petroleum products) that are acquired in or imported into the state and forwarded out of state within 175 days thereafter are also exempt.. 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 is exempt to between \$5,000 and \$12,000 depending on the disability rating of the veteran. In addition, state law mandates a complete exemption for the residential homestead of disabled veterans determined to be 100% disabled by the U.S. Department of Veterans Affairs. Subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled such exemption on the same property to which the disabled veteran's exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. Also, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

If approved by the Board or through a process of petition and referendum by the District's voters, residence homesteads of certain persons who are disabled or at least 65 years old are exempt to the extent of \$3,000 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 District currently grants a \$25,000 homestead exemption to persons who are 65 years of age or older and to disabled homestead owners.

The Board also 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 granting of the homestead exemption would impair the obligation or 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. The Board currently grants a 20% homestead exemption.

Harris County may designate all or part of the area within the District as a reinvestment zone, and the District, Harris County, Cypress-Fairbanks Independent School District or the City of Houston may thereafter enter into tax abatement agreements with owners of real property within the zone. The tax abatement agreements may exempt from ad valorem taxation by the applicable taxing jurisdiction, 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. None of the area within the District has been designated as a reinvestment zone to date.

### **Appraisal of Taxable Property**

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 which is elected by the governing bodies of cities, towns, the county, school districts and, if entitled to vote, the conservation and reclamation districts that participate in the appraisal district, and of the county. The board of directors selects a chief appraiser to manage the appraisal office of the appraisal district. All taxing units within Harris County, including the District, are included in the Harris County Appraisal District (the "Appraisal District"). The Appraisal District is responsible for appraising property within the District, subject to review by the Harris County Appraisal Review Board (the "Appraisal Review Board"). The appraisal roll approved by the 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 Property Tax Code.

### **Assessment and Levy**

Generally, all taxable property in the District (other than any qualifying agricultural or timber land) 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 of houses at inventory level in future years could reduce the assessed value of developer and builder house inventory within the District. Certain land may be appraised at less than market value under the Property Tax Code. Upon application of a landowner, land which qualifies as "open-space land" is appraised based on the category of land, agriculture and hunting or recreational leases. Once an appraisal roll is prepared and approved by the Appraisal Review Board, it is used by the District in establishing its tax rate.

The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraised values. The plan must provide for appraisal of all real property in the Appraisal District at least once every three (3) years. It is not known what frequency of reappraisal will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone or county-wide basis. The District at its expense has the right to obtain from the Appraisal District a current estimate of appraised values within the District or an estimate of any new property or improvements within the District. While such current estimate of appraised values may serve to indicate the rate and extent of growth of taxable values within the District, it cannot be used for establishing a tax rate within the District until such time as the Appraisal District chooses formally to include such values on its appraisal roll.

The chief appraiser must give written notice 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.

The rate of taxation is set by the Board of the District based upon the valuation of property within the District as of the preceding January 1 and based upon the amount required to be raised for debt service, maintenance purposes and authorized contractual obligations.

The District is responsible for the levy and collection of its taxes and will continue to do so unless the Board or the qualified voters of the District or of Harris County at an election held for such purpose determines to transfer such functions to the Appraisal District or another taxing unit.

The District is required to publish a notice of, and hold a public hearing on the tax rate proposed to be levied in the current year. The notice must set forth a comparison of the tax rate proposed for the current year to the tax rate set in the preceding year. If the proposed combined debt service, operation and maintenance and contract tax rates imposes a tax more than 1.08 times the amount of tax imposed in the preceding year on a residence homestead appraised at the average appraised value of a residence homestead, disregarding any homestead exemption available to the disabled or persons 65 years of age or older, the qualified voters of the taxing jurisdiction by petition of ten percent of the registered voters in the taxing jurisdiction may require that an election be held to determine whether to reduce the operation and maintenance tax to the rollback tax rate.

### **Collection**

Taxes are due on receipt of the tax bill and become delinquent after January 31 of the following year. However, a person over 65 years of age is entitled by law to pay current taxes on his residence homestead in installments or to defer taxes without penalty during the time he owns and occupies the property as his residence homestead. The date of the delinquency of a tax bill may be postponed if the tax bill is mailed after January 10. Delinquent taxes are subject to a 6% penalty for the first month of delinquency, 1% for each month thereafter to June 30 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, if the District engages an attorney for collection of delinquent taxes, the Board may impose a further penalty not to exceed 20% on all taxes, penalty and interest unpaid on July 1.

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. The District has a statutory lien for unpaid taxes on real property against which the taxes are assessed. In the event a taxpayer fails to make timely payment of taxes due the District, the District may file suit to foreclose its lien securing payment of the tax, to enforce personal liability for the tax, or both. 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. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other federal, state and local taxing jurisdictions, by effects of the foreclosure sale price attributable to market conditions, by taxpayer redemption rights, or by bankruptcy proceedings which restrain the collection of a taxpayer's debts.

## TAX DATA

### General

All taxable property within the District is subject to the assessment, levy and collection by the District of a continuing, direct annual ad valorem tax, without legal limitation as to rate or amount, sufficient to pay principal of and interest on the Bonds and any future tax-supported bonds which may be issued from time to time as may be authorized. Taxes are levied by the District each year against the District's assessed valuation as of January 1 of that year. Taxes become due October 1 of such year, or when billed, and become delinquent after January 31 of the following year. The Board covenants in the Bond Order to assess and levy for each year that all or any part of the Bonds remain outstanding and unpaid a tax ample and sufficient to produce funds to pay the principal and interest on the Bonds when due. The actual rate of such tax will be determined from year to year as a function of the District's tax base, its debt service requirements and available funds.

### Tax Collection History

The following table indicates the collection history for taxes assessed by the District:

<u>Tax Year</u>	<u>Assessed Valuation</u>	<u>Debt Tax Rate</u>	<u>M&amp;O Tax Rate</u>	<u>Total Tax Rate</u>	<u>Tax Levy</u>	<u>Percent Current</u>	<u>Percent Total</u>	<u>Yr. End Aug. 31</u>
2016	\$345,606,994	\$0.0802	\$0.2500	\$0.3302	\$1,141,130	70.28%	70.28%	2017(a)

(a) Collections through February 1, 2017 only.

### Principal Taxpayers

The following table, sets forth the District's principal taxpayers, was provided by the District's Tax Assessor/Collector based upon the 2016 taxable values, which reflect ownership of property as of January 1, 2016, according to the records of the Appraisal District.

<u>Name of Taxpayer</u>	<u>Type of Property</u>	<u>2016 Taxable Ass'd Value</u>	<u>% of Total</u>
Champions Golf Club	Golf Club	\$10,134,418	2.93%
KNA Partners	Office/Cinema/Retail	8,310,000	2.41%
Jim R Smith	Strip Center	5,146,900	1.49%
Champions Texas Properties Ltd	Office Building	4,017,690	1.16%
Tammy Jeanne Ross	Strip Center	2,869,996	0.83%
Shamrock Adventure I II Ltd	Drug Store	2,220,000	0.64%
National Retail Properties	Car Wash	1,694,454	0.49%
Samuel & Ada Petro	Residence	1,635,431	0.47%
BTC Realty LP	Homes	1,373,633	0.40%
Jeffrey B Dymont	Residence	<u>1,135,461</u>	<u>0.33%</u>
Totals		<u>\$38,537,983</u>	<u>11.15%</u>

### 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's tax base occurs beyond the 2016 Taxable Value (\$345,606,994). The calculations assume collection of 95% of taxes levied and the sale of no additional bonds by the District.

Average Annual Debt Service Requirements (2018/2042)	\$264,574
Tax Rate of \$0.0806 on the 2016 Taxable Value produces	\$264,631
Annual Debt Service Requirements (2042)	\$290,166
Tax Rate of \$0.0884 on the 2016 Taxable Value produces	\$290,241

### Analysis of Tax Base

Based on information provided to the District by its Tax Assessor/Collector, the following represents the composition of property comprising the tax roll valuations for the 2016 tax rolls (no taxes had been levied for 2015):

	<u>2016 Tax Year</u>		
	<u>Amount</u>	<u>Amount</u>	<u>Pct</u>
Land	\$171,526,999		37.97%
Improvements	279,566,576		61.89%
Personal	<u>655,520</u>		0.15%
Total Appraised Value		\$451,749,095	
Less: Exemptions			
20% H/S Exempt	\$63,838,255		
Tax Exempt	19,556,821		
Over 65	16,062,500		
Disabled	746,887		
Homestead Cap	5,850,965		
Other	<u>194,043</u>	<u>106,249,471</u>	
		<u>\$345,499,624</u>	

### Estimated Overlapping Taxes

Property within the District is subject to taxation by several taxing authorities in addition to the District. Under Texas law, a tax lien attaches to property to secure the payment of all taxes, penalty, and interest for the year, on January 1 of that year. The tax lien on property in favor of the District is on a parity with tax liens of other taxing jurisdictions. In addition to ad valorem taxes required to make debt service payments on bonded debt of the District and of such other jurisdictions, 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><b>Taxing Entities</b></u>	<u><b>2016 Tax Rates</b></u>
Cypress-Fairbanks Independent School District	\$1.44000
Harris County	0.41656
Harris Co. Department of Education	0.00520
Harris Co. Emergency Service District No. 11	0.03987
Harris Co. Emergency Service District No. 29	0.08923
Harris Co. Flood Control District	0.02829
Harris Co. Hospital District	0.17179
Lone Star College System	0.10780
Port of Houston Authority	<u>0.01334</u>
Overlapping Taxes	\$2.31208
The District	<u>0.33020</u>
Total Direct & Overlapping Taxes	<u><u>\$2.64228</u></u>

#### **Strategic Partnership Agreement – Limited Purpose Annexation by City of Houston**

The District entered into a Strategic Partnership Agreement (“SPA”) with the City of Houston (the “City”) effective as of June 2004 and amended by the First Amendment dated November 9, 2009, whereby the tracts of land containing commercial development were annexed into the City for the limited purpose of applying certain of the City’s Planning, Zoning, Health and Safety Ordinances to the commercial businesses. The City imposes a Sales and Use Tax within the annexed tracts on the receipts from the sales and use at retail of taxable items at the rate of one percent or such other rate as may be imposed by the City from time to time. Under the SPA, one-half or 50% of the sales tax revenue generated by the commercial business will be paid to the District, and the District can use the sales tax for any purpose for which the District is lawfully authorized. Neither the District nor any owners of taxable property in the District is liable for any present or future debts of the City and current and future ad valorem taxes levied by the City will not be levied on taxable property in the District.

In consideration of the services provided by the City, in lieu of full purpose annexation, the District is required to pay the City an annual fee of \$100 on each anniversary of the date the SPA was approved by the City Council of the City. Under the SPA the City agrees that it will not annex all or part of the District for a period of thirty years.

The Bonds are not obligations of the City and the SPA does not obligate the City, either directly or indirectly to pay the principal of and interest on the Bonds.

See “THE SYSTEM–Historical Operations of the General Operating Fund” for historical receipts from the SPA.

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## **THE SYSTEM**

### **Regulation**

The water, wastewater and storm water drainage facilities serving land within the District (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, Harris County Engineering Department, Harris County Flood Control District and the City of Houston. During construction, facilities are subject to inspection by the District's Engineer and the foregoing governmental agencies.

Operation of the District's System is subject to regulation by, among others, the United States Environmental Protection Agency, the TCEQ and the City. In many cases, regulations promulgated by these agencies have become effective only recently and are subject to further development and revision.

### **Description of the System**

According to the District's Engineer, the total number of connections projected for the District at full development of approximately 861.70 acres is 1,535 equivalent connections. Following the issuance of the Bonds, there will be \$20,565,000 remaining in authorized but unissued bonds, which in the opinion of the Engineer, will be sufficient to serve the District at current projected build-out. A description of the primary components of the System follows and is based upon information supplied by the Engineer based on drawings and data furnished by others.

