

**NEW ISSUE-BOOK-ENTRY-ONLY**

**Ratings: BAM Insured S&P “AA” (stable outlook); Underlying Moody’s “A1”  
See “MUNICIPAL BOND RATINGS AND INSURANCE”**

*Delivery of the Bonds is subject to the opinion of Bond Counsel to the effect that interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax consequences for corporations.*

The District has designated the Bonds as “Qualified Tax-Exempt Obligations” for purposes of the calculation of interest expense by financial institutions. See “TAX MATTERS – Qualified Tax Exempt Obligations for Financial Institutions” herein.

**\$8,865,000**

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153  
(A Political Subdivision of the State of Texas Located in Harris County, Texas)**

**UNLIMITED TAX BONDS, SERIES 2014**

**Dated Date: December 1, 2014**

**Due: September 1, as shown on inside cover page**

The Bonds described above (the “Bonds”) are obligations solely of Harris County Municipal Utility District No. 153 (the “District”) and are not obligations of the State of Texas; Harris County, Texas; the City of Houston, Texas; or any entity other than the District.

Interest on the Bonds will accrue from December 1, 2014 and is payable March 1, 2015, and each September 1 and March 1 thereafter until the earlier of maturity or redemption, and will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds will be issued in fully registered form only, without coupons, in denominations of \$5,000 or any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., as registered owner and nominee for the Depository Trust Company (“DTC”), New York, New York, 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., as the paying agent to DTC, is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the paying agent to DTC, which will be solely responsible for making such payment to the beneficial owners of the Bonds. The initial paying agent/registrars for the Bonds shall BOKF, N.A., dba Bank of Texas, Austin, Texas (the “Paying Agent”).

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 “BOND INSURANCE.”



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**MATURITY SCHEDULE AND REDEMPTION PROVISIONS**  
**(see inside cover page)**

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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 "INVESTMENT CONSIDERATIONS" herein.

The Bonds are offered by the Initial Purchaser subject to prior sale, when, as and if issued by the District and accepted by the Initial Purchaser, subject, among other things to the approval of the Initial Bond by the Attorney General of Texas and the approval of certain legal matters by Fulbright & Jaworski LLP, a member of Norton Rose Fulbright, Houston, Texas, Bond Counsel. Delivery of the Bonds is expected through the facilities of DTC on or about December 17, 2014 in Austin, Texas.

**MATURITIES**  
(Due September 1)

Due	Principal Amount	Interest Rate <sup>(a)</sup>	Initial Reoffering Yield <sup>(b)</sup>	CUSIP Number <sup>(c)</sup>	Due	Principal Amount	Interest Rate <sup>(a)</sup>	Initial Reoffering Yield <sup>(b)</sup>	CUSIP Number <sup>(c)</sup>
2016	\$ 5,000	3.000%	1.100%	413919JM4	2029 *	\$ 300,000	3.250%	3.200%	413919KA8
2017	5,000	3.000%	1.400%	413919JN2	2030 *	500,000	3.250%	3.300%	413919KB6
2018	5,000	3.000%	1.700%	413919JP7	2031 *	1,000,000	3.250%	3.350%	413919KC4
2019	5,000	3.000%	2.000%	413919JQ5	2032 *	2,000,000	3.250%	3.400%	413919KD2
2020	5,000	3.000%	2.350%	413919JR3	2033 *	2,000,000	3.500%	3.500%	413919KE0
2021	5,000	3.000%	2.600%	413919JS1	2034 *	2,100,000	3.625%	3.625%	413919KF7
2025 *	150,000	3.250%	2.800%	413919JW2					
<p style="text-align: center;">\$110,000 3.000%<sup>(a)</sup> Term Bond Due September 1, 2024* Yield<sup>(b)</sup> 2.700% CUSIP # 413919JV4<sup>(c)</sup>  \$675,000 3.250%<sup>(a)</sup> Term Bond Due September 1, 2028* Yield<sup>(b)</sup> 3.150% CUSIP # 413919JZ5<sup>(c)</sup></p>									

- \* Redemption Provisions: The District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those Bonds maturing on and after September 1, 2024 in whole or from time to time in part, on September 1, 2021, or on any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date fixed for redemption. The Bonds maturing September 1, 2024 and September 1, 2028 (the "Term Bonds") are also subject to mandatory sinking fund redemption. See "THE BONDS - Redemption."
- (a) After requesting competitive bids for purchase of the Bonds, the District has accepted the lowest bid to purchase the Bonds, bearing interest as shown, at a price of 97.894% of par plus accrued interest to the date of delivery, resulting in a net effective interest rate to the District of 3.529400%.
- (b) The initial reoffering yields indicated represent the lower of the yields resulting when priced to maturity or the first redemption date. The initial yields at which the Bonds will be priced will be established by and will be the sole responsibility of the Initial Purchaser (as herein defined). The yields may be changed at any time at the discretion of the Initial Purchaser. Accrued interest from December 1, 2014 to the date of delivery of the Bonds to the Initial Purchaser is to be added to the purchase price.
- (c) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the Initial Purchaser, the District, nor the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

**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 C - 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 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.