Proceeds of the sale of the District's initial bonds, subsequently retired, were used to finance the construction or acquisition of underground water supply, water distribution lines, wastewater collection lines, wastewater treatment plant and storm water drainage facilities.

#### ***-Water Supply and Distribution-***

The District's water supply is provided from (a) two water wells, with a combined design capacity of 1,850 gallons per minute ("gpm") and (b) North Harris County Regional Water Authority, the primary water source, with a peak supply of 1,274 gpm and an average daily flow of 0.75 million gallons per day ("MGD").

The District's water supply and distribution facilities are sufficient to serve the District at currently anticipated full development, according to the District's Engineer.

#### ***-Conversion to Surface Water-***

The District is located within the boundaries of the Harris-Galveston Subsidence District ("Subsidence District") and the North Harris County Regional Water Authority ("NHCRWA"). The NHCRWA was created to provide for conversion of the area within its boundaries from groundwater usage to alternative sources of water supply (e.g., surface water). The NHCRWA covers an area located in northern Harris County and adjacent to the City of Houston. Pursuant to the Subsidence District's Regulatory Plan last amended in 2013 and the NHCRWA's Groundwater Reduction Plan (as approved by the Subsidence District), the area within the boundaries of the NHCRWA were converted to at least 30% alternate source (e.g., surface) water use in 2010, and must be converted to at least 60% alternate source water use by 2025, and 80% alternate source water use by 2035. To implement the required conversion to alternate source water use in accordance with such schedule, the NHCRWA has constructed and is operating a network of transmission and distribution lines, storage tanks, and pumping stations to transport and distribute water within the NHCRWA (the "NHCRWA System"). In addition, the NHCRWA has entered into a water supply contract to secure a long-term supply of treated surface water from the City of Houston.

The District is subject to and participates in the NHCRWA's Groundwater Reduction Plan. Accordingly, the District must pay a capital contribution to the NHCRWA to cover the District's proportionate share of the costs associated with the acquisition and construction of the NHCRWA System (including the costs associated with the acquisition of alternate

sources of water supply). The District may alternatively elect to pay its share of such costs over time through payment of higher fees to the NHCRWA. Payment of such costs will entitle the District to participate in the NHCRWA surface water conversion project and to purchase water from or through the facilities of the NHCRWA. Noncompliance with the NHCRWA's Groundwater Reduction Plan and nonparticipation in the NHCRWA's surface water conversion project could result in the District's exclusion from the NHCRWA's Groundwater Reduction Plan and assessment of the Subsidence District's disincentive fee (currently \$7.00 per 1,000 gallons) against groundwater pumped from wells located within the District.

Groundwater pumped from wells located with the District is not currently subject to the Subsidence District's groundwater disincentive fee. However, groundwater pumped from wells located with the District is currently subject to a \$2.40 per 1,000 gallon pumpage fee (the "Pumpage Fee"), that is assessed and collected by the NHCRWA pursuant to the NHCRWA's Groundwater Reduction Plan. The Pumpage Fee is expected to increase in the future. The issuance of additional bonds by the District in an undetermined amount may be necessary at some time in the future to finance the acquisition and construction of surface water infrastructure (whether such costs are incurred directly by the District or through projects undertaken by the NHCRWA). The NHCRWA has issued several series of Senior Lien Revenue Bonds currently outstanding in the aggregate principal amount of \$708,530,000, to finance costs related to the design, acquisition and construction of Phase I of the Surface Water Facilities. Such bonds are secured by revenues of the NHCRWA, including the Pumpage Fee.

#### ***-Wastewater Collection and Treatment-***

The District's wastewater is currently being treated at its 0.70 MGD wastewater treatment plant. Because of the age of this existing plant, the need for major rehabilitation and the desire to decrease its operating expenses, the District plans to join Kleinwood Joint Powers Board wastewater treatment plant (the "KJPB Plant"), an currently existing 5.00 MGD regional wastewater treatment facility owned and operated by seven (7) neighboring water districts, and abandon its current plant. The Bonds will provide funds for constructing a force main to connect to the lift station at the existing plant, and extending the force main to another lift station at Cypress Forest Public Utility District for conveyance to the KJPB Plant, purchase of capacity in the KJPB Plant and demolition of the District's existing wastewater treatment plant.

The District's wastewater collection and both current and future purchased capacity in treatment facilities are sufficient to serve the District at currently anticipated full development, according to the District's Engineer.

#### ***- Stormwater Drainage -***

Storm water from the single-family homes and lots flows to adjacent street gutters and then to curbside inlets which flow to Harris County's storm sewer mains. A portion of the District has open ditch and culvert drainage.

## Rate Order

The District's utility rate order, which is subject to change from time to time by Board, is summarized in part below and became effective on August 10, 2015:

### **-Water Rates-**

#### ***Single Family Homes***

0-1,000 gallons	\$20.40 (minimum)
Next 10,000 gallons	\$26.52 (minimum)
Next 10,000 gallons	\$1.88 per 1,000 gallons
Next 10,000 gallons	\$2.32 per 1,000 gallons
Next 10,000 gallons	\$2.76 per 1,000 gallons
Next 10,000 gallons	\$3.78 per 1,000 gallons
Over 50,000 gallons	\$4.80 per 1,000 gallons

#### ***Commercial***

First 10,000 gallons	\$30.00 (minimum)
Next 10,000 gallons	\$1.50 per 1,000 gallons
Next 10,000 gallons	\$1.80 per 1,000 gallons
Next 10,000 gallons	\$2.40 per 1,000 gallons
Next 10,000 gallons	\$3.60 per 1,000 gallons
Over 50,000 gallons	\$4.80 per 1,000 gallons

**In addition, each water customer will pay 110% of the NHCRWA pumpage fee per 1,000 gallons of usage.**

### **-Sewer Rates-**

#### ***Single Family Homes***

0-1,000 gallons	\$20.00 (flat fee)
1,001 to 10,000 gallons	\$26.00 (flat fee)
10,000 to 20,000 gallons	\$28.00 (flat fee)
20,000 to 30,000 gallons	\$31.00 (flat fee)
30,000 to 40,000 gallons	\$34.00 (flat fee)
40,000 to 50,000 gallons	\$38.00 (flat fee)
50,000 and over gallons	\$42.00 (flat fee)

#### ***Commercial***

First 10,000 gallons	\$60.00 (flat fee)
Next 40,000 gallons	\$1.20 per 1,000 gallons
Next 50,000 gallons	\$1.50 per 1,000 gallons
Over 100,000 gallons	\$2.10 per 1,000 gallons

## Historical Operations of the General Operating Fund

The following statement sets forth in condensed form the historical operations of the District's General Operating Fund. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Such information has been prepared based upon information obtained from the District's audited financial statements (except for the six-month period ended December 31, 2016, which was extracted from unaudited District records), reference to which is made for further and complete information.

	<i>7/1/2016 to</i>	<i>Fiscal Year Ended June 30,</i>				
	<u>12/31/16(a)</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>Revenues</b>						
Water Service	\$366,161	\$728,614	\$648,773	\$747,451	\$680,972	\$945,639
Sewer Service	249,166	507,628	478,923	497,435	475,117	494,992
Surface Water Fees	365,250	581,970	480,401	567,233	552,573	646,642
Maintenance Tax	97,275	(a)	(a)	(a)	(a)	(a)
Sales & Use Tax	29,210	97,119	102,370	99,107	80,560	76,206
Interest-Chloramine Costs	0	19,204	19,525	19,826	20,111	20,377
Other	<u>35,152</u>	<u>56,184</u>	<u>38,467</u>	<u>32,121</u>	<u>39,104</u>	<u>56,802</u>
Total Revenues	\$1,142,214	\$1,990,719	\$1,768,462	\$1,963,173	\$1,848,437	\$2,240,658
<b>Expenditures</b>						
Professional Fees	\$184,102	\$304,990	\$187,806	\$134,739	\$130,638	\$123,775
Contracted Services	38,658	70,883	68,100	69,716	74,394	121,006
Utilities	57,366	147,941	132,536	132,399	130,239	140,202
Surface Water Fees	364,085	523,434	472,129	541,310	557,549	652,564
Repairs & Maintenance	161,282	329,654	247,200	341,710	234,202	301,913
Administrative Expense	58,515	171,039	128,943	86,765	79,761	70,537
Other	<u>58,120</u>	<u>80,135</u>	<u>63,895</u>	<u>83,054</u>	<u>83,041</u>	<u>95,625</u>
Total Expenditures	<u>\$922,128</u>	<u>\$1,628,076</u>	<u>\$1,300,609</u>	<u>\$1,389,693</u>	<u>\$1,289,824</u>	<u>\$1,505,622</u>
<b>Net Operating Revenues</b>	<u><u>\$220,086</u></u>	<u><u>\$362,643</u></u>	<u><u>\$467,853</u></u>	<u><u>\$573,480</u></u>	<u><u>\$558,613</u></u>	<u><u>\$735,036</u></u>
Capital Outlay	(131,612)	(86,461)	(84,754)	(326,335)	(152,297)	(470,996)
Surface Water Meter Error		0	0	0	0	(45,298)
Fund Balance - July 1		<u>2,481,673</u>	<u>2,098,574</u>	<u>1,851,429</u>	<u>1,445,113</u>	<u>1,226,371</u>
Fund Balance - June 30		<u><u>\$2,757,855</u></u>	<u><u>\$2,481,673</u></u>	<u><u>\$2,098,574</u></u>	<u><u>\$1,851,429</u></u>	<u><u>\$1,445,113</u></u>
Cash/Inv, June 30 (b)		<u><u>\$2,526,859</u></u>	<u><u>\$2,235,024</u></u>	<u><u>\$1,595,387</u></u>	<u><u>\$1,623,383</u></u>	<u><u>\$978,612</u></u>
% of Expense		<u>155.21%</u>	<u>171.84%</u>	<u>114.80%</u>	<u>125.86%</u>	<u>65.00%</u>
Water Customers - June 30		<u>1,310</u>	<u>1,312</u>	<u>1,324</u>	<u>1,302</u>	<u>1,312</u>

(a) No maintenance tax levied in this year.

(b) Net of Customer Deposits.

## **RISK FACTORS**

### **General**

The Bonds, which are obligations of the District and are not obligations of the State of Texas, Harris County, Texas, the City of Houston, Texas or any other political subdivision, will be secured by a continuing, direct, annual ad valorem tax, without legal limitation as to rate or amount, levied on all taxable property within the District. The ultimate security for payment of the principal of and interest on the Bonds depends on the ability of the District to collect from the property owners within the District all taxes levied against the property, or in the event of foreclosure, on the value of the taxable property with respect to taxes levied by the District and by other taxing authorities. At this point in the development of the District, the potential increase in taxable values of property is directly related to the demand for residential and commercial development, not only because of general economic conditions, but also due to particular factors discussed below.

### **Economic Factors and Interest Rates**

A substantial percentage of the taxable value of the District results from the current market value of single-family residences and of developed lots which are currently being marketed by the Developer for sale to homebuilders for the construction of primary residences. The market value of such homes and lots is related to general economic conditions in Houston, the State of Texas and the nations and those conditions can affect 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 (see “Credit Market and Liquidity in the Financial Markets,” below), construction costs and the prosperity and demographic characteristics of the urban center toward which the marketing of lots is directed. Decreased levels of construction activity would tend to restrict the growth of property values in the District or could adversely impact such values.

### **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 activity, particularly short-term interest rates at which developers are able to obtain financing for development costs. Interest rate levels may affect the ability of a landowner with undeveloped property to undertake and complete construction activities within the District. 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 continued construction within the District. In addition, since the District is located approximately 26 miles from the central downtown business district of the City of Houston, the success of development within the District and growth 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 the nation’s real estate and financial markets could continue to adversely affect development and home-building plans in the District and restrain the growth of the District’s property tax base.

### **National Economy**

Nationally, there has been a significant downturn in new housing construction, resulting in a decline in housing market values in recent years. The Houston area, which includes the District, has experienced reduced levels of home construction. The District cannot predict what impact, if any, a continued or renewed downturn in the local and national housing and financial markets may have on the Houston area market and specifically, the District.

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

***Economic Factors:*** The growth of taxable values in the District is directly related to the vitality of the housing development and commercial building industry in the Houston metropolitan area. The housing and building industry has historically been a cyclical industry, affected by both short and long-term interest rates, availability of mortgage and development funds, labor conditions and general economic conditions. During the late 1980's, an oversupply of single-family residential housing in the Houston metropolitan market and the general downturn in the Houston economy

adversely affected the local residential development and construction industries. In addition to a decline in housing demand, mortgage foreclosure by private banks and government and financial institutions depressed housing prices and the value of residential real estate in the Houston metropolitan area. The Houston economy is still somewhat dependent on energy prices and a precipitous decline in such prices could result in additional adverse effects on the Houston economy.

**Maximum Impact on District Rates:** Assuming no further development, 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 2016 taxable value is \$345,499,625. See "TAX DATA." After issuance of the Bonds, the maximum annual debt service requirement (2042) is \$290,166 and the average annual debt service requirements (2018/2042) is \$264,574. Assuming no increase or decrease from the above valuation and no use of funds other than tax collections, tax rates of \$0.0884 and \$0.0806 per \$100 assessed valuation at a 95% collection rate against the 2016 taxable value, respectively, would be necessary to pay such debt service requirements on the maximum annual and average annual debt service requirements. The Board has levied a tax rate of \$0.0802 for debt service purposes for 2016. See "DISTRICT DEBT--Debt Service Schedule" and the note following "TAX DATA--Tax Rate Calculations."

### **Overlapping Tax Rates**

Consideration should be given to the total tax burden of all overlapping jurisdictions imposed upon property located within the District as contrasted with property located in comparable real estate developments to gauge the relative tax burden on property within the District. The combination of the District's and the overlapping taxing entities' tax rates is high as compared to the combined tax rates generally levied upon comparable developments in the market area. Consequently, an increase in the District's tax rate above those anticipated above may have an adverse impact on future development or the construction of additional taxable improvements in the District. See "DISTRICT DEBT--Estimated Overlapping Debt" and "TAX DATA--Estimated Overlapping Taxes."

### **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) collection procedures, (b) a bankruptcy court's stay of tax collection procedures against a taxpayer, or (c) market conditions limiting the proceeds from a foreclosure sale of taxable property. 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. Because ownership of the land within the District may become highly fragmented among a number of taxpayers, attorney's fees and other costs of collecting any such taxpayer's delinquencies could substantially reduce the net proceeds to the District from a tax foreclosure sale. Finally, any bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes against such taxpayer.

### **Registered Owners' Remedies**

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Order, or defaults in the observation or performance of any other covenants, conditions or obligations set forth in the Bond Order, the registered owners have the statutory right of a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations or conditions prescribed in the Bond Order. Except for mandamus, the Bond Order does not specifically provide for remedies to protect and enforce the interests of the registered owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign

immunity from suits for money damages, so that in the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Order may not be reduced to a judgment for money damages. If such judgment against the District were obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on the property of the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the registered owners may further 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.

### **Bankruptcy Limitation to Registered Owners' Rights**

The enforceability of the rights and remedies of 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 discussed below, a political subdivision such as the District may voluntarily file a petition for relief from creditors under Chapter 9 of the Federal Bankruptcy Code, 11 USC sections 901-946. The filing of such petition would automatically stay the enforcement of registered owner's remedies, including mandamus and the foreclosure of tax liens upon property within the District discussed above. The automatic stay would remain in effect until the federal bankruptcy judge hearing the case dismisses the petition, enters an order granting relief from the stay or otherwise allows creditors to proceed against the petitioning political subdivisions.

If a petitioning district were allowed to proceed voluntarily under Chapter 9 of the Federal Bankruptcy Code, it could file a plan for an adjustment of its debts. If such a plan were confirmed by the bankruptcy court, it could, among other things, affect a registered owner by reducing or eliminating the amount of indebtedness, deferring or rearranging the debt service schedule, reducing or eliminating the interest rate, modifying or abrogating collateral or security arrangements, substituting (in whole or in part) other securities, and otherwise compromising and modifying the rights and remedies of the registered owner's claim against a district.

### **Conversion to Surface Water**

The District is within the boundaries of the Harris-Galveston Subsidence District (the "Subsidence District") which regulates groundwater withdrawal. The District's authority to pump groundwater from its well is subject to annual permits issued by the Subsidence District. On April 14, 1999 the Subsidence District adopted a District Regulatory Plan (the "1999 Plan") to reduce groundwater withdrawal through conversion to surface water in areas within the Subsidence District's jurisdiction. Under the 1999 Plan, the District submitted to the Subsidence District in January 2003 a groundwater reduction plan and begin construction of a surface water conversion infrastructure by January 2005, or pay a disincentive fee for any groundwater withdrawn in excess of 20% of the District's total water demand. This same disincentive fee was imposed under the 1999 Plan if District groundwater withdrawal exceeds 70% of the District's total water demand beginning January 2010, and will be imposed if the District's groundwater withdrawal exceeds 30% of the District's total water demand beginning January 2020, and exceeds 20% of the District's total water demand beginning January 2030. The issuance of additional bonds by the District in an undetermined amount may be necessary at some time in the future in order to develop surface water conversion infrastructure or to participate in a regional surface water conversion effort. In addition, if the District does not meet the Subsidence District's requirements as described above, the District may be required to pay the disincentive fees adopted by the Subsidence District.

The District is also located within the boundaries of the NHCRWA. The NHCRWA was created to accomplish the conversion to surface water of Area 3. To implement the required conversion to surface water in accordance with the Subsidence District's Regulatory Plan, the NHCRWA has adopted a ground water reduction plan providing for the design, construction and operation of a network of surface water transmission lines, storage tanks and pumping stations to transport and distribute surface water to the areas within the NHCRWA's boundaries (the "Surface Water Facilities"). The NHCRWA has contracted with the City of Houston to secure a long-term supply of surface water. To obtain funding to accomplish its purposes, the NHCRWA is, as of January 1, 2010, assessing a groundwater pumpage fee in the amount of \$2.40 per 1,000 gallons of water to water well permittees in its boundaries, including the District. The NHCRWA has

issued several series of Senior Lien Revenue Bonds, which are currently outstanding in the aggregate principal amount of \$708,530,000, to finance costs related to the design, acquisition and construction of Phase I of the Surface Water Facilities. Such bonds are secured by revenues of the NHCRWA, including the pumpage fee. The pumpage fee may increase in the future.

The District is required to pay for its share of the cost to acquire, design, construct and operate the Surface Water Facilities. The District's share of the cost of the Phase I Surface Water Facilities was paid from bond proceeds of its Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2003. The District paid its share of the cost of a subsequent phase from proceeds of its Unlimited Tax and Revenue Bonds, Series 2005-A, which are no longer outstanding. For future phases of the Surface Water Facilities, the District may again elect to pay for its share of the costs of the Surface Water Facilities through the issuance of bonds.

No representation is made that the NHCRWA will continue in existence or will build the Surface Water Facilities to meet the Subsidence District's Regulatory Plan. If such event occurs, the District would be subject to the Subsidence District's disincentive fee and would be required to proceed with preparing and implementing its own groundwater reduction plan.

### **Environmental Regulations**

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

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

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

Further, changes in regulations occur frequently, and any changes that result in more stringent and costly requirements could materially impact the District.

*Air Quality/Greenhouse Gas Issues.* Air quality control measures required by the United States Environmental Protection Agency (the "EPA") and the TCEQ may impact new industrial, commercial and residential development in the Houston area. Under the Clean Air Act ("CAA") Amendments of 1990, the eight county Houston Galveston area ("HGB area") – Harris, Galveston, Brazoria, Chambers, Fort Bend, Waller, Montgomery and Liberty counties – 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. The EPA granted the governor's request to voluntarily reclassify the HGB ozone nonattainment area from a moderate to a severe nonattainment area for the 1997 eight hour ozone standard, effective October 31, 2008. The HGB area's new attainment deadline for the 1997 eight hour ozone standard must be attained as expeditiously as practicable, but no later than June 15, 2019. If the HGB area fails to demonstrate progress in reducing ozone concentration or fails to meet the EPA's standards, the 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.

On October 1, 2015, the EPA lowered the ozone standard from 75 parts per billion (“ppb”) to 70 ppb. This could make it more difficult for the HGB Area to demonstrate progress is reducing ozone concentration.

*Water Supply & Discharge Issues.* Water supply and discharge regulations that municipal 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 federal Safe Drinking Water Act (“SDWA”) and Environmental Protection Agency’s National Primary Drinking Water Regulations (“NPDWRs”), which are implemented by the TCEQ’s Water Supply Division, a municipal utility district’s provision of water for human consumption is subject to extensive regulation as a public water system. Municipal utility districts must generally provide treated water that meets the primary and secondary drinking water quality standards adopted by the TCEQ, the applicable disinfectant residual and inactivation standards, and the other regulatory action levels established under the agency’s rules. The EPA has established NPDWRs for more than ninety (90) contaminants and has identified and listed other contaminants which may require national drinking water regulation in the future.

Texas Pollutant Discharge Elimination System (“TPDES”) permits set limits on the type and quantity of discharge, in accordance with state and federal laws and regulations. The TCEQ reissued the TPDES Construction General Permit (TXR150000) on February 19, 2013. The TPDES Construction General Permit became effective on March 5, 2013, and is a general permit authorizing the discharge of stormwater runoff associated with small and large construction sites and certain nonstormwater discharges into surface water in the state. It has a 5 year permit term, and is then subject to renewal. Moreover, the Clean Water Act (“CWA”) and Texas Water Code require municipal wastewater treatment plants to meet secondary treatment effluent limitations and must establish the total maximum allowable daily load (“TMDL”) of certain pollutants into the water bodies. The TMDLs that municipal utility districts may discharge may have an impact on the municipal utility district’s ability to obtain and maintain TPDES permits.

On May 27, 2015, the EPA and the United States Army Corps of Engineers (“USACE”) jointly issued a final version of the Clean Water Rule (“CWR”), which expands the scope of the federal government’s CWA jurisdiction over intrastate water bodies and wetlands. The final rule became effective on August 28, 2015. On October 9, 2015, the United States Court of Appeals for the Sixth Circuit (“Sixth Circuit”) put the CWR on hold nationwide. On February 22, 2016, the Sixth Circuit decided it has jurisdiction to consider lawsuits against the CWR, and on April 21, 2016, denied six petitions for en banc review of this decision. The CWR is also under review by several other appellate and state courts. If the CWR is implemented, operations of municipal utility districts, including the District, are potentially subject to additional restrictions and requirements, including permitting requirements, if construction or maintenance activities require the dredging, filling or other physical alteration of jurisdictional waters of the United States or associated wetlands that are within the “waters of the United States.” The CWR expands the federal definition of what is a jurisdictional water, which could negatively impact development in the District.

The TCEQ renewed the General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the “MS4 Permit”) on December 13, 2013. The MS4 Permit authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems. The renewed MS4 Permit impacts a much greater number of MS4s that were not previously subject to the MS4 Permit and contains more stringent requirements than the standards contained in the previous MS4 Permit. While the District is currently not subject to the MS4 Permit, if the District’s inclusion were required at a future date, the District could incur substantial costs to develop and implement the necessary 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 in order to comply with the renewed MS4 Permit.

*Wetlands.* 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.

On May 27, 2015, the EPA and the United States Army Corps of Engineers (“USACE”) jointly issued a final version of the Clean Water Rule (“CWR”), which expands the scope of the federal government’s CWA jurisdiction over intrastate water bodies and wetlands. The final rule became effective August 28, 2015. District operations are potentially subject to restrictions and requirements under the CWR provisions implemented by the USACE if construction or maintenance activities require the dredging, filling or other physical alteration of jurisdictional waters of the United States or associated wetlands. The CWR expands the federal definition of what is a jurisdictional waterway, which could negatively impact development in the District. Challenges to the CWR have been filed in ten federal district courts, including the Southern District of Texas.

There are areas within the District that have potential jurisdictional wetlands that may be submitted to USACE for individual permits. Additionally, there are areas within the District where a habitat management plan is being developed. Any failure to obtain such permits, adverse permit conditions or delay by the USACE to obtain necessary permits could negatively affect development of the District.

### **Future Debt**

The District will have \$20,565,000 principal amount of unlimited tax bonds authorized by the District’s voters which remain unauthorized. The District has the right to issue such additional bonds as may hereafter be approved by both the Board and voters of the District. Any such authorized but unissued bonds may be issued by the District from time to time as needed.

The District has no plans to sell additional bonds within the next year.

### **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.

### **Marketability**

The District has no understanding (other than the initial reoffering yields) with the initial purchaser of the Bonds (the “Underwriter”) 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 difference between the bid and asked price of other bonds which are more generally bought, sold or traded in the secondary market. See “SALE AND DISTRIBUTION OF THE BONDS—Prices and Marketability.”

### **Approval of the Bonds**

The Attorney General of Texas must approve the legality of the Bonds prior to their delivery. The Attorney General, however, does not pass upon or guarantee the security of the Bonds as an investment, nor has the Attorney General passed upon the adequacy or accuracy of the information contained in this Official Statement.

## **LEGAL MATTERS**

### **Legal Opinions**

Issuance of the Bonds is subject to the approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and binding obligations of the District secured by the proceeds of an ad valorem tax levied, without limit as to rate or amount, upon all taxable property in the District and, based upon examination of the transcript of the proceedings incident to authorization and issuance of the Bonds, the legal opinion of Bond Counsel to the effect that (1)

the Bonds are valid and legally binding obligations of the District payable from the sources and enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity, and (2) are payable from annual ad valorem taxes, which are not limited by applicable law in rate or amount, levied against all property within the District which is not exempt from taxation by or under applicable law. The Attorney General of Texas does not guarantee or pass upon the safety of the Bonds as an investment or upon the adequacy of the information contained in this Official Statement.

### **Legal Review**

Bond Counsel has reviewed the information appearing in this Official Statement under the sections captioned: "THE BONDS" (except the subsection "--Book-Entry-Only System"), "THE DISTRICT--Authority," "TAX PROCEDURES--Authority," "LEGAL MATTERS - Legal Opinions," "LEGAL MATTERS--Legal Review," "TAX MATTERS," and "CONTINUING DISCLOSURE OF INFORMATION" (except the subsection "--Compliance with Prior Undertakings") solely to determine whether such information fairly summarizes matters of law with respect to the provisions of the documents referred to therein. Bond Counsel has not, however, independently verified any of the factual information contained in this Official Statement, nor has it conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the information contained herein, other than the matters discussed immediately above.

The legal fees paid to Bond Counsel for services rendered in connection with the issuance of the Bonds are based upon a percentage of the Bonds actually issued, sold and delivered and, therefore, such fees are contingent upon the sale and delivery of the Bonds.

### **No-Litigation Certificate**

On the date of delivery of the Bonds to the Underwriter, the District will execute and deliver to the Underwriter a certificate to the effect that no litigation of any nature has been filed or is pending, as of that date, of which the District has notice, to restrain or enjoin the issuance or delivery of the Bonds, or which would affect the provisions made for their payment or security, or in any manner question the validity of the Bonds.

### **No Material Adverse Change**

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

## **TAX MATTERS**

### **Tax Exemption**

The delivery of the Bonds is subject to an opinion of Bond Counsel, to the effect that, assuming continuing compliance by the District with the provisions of the Bond Order subsequent to the issuance of the Bonds, pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions thereunder (1) interest on the Bonds 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) interest on the Bonds will not be subject to the alternative minimum tax imposed on individuals or,

except as described below, corporations. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change, prospectively or on a retroactive basis.

Interest on the Bonds owned by a corporation other than an “S” corporation or a qualified mutual fund, a real estate investment trust (REIT), financial asset securitization investment trust (FASIT), or real estate mortgage investment conduit (REMIC), will be included in such corporation’s adjusted current earnings for purposes of calculating such corporation’s alternative minimum taxable income. A corporation’s alternative minimum taxable income is the basis on which the alternative minimum tax imposed by Section 55 of the Code will be computed.

In rendering such opinion, Bond Counsel will rely upon representations of the District made in a certificate pertaining to the use, expenditure, and investment of the proceeds of the Bonds and certain other funds and, as described above, will assume continuing compliance with certain provisions of the Bond Order. Failure to comply with any of these covenants would cause interest on the Bonds to be includable in the gross income of the owners thereof for federal income tax purposes from the date of the issuance of the Bonds.

Bond Counsel will not express any opinion with respect to any other federal, state or local tax consequence under present law or proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, individual recipients of Social Security or Railroad Retirement benefits, “S” corporations with “subchapter C” earnings and profits, owners of an interest in a FASIT, individuals otherwise qualifying for the earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry (or who have paid or incurred certain expenses allocable to) tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Bond Counsel’s opinion is not a guarantee of a result, but represents its legal judgement based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the District described above. No ruling has been sought from the Internal Revenue Service (the “Service”) with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel’s opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures the Service is likely to treat the District as the “taxpayer,” and the owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the District may have different or conflicting interests from the owners of the Bonds. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

### **Proposed Tax Legislation**

Tax legislation, administrative actions taken by tax authorities, and court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or state income taxation, or otherwise prevent the beneficial owners of the Bonds from realizing the full current benefit of the tax status of such interest. For example, future legislation to resolve certain federal budgetary issues may significantly reduce the benefit of, or otherwise affect, the exclusion from gross income for federal income tax purposes of interest on all state and local obligations, including the Bonds. In addition, such legislation or actions (whether currently proposed, proposed in the future or enacted) could affect the market price or marketability of the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and its impact on their individual situations, as to which Bond Counsel expresses no opinion.

## **Tax Accounting Treatment of Discount and Premium on Certain Bonds**

The initial public offering of the Bonds maturing in 2030 through 2037, both inclusive, and in 2039 and 2042 (the “Discount Bonds”) are less than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bond. A portion of such original issue discount, allocable to the holding period of such Discount Bond by the initial purchaser, will, upon the disposition of such Discount Bond (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes on the same terms and conditions as those for other interest on the Bonds described above under “TAX EXEMPTION.” Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest at the yield to maturity on such Discount Bond, and generally will be allocated to an original purchaser in a different amount from the amount of the payment denominated as interest actually received by the original purchaser during the tax year.

However, such interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation, for purposes of calculating a corporation’s alternative minimum tax imposed by Section 55 of the Code and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, “S” corporations with “subchapter C” earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Bond by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Bond was held) is includable in gross income.

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination for federal income tax purposes of accrued interest upon disposition of Discount Bonds and with respect to the state and local tax consequences of owning Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The initial public offering of the Bonds maturity in 2018 through 2027, both inclusive (the “Premium Bonds”) are greater than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bond. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser may be reduced each year by the amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon the sale or other taxable disposition of a Premium Bond. Generally, no deduction is allowed for federal income tax purposes as a result of such reduction in basis with respect to a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser’s yield to maturity. Purchasers of Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium with respect to the Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning Premium Bonds.

## **Qualified Tax-Exempt Obligations for Financial Institutions**

Section 265 of the Code provides, in general, that interest expense incurred to acquire or carry tax-exempt obligations is not deductible from the gross income of the owner thereof. In addition, interest expense incurred by certain owners that are “financial institutions” within the meaning of such section and which is allocable to tax-exempt obligations

acquired after August 7, 1986, is completely disallowed as a deduction for taxable years beginning after December 31, 1986. Section 265(b) of the Code provides an exception to this rule for interest expense incurred by financial institutions and allocable to tax-exempt obligations (other than private activity bonds) which are designated by an issuer, such as the District, as "qualified tax-exempt obligations." An issue may be designated as "qualified tax-exempt obligations" only where the amount of such issue, when added to all other tax-exempt obligations (other than private activity bonds) issued or reasonably anticipated to be issued by the issuer during the same calendar year, does not exceed \$10,000,000.

The District has, pursuant to the Bond Order, designated the Bonds as "qualified tax-exempt obligations" and certified its expectation that the above-described \$10,000,000 ceiling will not be exceeded. Accordingly, it is anticipated that financial institutions that purchase the Bonds will not be subject to the 100 percent (100%) disallowance of interest expense allocable to interest on the Bonds under Section 265(b) of the Code. However, 20 percent (20%) of the interest expense incurred by a financial institution which is allocable to the interest on the Bonds would not be deductible pursuant to Section 291 of the Code.

## **CONTINUING DISCLOSURE OF INFORMATION**

The offering of the Bonds qualifies for Rule 15c2-12(d)(2) exemption from Rule 15c2-12(b)(5) of the United States Securities and Exchange Commission ("SEC") regarding the District's continuing disclosure obligations because the District does not have more than \$10,000,000 in aggregate amount of bonds outstanding and no person is committed by contract or other arrangement with respect to the payment of the Bonds. As required by the exemption, 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 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 financial information and operating data annually to the MSRB. The information to be updated includes the quantitative financial information and operating data of the general type included in the District's audited financial statements and supplemental schedules as found in "APPENDIX A— Financial Statements of the District." The District will update and provide this information within six months after the end of each of its fiscal years ending in or after 2017. Any information concerning the District so provided shall be prepared in accordance with generally accepted auditing standards or other such principles as the District may be required to employ from time to time pursuant to state law or regulation, and audited if the audit report is completed within the period during which it must be provided. If the audit report of the District is not complete within such period, then the District shall provide unaudited financial statements for the applicable entity and fiscal year to the MSRB within such six month period, and audited financial statements when and if the audit report becomes available.

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

### **Event Notices**

The District shall notify the MSRB, in a timely manner not in excess of ten business days after the occurrence of the event, of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or

determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District; (13) the consummation of a merger, consolidation, or acquisition involving the District or the System or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of trustee, if material.

### **Availability of Information From EMMA**

Investors will be able to access continuing disclosure information filed with the MSRB at [www.emma.msrb.org](http://www.emma.msrb.org). The District has agreed in the Bond Order to provide the foregoing information only to the MSRB through EMMA. The information will be available to holders of Bonds only if the holders comply with the procedures of the MSRB or obtain the information through securities brokers who do so.

### **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 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 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, if but only if (1) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering made hereby in compliance with SEC Rule 15c2-12 (the “Rule”), taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as any changed circumstances, and (2) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any qualified professional unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. 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 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 so provided. The District may also amend or repeal the agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgement that such provisions of the Rule are invalid, and the District also may amend its continuing disclosure agreement in its discretion in any other manner or circumstance, but in either case only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds.

### **Compliance with Prior Undertakings**

The District has not previously entered into a continuing disclosure agreement pursuant to the Rule.

## **PREPARATION OF OFFICIAL STATEMENT**

### **General**

The information contained in this Official Statement has been obtained primarily from the District's records, the District's Engineer, the Appraisal District, the District's Tax Assessor/Collector and other sources believed to be reliable. The District, however, makes no representation as to the accuracy or completeness of the information derived from such sources. The summaries of the statutes, resolutions, orders, agreements and engineering and other related reports set forth in this Official Statement are included herein 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.

### **Consultants**

The information contained in this Official Statement relating to the physical characteristics of the District and engineering matters and, in particular, that engineering information included in the sections captioned "THE DISTRICT" and "THE SYSTEM" has been provided by the District's Engineer and has been included herein in reliance upon the authority of such 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 historical breakdown of District valuations, principal taxpayers and collection rates contained in the sections captioned "TAX DATA" and "DISTRICT DEBT" has been provided by the Appraisal District and the District's Tax Assessor/Collector and has been included herein in reliance upon their authority as experts in the field of tax assessing and collecting.

The financial statements contained in "APPENDIX A—Financial Statements of the District" have been included in reliance upon the accompanying report of the District's Auditor.

### **Updating the Official Statement**

If, subsequent to the date of the Official Statement, the District learns, or is notified by the Underwriter, of any adverse event which causes the Official Statement to be materially misleading, unless the Underwriter elects to terminate its obligation to purchase the Bonds, the District will promptly prepare and supply to the Underwriter an appropriate amendment or supplement to the Official Statement satisfactory to the Underwriter; provided, however, that the obligation of the District to so amend or supplement the Official Statement will terminate when the District delivers the Bonds to the Underwriter, unless the Underwriter notifies the District on or before such date that less than all of the Bonds have been sold to ultimate customers, in which case the District's obligations hereunder will extend for an additional period of time (but not more than 90 days after the date the District delivers the Bonds to the Underwriter) until all of the Bonds have been sold to ultimate customers.

### **Certification of Official Statement**

The District, acting through the Board in its official capacity, hereby certifies, as of the date hereof, that the information, statements and descriptions pertaining to the District and its affairs contained herein, to the best of its knowledge and belief, contain no untrue statements of a material fact and do not omit to state any material fact necessary to make the statements herein, in light of the circumstances under which they are made, not misleading. With respect to information included in this Official Statement other than that relating to the District, the Board has no reason to believe that such information contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements herein, in light of the circumstances under which they are made, not misleading; however, the Board can give no assurance as to the accuracy or completeness of the information derived from sources other than the District. This Official Statement is duly certified and approved by the Board of Directors of Champions Municipal Utility District as of the date specified on the first page hereof.

/s/ Robert M. Pryor  
President, Board of Directors  
Champions Municipal Utility District

ATTEST:

/s/ Jeffrey Kanaly  
Secretary, Board of Directors  
Champions Municipal Utility District

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

HARRIS COUNTY  
FRESH WATER SUPPLY DISTRICT NO. 52  
HARRIS COUNTY, TEXAS  
ANNUAL AUDIT REPORT  
JUNE 30, 2016

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# Roth & Eyring, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

12702 Century Drive • Suite C2 • Stafford, Texas 77477 • 281-277-9595 • Fax 281-277-9484

October 10, 2016

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Harris County Fresh Water  
Supply District No. 52  
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each fund of Harris County Fresh Water Supply District No. 52, as of and for the year ended June 30, 2016, which collectively comprise the District's basic financial statements, as listed in the table of contents, and the related notes to the financial statements.

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

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

### **Auditor's Responsibility**

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

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

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

### **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 fund of Harris County Fresh Water Supply District No. 52 as of June 30, 2016, 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.

INDEPENDENT AUDITOR'S REPORT (Continued)**Other Matters**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on Pages 3 to 7 and Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual, General Fund, on Page 17 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on Pages 18 to 26 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Except for the portion marked "unaudited," the information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The supplementary information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it. The accompanying supplementary information includes financial data excerpted from prior year financial statements which were audited by our firm.

A handwritten signature in black ink that reads "North & Arising, PLLC". The signature is written in a cursive, flowing style.

## Management's Discussion and Analysis

### Using this Annual Report

Within this section of the Harris County Fresh Water Supply District No. 52 (the "District") annual report, the District's Board of Directors provides narrative discussion and analysis of the financial activities of the District for the fiscal year ended June 30, 2016.

The annual report consists of a series of financial statements plus additional supplemental information to the financial statements as required by its state oversight agency, the Texas Commission on Environmental Quality. 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. In the District's case, the single governmental program is provision of water and sewer services. Other activities 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 position and statement of activities, which are prepared using accounting principles that are similar to commercial enterprises. The purpose of the statement of net position is to attempt to report all of the assets and liabilities owned by 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 position* and this difference is similar to the total owners' 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. 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 period.

Although the statement of activities looks different from a commercial enterprise's income statement, 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 position*, 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 fund financial statements consist of a balance sheet and statement of revenues, expenditures and change 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 and sewer 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 are different, there are significant differences between the totals presented in these financial statements. For this reason, there is an analysis in Note 3 of the notes to the financial statements that reconciles the total fund balances to the amount of net position presented in the governmental activities column on the statement of net position. Also, there is an analysis in Note 3 of the notes to the financial statements that reconciles the total change in fund balances for all governmental funds to the change in net position as reported in the governmental activities column in the statement of activities.

### **Financial Analysis of the District as a Whole**

Financial Analysis of the District as a Whole begins with an understanding of how financial resources flow through the District's funds. Any resources in the Capital Projects Fund are derived principally from proceeds of the sale of bonds, and expenditures from this fund are subject to the Rules of the Texas Commission on Environmental Quality. Any resources in the Debt Service Fund are derived principally from the collection of property taxes and are used for the payment of tax collection costs and bond principal and interest. Resources in the General Fund are derived principally from property taxes, if any, and billings for water and sewer services and are used to operate and maintain the system and to pay costs of administration of the District.

Management has financial objectives for each of the District's funds. The financial objective for the General Fund is to keep the fund's expenditures as low as possible while ensuring that revenues are adequate to cover expenditures and maintaining the fund balance that Management believes is prudent. Management believes that these financial objectives were met during the fiscal year.

Management believes that the required method of accounting for certain elements of the government-wide financial statements makes the government-wide financial statements as a whole not useful for financial analysis. In the government-wide financial statements, capital assets and depreciation expense have been required to be recorded at historical cost. Management's policy is to maintain the District's capital assets in a condition greater than or equal to the condition required by regulatory authorities, and management does not believe that depreciation expense is relevant to the management of the District.

The following required summaries of the District's overall financial position and operations for the past two years are based on the information included in the government-wide financial statements. For the reasons described in the preceding paragraph, a separate analysis of the summaries is not presented.

#### Summary of Net Position

	<u>2016</u>	<u>2015</u>	<u>Change</u>
Current and other assets	\$ 3,176,958	\$ 2,805,305	\$ 371,653
Capital assets	<u>2,430,477</u>	<u>2,552,267</u>	<u>(121,790)</u>
Total assets	<u>5,607,435</u>	<u>5,357,572</u>	<u>249,863</u>
Long-term liabilities	0	0	0
Other liabilities	<u>419,103</u>	<u>323,621</u>	<u>95,482</u>
Total liabilities	<u>419,103</u>	<u>323,621</u>	<u>95,482</u>
Net position:			
Invested in capital assets, net of related debt	2,430,477	2,552,267	(121,790)
Restricted	312,312	317,749	(5,437)
Unrestricted	<u>2,445,543</u>	<u>2,163,924</u>	<u>281,619</u>
Total net position	<u>\$ 5,188,332</u>	<u>\$ 5,033,940</u>	<u>\$ 154,392</u>

#### Summary of Changes in Net Position

	<u>2016</u>	<u>2015</u>	<u>Change</u>
Revenues:			
Sales and Use Taxes	\$ 97,119	\$ 102,370	\$ (5,251)
Charges for services	1,890,594	1,663,359	227,235
Other revenues	<u>3,006</u>	<u>2,733</u>	<u>273</u>
Total revenues	<u>1,990,719</u>	<u>1,768,462</u>	<u>222,257</u>
Expenses:			
Service operations	1,836,327	1,498,838	337,489
Debt service	<u>0</u>	<u>0</u>	<u>0</u>
Total expenses	<u>1,836,327</u>	<u>1,498,838</u>	<u>337,489</u>
Change in net position	154,392	269,624	(115,232)
Net position, beginning of year	<u>5,033,940</u>	<u>4,764,316</u>	<u>269,624</u>
Net position, end of year	<u>\$ 5,188,332</u>	<u>\$ 5,033,940</u>	<u>\$ 154,392</u>

#### **Financial Analysis of the District's Funds**

The District's General fund balance as of the end of the fiscal year ended June 30, 2016, was \$2,757,855, an increase of \$276,182 from the prior year. The increase was in accordance with the District's financial plan.

#### *General Fund Budgetary Highlights*

The Board of Directors did not amend the budget during the fiscal year. The District's budget is primarily a planning tool. Accordingly, actual results varied from the budgeted amounts. A comparison of actual to budgeted amounts is presented on Page 17 of this report. The budgetary fund balance as of June 30, 2016, was expected to be \$2,481,673, and the actual end of year fund balance was \$2,757,855.

## Capital Asset and Debt Administration

### *Capital Assets*

Capital assets held by the District at the end of the current and previous fiscal years are summarized as follows:

	<u>Capital Assets (Net of Accumulated Depreciation)</u>		
	<u>2016</u>	<u>2015</u>	<u>Change</u>
Land	\$ 87,500	\$ 87,500	\$ 0
Construction in progress	12,638	11,201	1,437
Water facilities	982,906	1,052,130	(69,224)
Sewer facilities	1,347,433	1,401,436	(54,003)
Totals	<u>\$ 2,430,477</u>	<u>\$ 2,552,267</u>	<u>\$ (121,790)</u>

Changes to capital assets during the fiscal year ended June 30, 2016, are summarized as follows:

#### Additions:

Improvements to water plant	\$ 6,389
Improvements to wastewater treatment plant	9,604
Engineering for trail system	<u>1,437</u>
Total additions to capital assets	17,430

#### Decreases:

Depreciation	<u>(139,220)</u>
Net change to capital assets	<u>\$ (121,790)</u>

### *Debt*

At June 30, 2016, the District had \$25,000,000 of bonds authorized but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage system within the District.

## RELEVANT FACTORS AND WATER SUPPLY ISSUES

### *Relationship to the City of Houston*

Utilizing a provision of Texas law, the City of Houston ("City") and the District entered into a Strategic Partnership Agreement ("SPA") effective as of June 14, 2004. The SPA provides for the limited purpose annexation of certain developed commercial tracts within the District into the City for the limited purposes of imposition of the City's Sales and Use Tax, certain municipal court jurisdictions, and health inspection services and enforcement. No other City services are provided. The properties made subject to the SPA may not be taxed for ad valorem purposes by the City. Additional properties may become subject to the SPA by amending the SPA upon the consent of the City and the District. The City pays the District an amount equal to 50 percent of all Sales and Use Tax revenues generated by the City from the properties subject to the SPA. The term of the SPA is 30 years. During the term of the SPA, the City has agreed not to annex all or part of the District or commence any action to annex all or part of the District for full purposes.

### *Water Supply Issues*

The District is located within the boundaries of the Harris-Galveston Subsidence District (“Subsidence District”) and the North Harris County Regional Water Authority (“NHCRWA”). The NHCRWA was created to provide for conversion of the area within its boundaries from groundwater usage to alternative sources of water supply (e.g., surface water) as required by regulations of the Subsidence District. The NHCRWA covers an area located in northern Harris County and adjacent to the City of Houston. Pursuant to an order of the Subsidence District and the NHCRWA’s Groundwater Reduction Plan (as approved by the Subsidence District), the area within the boundaries of the NHCRWA must be converted to at least 30% alternate source (e.g., surface) water use by 2010, 60% alternate source water use by 2025, and 80% alternate source water use by 2035. To implement the required conversion to alternate source water use in accordance with such schedule, the NHCRWA is in the process of designing and constructing and will operate a network of transmission and distribution lines, storage tanks, and pumping stations to transport and distribute water within the NHCRWA (the “NHCRWA System”). In addition, the NHCRWA has entered into a water supply contract to secure a long-term supply of treated surface water from the City of Houston.

The District is subject to the NHCRWA’s Groundwater Reduction Plan. The NHCRWA, as part of the plan of financing the NHCRWA System, has elected to allow districts, such as the District, to participate in a pro-rata share of the costs associated with the acquisition and construction of the NHCRWA System (including the costs associated with the acquisition of alternate sources of water supply) by issuing its own debt or using cash on hand, entitling the District to a future credit against pumpage fees due to the NHCRWA. The District has not elected this financing option. As a result, the District has elected to pay its share in the NHCRWA System costs over time through payment of levied pumpage fees to the NHCRWA. The District has been required by the NHCRWA to participate in the groundwater conversion project by converting a portion of its water production to surface water. Noncompliance with the NHCRWA’s Groundwater Reduction Plan or nonparticipation in the NHCRWA’s surface water conversion project could result in the District’s exclusion from the NHCRWA’s Groundwater Reduction Plan and assessment of the Subsidence District’s disincentive fee against groundwater pumped from wells located within the District.

Groundwater pumped from wells located within the District is not currently subject to the Subsidence District’s groundwater disincentive fee. However, groundwater pumped from wells located within the District is subject to a per 1,000 gallon pumpage fee that is assessed and collected by the NHCRWA pursuant to the NHCRWA’s Pumpage Fee Order. The current pumpage fee is \$2.40 and is expected to increase in the future. The Authority’s current surface water usage fee is \$2.85 and is expected to increase in the future. The issuance of additional bonds by the District in an undetermined amount may be necessary at some time in the future to finance the acquisition and construction of surface water infrastructure (whether such costs are incurred directly by the District or through projects undertaken by the NHCRWA). The NHCRWA has sold four issues of bonds to finance a portion of the costs related to the design, acquisition and construction of the NHCRWA System. The NHCRWA bonds are secured by revenues of the NHCRWA, including the Pumpage Fee.

HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 52

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET

JUNE 30, 2016

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments (Note 3)</u>	<u>Statement of Net Position</u>
<b>ASSETS</b>						
Cash, including interest-bearing accounts, Note 6	\$2,518,987	\$	\$	\$ 2,518,987	\$	\$ 2,518,987
Certificates of deposit, at cost, Note 6	115,338			115,338		115,338
Receivables:						
Service accounts	203,299			203,299		203,299
Sales and Use Taxes, Note 9	20,654			20,654		20,654
Accrued interest	17			17		17
Prepaid expenditures	2,856			2,856		2,856
Deposit	3,150			3,150		3,150
Due from NHCRWA, Note 8	312,312			312,312		312,312
Groundwater bank certificates, at cost, Note 10	345			345		345
Capital assets, net of accumulated depreciation, Note 4:						
Capital assets not being depreciated				0	100,138	100,138
Depreciable capital assets				0	2,330,339	2,330,339
<b>Total assets</b>	<u>\$3,176,958</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,176,958</u>	<u>2,430,477</u>	<u>5,607,435</u>
<b>LIABILITIES</b>						
Accounts payable	\$ 311,637	\$	\$	\$ 311,637		311,637
Customer deposits	107,466			107,466		107,466
Long-term liabilities, Note 5:						
Due within one year				0		0
Due in more than one year				0		0
<b>Total liabilities</b>	<u>419,103</u>	<u>0</u>	<u>0</u>	<u>419,103</u>	<u>0</u>	<u>419,103</u>
<b>FUND BALANCES / NET POSITION</b>						
Nonspendable:						
Due from NHCRWA, Note 8	312,312			312,312	(312,312)	0
Groundwater bank certificates, Note 10	345			345	(345)	0
Unassigned fund balance	<u>2,445,198</u>			<u>2,445,198</u>	<u>(2,445,198)</u>	<u>0</u>
<b>Total fund balances</b>	<u>2,757,855</u>	<u>0</u>	<u>0</u>	<u>2,757,855</u>	<u>(2,757,855)</u>	<u>0</u>
<b>Total liabilities, deferred inflows, and fund balances</b>	<u>\$3,176,958</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,176,958</u>		
Net position:						
Invested in capital assets, net of related debt					2,430,477	2,430,477
Restricted for receivables from regional authority					312,312	312,312
Unrestricted					<u>2,445,543</u>	<u>2,445,543</u>
<b>Total net position</b>					<u>\$ 5,188,332</u>	<u>\$ 5,188,332</u>

The accompanying notes are an integral part of the financial statements.

HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 52

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2016

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments (Note 3)	Statement of Activities
<b>REVENUES</b>						
Water service	\$ 728,614	\$	\$	\$ 728,614	\$	\$ 728,614
Sewer service	507,628			507,628		507,628
Surface water fees, Note 8	581,970			581,970		581,970
Penalty, disconnection and other revenues	37,905			37,905		37,905
Sales and Use Taxes, Note 9	97,119			97,119		97,119
Tap connection and inspection fees	15,273			15,273		15,273
Interest on surface water chloramine costs, Note 8	19,204			19,204		19,204
Interest on deposits	<u>3,006</u>			<u>3,006</u>		<u>3,006</u>
Total revenues	<u>1,990,719</u>	<u>0</u>	<u>0</u>	<u>1,990,719</u>	<u>0</u>	<u>1,990,719</u>
<b>EXPENDITURES / EXPENSES</b>						
Service operations:						
Professional fees	304,990			304,990		304,990
Contracted services	70,883			70,883		70,883
Utilities	147,941			147,941		147,941
Surface water fees, Note 8	523,434			523,434		523,434
Repairs and maintenance	329,654			329,654		329,654
Other operating expenditures	80,135			80,135		80,135
Administrative expenditures	171,039			171,039		171,039
Depreciation				0	139,220	139,220
Capital outlay / non-capital outlay	<u>86,461</u>			<u>86,461</u>	<u>(17,430)</u>	<u>69,031</u>
Total expenditures / expenses	<u>1,714,537</u>	<u>0</u>	<u>0</u>	<u>1,714,537</u>	<u>121,790</u>	<u>1,836,327</u>
Excess (deficiency) of revenues over expenditures	<u>276,182</u>	<u>0</u>	<u>0</u>	<u>276,182</u>	<u>(121,790)</u>	<u>154,392</u>
Net change in fund balances / net position	276,182	0	0	276,182	(121,790)	154,392
Beginning of year	<u>2,481,673</u>	<u>0</u>	<u>0</u>	<u>2,481,673</u>	<u>2,552,267</u>	<u>5,033,940</u>
End of year	<u>\$ 2,757,855</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,757,855</u>	<u>\$ 2,430,477</u>	<u>\$ 5,188,332</u>

The accompanying notes are an integral part of the financial statements.

HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 52NOTES TO THE FINANCIAL STATEMENTSJUNE 30, 2016

## NOTE 1: REPORTING ENTITY

Harris County Fresh Water Supply District No. 52 (the "District") was created by Harris County Commissioner's Court on January 19, 1961, in accordance with the Texas Water Code Chapter 53. On January 7, 1986, the District was converted to a municipal utility district operating under and governed by Chapter 54 of the Texas Water Code. The District operates in accordance with Chapters 49 and 54 of the Texas Water Code and is subject to the continuing supervision of the Texas Commission on Environmental Quality (the "Commission").

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply of water; the collection, transportation and treatment of wastewater; and the control and diversion of storm water. The District may provide garbage disposal and collection services. In addition, the District is empowered, if approved by the electorate, the Texas Commission on Environmental Quality and other governmental entities having jurisdiction, to establish, operate and maintain a fire department, either independently or jointly with certain other districts.

In evaluating how to define the District for financial reporting purposes, the Board of Directors of the District has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, there were no other entities which were included as a component unit in the District's financial statements.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

The District's financial statements are prepared in accordance with generally accepted accounting principles ("GAAP"). The Governmental Accounting Standards Board (the "GASB") is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989 (when applicable), that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the District are discussed below.

#### Basic Financial Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and governmental fund financial statements (reporting the District's funds). Because the District is a single-program government as defined by the GASB, the District has combined the government-wide statements and the fund financial statements using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column on the face of the financial statements. An additional reconciliation between the fund and the government-wide financial data is presented in Note 3.

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. The effect of interfund activity has been removed from these statements. The District's net position is reported in three parts – invested in capital assets, net of related debt; restricted net position; and unrestricted net position. The government-wide statement of activities reports the components of the changes in net position during the reporting period.

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for in a separate set of self-balancing accounts that comprises its assets, liabilities, fund balances, revenues and expenditures and changes in fund balances. The District's fund balances are reported as nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balances are either not in spendable form or are contractually required to remain intact. Restricted fund balances include amounts that can only be used for the specific purposes stipulated by constitutional provisions, external resource providers or enabling legislation. Committed fund balances include amounts that can only be used for the specific purposes determined by formal action of the District's Board of Directors. Assigned fund balances are intended for a specific purpose but do not meet the criteria to be classified as restricted or committed. Unassigned fund balance is the residual classification for the District's General Fund and includes all spendable amounts not contained in the other classifications. The transactions of the District are accounted for in the following funds:

General Fund -- To account for all revenues and expenditures not required to be accounted for in other funds.

Debt Service Fund -- To account for the accumulation of financial resources for, and the payment of, bond principal and interest, paid principally from property taxes levied by the District.

Capital Projects Fund -- To account for financial resources designated to construct or acquire capital assets. Such resources are derived principally from proceeds of the sale of bonds.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### Basis of Accounting

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting which recognizes all long-term assets and receivables as well as long-term debt and obligations. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred except for principal and interest on bonds payable which are recorded only when payment is due.

### Interfund Activity

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is reported as interfund receivables or payables, as appropriate, as are all other outstanding balances between funds. Operating transfers between funds represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

### Receivables

Service accounts receivable as reported are considered collectible. The District uses the direct write off method for uncollectible service accounts. Unbilled water and sewer revenues are not material and are not recorded at year end. The District considers service accounts revenues to be available if they are to be collected within 60 days after the end of the fiscal year.

### Capital Assets

Capital assets, which include property, plant, equipment, and immovable public domain or "infrastructure" assets are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 (including installation costs, if any, and associated professional fees) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed by the District. Donated capital assets are recorded at historical cost. Additions, improvements and other capital outlays that significantly extend the useful life of an asset or increase the value of an asset are capitalized. Costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

Plant and equipment	10-45 years
Underground lines	45 years

### Long-term Liabilities

Long-term debt and other long-term obligations are reported in the government-wide financial statements. Bond premiums and discounts, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable premium or discount. If bonds are refunded and the carrying amount of the new debt is different than the net carrying amount of the old debt, the difference is netted against the new debt and amortized using the effective interest method over the shorter of the remaining life of the refunded debt or the life of the new debt issued.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

In the fund financial statements, governmental funds 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 expenditures of the fund from which they are paid.

Regional Water Authority Credits

The District reports the surface water fee charges incurred by the District at the gross amount of the charges. Credits received under agreements with the regional water authority are recorded as either a repayment of the principal amount or interest earned at the interest rate of the applicable agreement. The principal is amortized based upon the life of the credits and the interest rate of the applicable agreement.

**NOTE 3: RECONCILIATION OF FUND TO GOVERNMENT-WIDE FINANCIAL STATEMENTS**

Reconciliation of year end fund balances to net position:

Total fund balances, end of year	\$ 2,757,855
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:	
Total capital assets, net	<u>2,430,477</u>
Net position, end of year	<u>\$ 5,188,332</u>

Reconciliation of net change in fund balances to change in net position:

Total net change in fund balances	\$ 276,182
The funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:	
Capital outlay	\$ 17,430
Depreciation	<u>(139,220)</u> <u>(121,790)</u>
Change in net position	<u>\$ 154,392</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**NOTE 4: CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 87,500	\$	\$	\$ 87,500
Construction in progress	<u>11,201</u>	<u>1,437</u>		<u>12,638</u>
Total capital assets not being depreciated	<u>98,701</u>	<u>1,437</u>	<u>0</u>	<u>100,138</u>
Depreciable capital assets:				
Water system	2,111,884	6,389		2,118,273
Sewer system	<u>3,010,842</u>	<u>9,604</u>		<u>3,020,446</u>
Total depreciable capital assets	<u>5,122,726</u>	<u>15,993</u>	<u>0</u>	<u>5,138,719</u>
Less accumulated depreciation for:				
Water system	(1,059,754)	(75,613)		(1,135,367)
Sewer system	<u>(1,609,406)</u>	<u>(63,607)</u>		<u>(1,673,013)</u>
Total accumulated depreciation	<u>(2,669,160)</u>	<u>(139,220)</u>	<u>0</u>	<u>(2,808,380)</u>
Total depreciable capital assets, net	<u>2,453,566</u>	<u>(123,227)</u>	<u>0</u>	<u>2,330,339</u>
Total capital assets, net	<u>\$ 2,552,267</u>	<u>\$ (121,790)</u>	<u>\$ 0</u>	<u>\$ 2,430,477</u>
Changes to capital assets:				
Capital outlay		\$ 17,430	\$	
Less depreciation expense for the fiscal year		<u>(139,220)</u>		
Net increases / decreases to capital assets		<u>\$ (121,790)</u>	<u>\$ 0</u>	

**NOTE 5: LONG-TERM LIABILITIES AND CONTINGENT LIABILITIES**

Bonds voted	\$ 25,000,000
Bonds approved for sale and sold	0
Bonds voted and not issued	25,000,000

At June 30, 2016, there were no developer construction commitments or liabilities.

**NOTE 6: DEPOSITS**

The District complied with the requirements of the Public Funds Investment Act during the current fiscal year including the preparation of quarterly investment reports required by the Act.

State statutes authorize the District to invest and reinvest in direct or indirect obligations of the United States, the State of Texas, any county, city, school district, or other political subdivision of the state, or in local government investment pools authorized under the Public Funds Investment Act. Funds of the District may be placed in certificates of deposit of state or national banks or savings and loan associations within the state provided that they are secured in the manner provided for the security of the funds under the laws of the State of Texas. In accordance with the District's investment policies, during the current year the District's funds were invested in interest bearing accounts at authorized financial institutions.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

In accordance with state statutes and the District's investment policies, the District requires that insurance or security be provided by depositories for all funds held by them. At the balance sheet date, the carrying amount of the District's deposits was \$2,634,325 and the bank balance was \$2,600,099. Of the bank balance, \$500,000 was covered by federal insurance and \$2,100,099 was covered by the market value of collateral held by the District's custodial bank in the District's name. The market value of collateral was reported to the District by the depository.

### NOTE 7: 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; personal injuries and natural disasters. Significant losses are covered by insurance as described below. There were no significant reductions in insurance coverage from the prior fiscal year. There have been no settlements which have exceeded the insurance coverage for each of the past three fiscal years.

At June 30, 2016, the District had physical damage and boiler and machinery coverage of \$4,536,000, comprehensive general liability coverage with a per occurrence limit of \$1,000,000 and \$3,000,000 general aggregate, pollution liability coverage of \$1,000,000, pollution cleanup and remediation coverage of \$1,000,000 umbrella liability coverage of \$2,000,000, automobile coverage of \$1,000,000, worker's compensation coverage of \$1,000,000 and consultant's crime coverage of \$500,000.

### NOTE 8: REGIONAL WATER AUTHORITY

The North Harris County Regional Water Authority (the "Authority") was created by House Bill 2965, Acts of the 76th Legislature, Regular Session 1999, and was confirmed by an election held on January 15, 2001. The Authority is a political subdivision of the State of Texas, governed by an elected five member Board of Directors. The Authority is empowered to, among other powers, "acquire or develop surface water and groundwater supplies from sources inside of or outside of the boundaries of the authority and may conserve, store, transport, treat, purify, distribute, sell and deliver water to persons, corporations, municipal corporations, political subdivisions of the state, and others, inside of and outside of the boundaries of the authority." The Authority is also empowered to "establish fees and charges as necessary to enable the authority to fulfill the authority's regulatory obligations." In accordance with this provision, as of June 30, 2016, the Authority had established a well pumpage fee of \$2.40 per 1,000 gallons of water pumped from each regulated well and surface water usage fees of \$2.85 per 1,000 gallons. The District's surface water fees payable to the Authority for the fiscal year ended June 30, 2016, were \$523,434. The District billed its customers \$581,970 during the fiscal year to pay for the fees charged by the Authority.

Effective January 1, 2010, the Authority adopted a rate order which provided for the reimbursement to the District for costs incurred by the District to modify its system to accept surface water from the Authority. Such "Chloramine Credit" will be determined by the Authority upon completion and operation of the District's Chloramine System. During the fiscal year ended June 30, 2011, the Authority determined that the allowable costs of construction incurred by the District were \$339,176. The Chloramine Credit will be credited monthly to the amounts payable to the Authority for water used by the District over a 30-year period at 6% interest.

During the fiscal year ended June 30, 2016, the District received chloramine credits of \$24,641. Of this amount, \$5,437 was a repayment of principal and \$19,204 was interest.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

A summary of the amortization of the remaining scheduled chloramine credits is as follows:

Credits Due During Fiscal Years Ending June 30	Principal	Interest	Total
2017	\$ 5,777	\$ 18,863	\$ 24,640
2018	6,140	18,501	24,641
2019	6,525	18,115	24,640
2020	6,933	17,708	24,641
2021	7,367	17,273	24,640
2022-2026	44,365	78,839	123,204
2027-2031	60,113	63,092	123,205
2032-2036	81,451	41,754	123,205
2037-2041	93,641	13,137	106,778
	<u>\$ 312,312</u>	<u>\$ 287,282</u>	<u>\$ 599,594</u>

**NOTE 9: STRATEGIC PARTNERSHIP AGREEMENT**

On June 14, 2004, the District and the City of Houston (the "City") entered into a 30 year Strategic Partnership Agreement (the "Agreement"). Under the terms of the Agreement, the City annexed a portion of the District (the "Partial District") for the limited purposes of applying the City's Planning, Zoning, Health, and Safety Ordinances within the Partial District. The Agreement states that the District and all taxable property within the District shall not be liable for any present or future debts of the City and current and future taxes levied by the City shall not be levied on taxable property with the District. During the term of the SPA, the City has agreed not to annex all or part of the District or commence any action to annex all or part of the District for full purposes.

The City imposed a Sales and Use Tax within the boundaries of the Partial District at the time of the limited-purpose annexation of the Partial District. The Agreement provides that the City shall pay to the District one half of all Sales and Use Tax revenues generated within the boundaries of the Partial District and received by the City from the Comptroller of Public Accounts of the State of Texas. The District accrued Sales and Use Tax revenues of \$97,119 from the City for the fiscal year ended June 30, 2016, of which \$20,654 was receivable at that date.

**NOTE 10: GROUNDWATER BANK CERTIFICATES**

The District has purchased Groundwater Bank certificates directly from the issuer, the Harris-Galveston Subsidence District (the "HGSD"). These certificates expire in 20 years and allow the bearer to pump the quantity of water specified on the certificate from wells instead of using surface water as mandated by the HGSD. Certificates can also be used in lieu of the disincentive fee assessed by the HGSD for ground water pumpage in excess of the District's permit as amended. At June 30, 2016, the District had in its possession certificates totaling 840 thousand gallons of water. The District values the certificates at cost which resulted in a total cost basis for the certificates on hand of \$345 at June 30, 2016.

HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 52

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE, BUDGET AND ACTUAL, GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amounts</u>			<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>REVENUES</b>				
Water service	\$ 725,000	\$ 725,000	\$ 728,614	\$ 3,614
Sewer service	500,000	500,000	507,628	7,628
Surface water fees	575,000	575,000	581,970	6,970
Penalty, disconnection and other revenues	30,000	30,000	37,905	7,905
Sales and Use Taxes	90,000	90,000	97,119	7,119
Tap connection and inspection fees	5,000	5,000	15,273	10,273
Interest on surface water chloramine costs	0	0	19,204	19,204
Interest on deposits	<u>2,000</u>	<u>2,000</u>	<u>3,006</u>	<u>1,006</u>
<b>TOTAL REVENUES</b>	<u>1,927,000</u>	<u>1,927,000</u>	<u>1,990,719</u>	<u>63,719</u>
<b>EXPENDITURES</b>				
Service operations:				
Professional fees	168,500	168,500	304,990	136,490
Contracted services	88,480	88,480	70,883	(17,597)
Utilities	150,000	150,000	147,941	(2,059)
Surface water pumpage fees	550,000	550,000	523,434	(26,566)
Repairs and maintenance	360,000	360,000	329,654	(30,346)
Other operating expenditures	50,000	50,000	80,135	30,135
Administrative expenditures	118,500	118,500	171,039	52,539
Capital outlay	<u>441,520</u>	<u>441,520</u>	<u>86,461</u>	<u>(355,059)</u>
<b>TOTAL EXPENDITURES</b>	<u>1,927,000</u>	<u>1,927,000</u>	<u>1,714,537</u>	<u>(212,463)</u>
<b>EXCESS REVENUES (EXPENDITURES)</b>	<b>0</b>	<b>0</b>	<b>276,182</b>	<b>276,182</b>
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<u>2,481,673</u>	<u>2,481,673</u>	<u>2,481,673</u>	<u>0</u>
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ 2,481,673</u>	<u>\$ 2,481,673</u>	<u>\$ 2,757,855</u>	<u>\$ 276,182</u>

The District's Board of Directors adopts an annual nonappropriated budget. This budget may be amended throughout the fiscal year and is prepared on a basis consistent with generally accepted accounting principles.

See accompanying independent auditor's report.

HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 52SCHEDULE OF TEXAS SUPPLEMENTARY INFORMATION  
REQUIRED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITYJUNE 30, 2016

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

- ☒ TSI-1. Services and Rates
- ☒ TSI-2. General Fund Expenditures
- ☒ TSI-3. Temporary Investments
- ☐ TSI-4. Taxes Levied and Receivable  
Not Applicable.
- ☐ TSI-5. Long-Term Debt Service Requirements by Years  
Not Applicable.
- ☐ TSI-6. Changes in Long-Term Bonded Debt  
Not Applicable.
- ☒ TSI-7. Comparative Schedule of Revenues and Expenditures -  
General Fund and Debt Service Fund - Five Year
- ☒ TSI-8. Board Members, Key Personnel and Consultants

HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 52SCHEDULE OF SERVICES AND RATESJUNE 30, 2016

## 1. Services Provided by the District during the Fiscal Year:

<input checked="" type="checkbox"/> Retail Water	<input type="checkbox"/> Wholesale Water	<input 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 1000 Gallons Over Minimum</u>	<u>Usage Levels</u>
WATER:	\$20.40	0	N	\$ 1.88	10,001 to 20,000
	\$26.52	1,001		2.32	20,001 to 30,000
				2.76	30,001 to 40,000
				3.78	40,001 to 50,000
				4.80	Over 50,000
WASTEWATER:	\$20.00	0	Y		
	26.00	1,000	Y		
	28.00	10,001	Y		
	31.00	20,001	Y		
	34.00	30,001	Y		
	38.00	40,001	Y		
	42.00	50,001	Y		

SURCHARGE: \$3.14 per 1,000 gallons of water used. -- NHCRWA surface water fees.

District employs winter averaging for wastewater usage: Yes ☐ No ☒

Total charges per 10,000 gallons usage: Water: \$26.52    Wastewater: \$26.00    Surcharge: \$31.40

See accompanying independent auditor's report.

HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 52

SCHEDULE OF SERVICES AND RATES (Continued)

JUNE 30, 2016

b. Water and Wastewater Retail Connections (unaudited):

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC* Factor</u>	<u>Active ESFCs</u>
Unmetered	0	0	1.0	0
< or = 3/4"	1,356	1,284	1.0	1,284
1"	2	2	2.5	5
1-1/2"	8	6	5.0	30
2"	14	14	8.0	112
3"	1	1	15.0	15
4"	3	3	25.0	75
6"	0	0	50.0	0
8"	0	0	80.0	0
10"	0	0	115.0	0
Total Water	<u>1,384</u>	<u>1,310</u>		<u>1,521</u>
Total Wastewater	<u>1,315</u>	<u>1,243</u>	1.0	<u>1,243</u>

\*Single family equivalents

3. Total Water Consumption during the Fiscal Year (rounded to thousands):

Gallons pumped into system (unaudited): 216,480  
 Gallons billed to customers (unaudited): 215,745

Water Accountability Ratio  
 (Gallons billed/ gallons pumped): 100%

4. Standby Fees (authorized only under TWC Section 49.231):

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

If yes, date of the most recent Commission Order: \_\_\_\_\_

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

If yes, date of the most recent Commission Order: \_\_\_\_\_

See accompanying independent auditor's report.

HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 52

EXPENDITURES

FOR THE YEAR ENDED JUNE 30, 2016

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
CURRENT				
Professional fees:				
Auditing	\$ 6,525	\$	\$	\$ 6,525
Legal	236,428			236,428
Engineering	62,037			62,037
	<u>304,990</u>	<u>0</u>	<u>0</u>	<u>304,990</u>
Contracted services:				
Bookkeeping	18,480			18,480
Operation and billing	52,403			52,403
	<u>70,883</u>	<u>0</u>	<u>0</u>	<u>70,883</u>
Utilities	<u>147,941</u>	<u>0</u>	<u>0</u>	<u>147,941</u>
Surface water fees:				
Ground water pumpage fees	203,861			203,861
Purchased surface water	319,573			319,573
	<u>523,434</u>	<u>0</u>	<u>0</u>	<u>523,434</u>
Repairs and maintenance	<u>329,654</u>	<u>0</u>	<u>0</u>	<u>329,654</u>
Other operating expenditures:				
Sludge hauling	29,712			29,712
Chemicals	15,745			15,745
Laboratory costs	22,435			22,435
Inspection costs	1,446			1,446
Garbage disposal	4,983			4,983
TCEQ assessment	5,814			5,814
	<u>80,135</u>	<u>0</u>	<u>0</u>	<u>80,135</u>
Administrative expenditures:				
Director's fees	17,850			17,850
Printing and postage	11,400			11,400
Insurance	23,284			23,284
Permit fees	6,851			6,851
Communication and website	88,547			88,547
Esplanade landscaping contribution	12,600			12,600
Other	10,507			10,507
	<u>171,039</u>	<u>0</u>	<u>0</u>	<u>171,039</u>
CAPITAL OUTLAY				
Authorized expenditures	81,183			81,183
Tap connection costs	5,278			5,278
	<u>86,461</u>	<u>0</u>	<u>0</u>	<u>86,461</u>
TOTAL EXPENDITURES	<u>\$ 1,714,537</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,714,537</u>

See accompanying independent auditor's report.

HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 52

ANALYSIS OF CHANGES IN DEPOSITS  
ALL GOVERNMENTAL FUND TYPES

FOR THE YEAR ENDED JUNE 30, 2016

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
<b>SOURCES OF DEPOSITS</b>				
Cash receipts from revenues	\$ 1,912,929	\$	\$	\$ 1,912,929
Increase in customer deposits	4,610			4,610
Principal portion of NHCRWA credits received	<u>5,437</u>	<u></u>	<u></u>	<u>5,437</u>
<b>TOTAL DEPOSITS PROVIDED</b>	<u>1,922,976</u>	<u>0</u>	<u>0</u>	<u>1,922,976</u>
<b>APPLICATIONS OF DEPOSITS</b>				
Cash disbursements for:				
Current expenditures	1,537,214			1,537,214
Prepaid expenditures	2,856			2,856
Capital outlay	<u>86,461</u>	<u></u>	<u></u>	<u>86,461</u>
<b>TOTAL DEPOSITS APPLIED</b>	<u>1,626,531</u>	<u>0</u>	<u>0</u>	<u>1,626,531</u>
<b>INCREASE (DECREASE) IN DEPOSITS</b>	296,445	0	0	296,445
<b>DEPOSITS BALANCES, BEGINNING OF YEAR</b>	<u>2,337,880</u>	<u>0</u>	<u>0</u>	<u>2,337,880</u>
<b>DEPOSITS BALANCES, END OF YEAR</b>	<u>\$ 2,634,325</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,634,325</u>

See accompanying independent auditor's report.

HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 52

SCHEDULE OF CERTIFICATES OF DEPOSIT

JUNE 30, 2016

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Year End Balance</u>	<u>Accrued Interest Receivable</u>
GENERAL FUND				
Certificate of Deposit				
No. 385113029487	0.10%	05/08/17	<u>\$      115,338</u>	<u>\$              17</u>

HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 52

COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,  
GENERAL FUND

FOR YEARS ENDED JUNE 30

	AMOUNT					PERCENT OF TOTAL REVENUES				
	2016	2015	2014	2013	2012	2016	2015	2014	2013	2012
<b>REVENUES</b>										
Water service	\$ 728,614	\$ 648,773	\$ 747,451	\$ 680,972	\$ 766,815	36.5 %	36.6 %	38.2 %	36.8 %	37.4 %
Sewer service	507,628	478,923	497,435	475,117	506,489	25.5	27.1	25.3	25.7	24.7
Surface water fees	581,970	480,404	567,233	552,573	611,667	29.2	27.2	28.9	29.9	29.9
Penalty, disconnection and other revenues	37,905	34,234	27,464	37,233	70,106	1.9	1.9	1.4	2.0	3.4
Sales and Use Taxes	97,119	102,370	99,107	80,560	74,739	4.9	5.8	5.0	4.4	3.7
Tap connection and inspection fees	15,273	1,500	2,325	0	1,145	0.8	0.1	0.1	0.0	0.1
Interest on surface water chloramine costs	19,204	19,525	19,826	20,111	13,725	1.0	1.1	1.0	1.1	0.7
Interest on deposits	3,006	2,733	2,332	1,871	2,086	0.2	0.2	0.1	0.1	0.1
<b>TOTAL REVENUES</b>	<b>1,990,719</b>	<b>1,768,462</b>	<b>1,963,173</b>	<b>1,848,437</b>	<b>2,046,772</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>EXPENDITURES</b>										
Current:										
Professional fees	304,990	187,806	134,739	130,638	117,161	15.3	10.6	6.9	7.1	5.7
Contracted services	70,883	68,100	69,716	74,394	123,183	3.6	3.9	3.6	4.0	6.0
Utilities	147,941	132,536	132,399	130,239	177,298	7.4	7.5	6.7	7.0	8.7
Surface water pumpage fees	523,434	472,129	541,310	557,549	596,802	26.3	26.6	27.6	30.2	29.2
Repairs and maintenance	329,654	247,200	341,710	234,202	250,262	16.6	14.0	17.4	12.7	12.2
Other operating expenditures	80,135	63,895	83,054	83,064	95,068	4.0	3.6	4.2	4.5	4.6
Administrative expenditures	171,039	128,943	86,765	79,761	64,576	8.6	7.3	4.4	4.3	3.2
Capital outlay	86,461	84,754	326,335	152,297	304,955	4.3	4.8	16.6	8.2	14.9
<b>TOTAL EXPENDITURES</b>	<b>1,714,537</b>	<b>1,385,363</b>	<b>1,716,028</b>	<b>1,442,121</b>	<b>1,729,305</b>	<b>86.1</b>	<b>78.3</b>	<b>87.4</b>	<b>78.0</b>	<b>84.5</b>
<b>EXCESS REVENUES (EXPENDITURES)</b>	<b>\$ 276,182</b>	<b>\$ 383,099</b>	<b>\$ 247,145</b>	<b>\$ 406,316</b>	<b>\$ 317,467</b>	<b>13.9 %</b>	<b>21.7 %</b>	<b>12.6 %</b>	<b>22.0 %</b>	<b>15.5 %</b>
<b>TOTAL ACTIVE RETAIL WATER CONNECTIONS</b>	<b>1,310</b>	<b>1,312</b>	<b>1,324</b>	<b>1,302</b>	<b>1,325</b>					
<b>TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS</b>	<b>1,243</b>	<b>1,243</b>	<b>1,255</b>	<b>1,233</b>	<b>1,260</b>					

See accompanying independent auditor's report.

HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 52BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTSJUNE 30, 2016

Complete District Mailing Address: Harris County Fresh Water Supply District No. 52  
 c/o Johnson Petrov LLP  
 2929 Allen Parkway, Suite 3150  
 Houston, Texas 77019

District Business Telephone No.: 713-489-8977

Submission date of the most recent District Registration Form: June 20, 2016

Limit on Fees of Office that a Director may receive during a fiscal year: \$7,200

BOARD MEMBERS

<u>Name and Address</u>	<u>Term of Office (Elected/ Appointed)</u>	<u>Fees of Office Paid</u>	<u>Expense Reimb.</u>	<u>Title at Year End</u>
Robert M. Pryor 6207 Bermuda Dunes Drive Houston, Texas 77069	Elected 5/07/16- 5/02/20	\$ 5,850 *	\$ 0	President
William S. Dillon 5907 Mid Pines Drive Houston, Texas 77069	Elected 5/10/14- 5/05/18	5,550	0	Vice President
Jeffrey Kanaly 6222 Rolling Water Drive Houston, Texas 77069	Elected 5/10/14- 5/05/18	2,100	0	Secretary
Scott Chenoweth 6306 Cherry Hill Road Houston, Texas 77069	Elected 5/07/16- 5/02/20	300	0	Treasurer/ Investment Officer
Austin Ross 6607 Pebble Beach Drive Houston, Texas 77069	Appointed 4/11/16- 5/05/18	600	0	Director

\*Delegate to FM1960 Green Medians Joint Powers Board

HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 52BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS (Continued)JUNE 30, 2016CONSULTANTS

<u>Name and Address</u>	<u>Date Hired</u>	<u>Fees and Expense Reimbursements</u>	<u>Title at Year End</u>
Johnson Petrov LLP 2929 Allen Parkway, Suite 3150 Houston, Texas 77019	8/11/87	\$ 236,428	Attorney
Karen Hoffpauir 9223 Minsmere Circle Spring, Texas 77379	3/10/97	19,190	Bookkeeper
TNG Utility Corporation P.O. Box 2749 Spring, Texas 77383-2749	6/01/12	530,719	Operator
Blue Umbrella 14100 Old Richmond Road, Suite B Sugar Land, Texas 77498	1/28/15	88,547	Website/ Communication Consultant
Lockwood, Andrews & Newnam 2925 Briarpark Drive, Suite 550 Houston, Texas 77042	10/17/78	66,243	Engineer
Bob Leared 11111 Katy Freeway, Suite 725 Houston, Texas 77079	2/8/16	0	Tax Assessor- Collector
Blitch Associates, Inc. 11111 Katy Freeway, Suite 820 Houston, Texas 77079-2118	5/12/15	0	Financial Advisor
Roth & Eyring, PLLC 12702 Century Drive, Suite C2 Stafford, Texas 77477	5/12/08	6,525	Independent Auditor

See accompanying independent auditor's report.



## MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

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

MEMBER: [NAME OF MEMBER]

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

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

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

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

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

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

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

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

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

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

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

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

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

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

Email:

[claims@buildamerica.com](mailto:claims@buildamerica.com)

Address:

1 World Financial Center, 27<sup>th</sup> floor  
200 Liberty Street  
New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

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