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

All of the summaries of the statutes, resolutions, contracts, records, and engineering and other related reports set forth in the 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 Fulbright & Jaworski LLP, a member of Norton Rose Fulbright, 1301 McKinney, 47th Floor, Houston, Texas 77010.

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 affairs of the District or the other matters described herein since the date hereof. However, the District has agreed to keep this "Official Statement" current by amendment or sticker to reflect material changes in the affairs of the District, and to the extent that information actually comes to its attention, other matters described in the "Official Statement" until delivery of the Bonds to the Underwriter and thereafter only as specified in "OFFICIAL STATEMENT -Updating the Official Statement During Underwriting Period" and "CONTINUING DISCLOSURE OF INFORMATION."

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

### **Initial Purchaser**

After requesting competitive bids for the Bonds, the District accepted the bid resulting in the lowest net effective interest rate, which bid was tendered by Raymond James & Associates, Inc. (the "Initial Purchaser" or the "Underwriter") bearing the lowest interest rates shown on the inside cover page hereof, at a price of 97.894%, of the par value thereof plus accrued interest to the date of delivery which resulted in a net effective interest rate of 3.529400%, as calculated pursuant to Texas Government Code Chapter 1204, as amended (the "IBA" method).

### **Issue Price Certificate**

The delivery of the Bonds is conditioned upon the receipt by the District of a certificate executed and delivered by the Initial Purchaser on or before the date of delivery of the Bonds stating the 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 Initial Purchaser regarding the reoffering yields or prices of the Bonds. Information concerning reoffering yields or prices is the responsibility of the Initial Purchaser.

### **Prices and Marketability**

The prices and other terms with respect to the offering and sale of the Bonds may be changed from time to time by the Initial Purchaser after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial 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 utility district bonds may be greater than the difference between the bid and asked price of bonds of comparable maturity and quality issued by more traditional municipal entities, as bonds of such entities are more generally bought, sold or traded in the secondary market.

## **Securities Laws**

No registration statement relating to the offer and sale of the Bonds has been filed with the 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 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 jurisdiction.

## **MUNICIPAL BOND RATINGS AND INSURANCE**

Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") is expected to assign a rating of "AA" (stable outlook) to the Bonds, as a result of a municipal bond insurance policy issued by Build America Mutual Assurance Company ("BAM" or the "Insurer") at the time of delivery of the Bonds. Additionally, Moody's Investors Service, Inc. ("Moody's") has assigned an underlying rating of "A1" to the Bonds.

An explanation of the significance of a rating may be obtained from the company furnishing the rating. The rating reflects only the respective view of such company, and the District makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company, if, in the judgment of such company, circumstances warrant. Any such downward revision or withdrawal of such rating may have an adverse effect of the market price of the Bonds.

## **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 appendix 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 Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"). An explanation of the significance of the rating and current reports may be obtained from S&P at [www.standardandpoors.com](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 September 30, 2014 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$492.2 million, \$38.0 million and \$454.2 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/creditinsights/](http://buildamerica.com/creditinsights/).

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

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

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

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## OFFICIAL STATEMENT SUMMARY

The following material is qualified in its entirety by the more detailed information and financial statements appearing elsewhere in this Official Statement. The offering of the Bonds to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this summary from this Official Statement or to otherwise use it without the entire Official Statement.

### THE DISTRICT

The Issuer.....	Harris County Municipal Utility District No. 153 (the "District") was created on September 23, 1977 by the Texas Water Commission, predecessor to the Texas Commission on Environmental Quality ("TCEQ"), and operates as a municipal utility district pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code, as amended. The District is subject to the continuing supervision of the TCEQ. See "THE DISTRICT - General."
Location.....	The District, a political subdivision of the State of Texas, is located approximately 25 miles northeast of the central business district of Houston and lies approximately 7 miles east of the intersection of Farm-to-Market 1960 ("FM 1960") and U.S. Highway 59 ("U.S. 59"). The District lies entirely within the extraterritorial jurisdiction of the City of Houston and consists of approximately 976 acres. See "THE DISTRICT - Location."
Status of Development.....	Of the approximate 976 acres encompassed by the District, approximately 896 acres are developable. Development of the District commenced in 1982; and as of November 1, 2014, 99% of the developable acreage within the District had been developed with utility facilities. The District is being developed as a mixed-use development, and as of November 1, 2014 development included ten single family residential subdivisions, multifamily, office, commercial, retail, medical, schools and churches. The single family residential development includes 2,683 developed single family lots, 2,412 single family homes completed (with multiple homes constructed on multiple lots) and/or under construction and 80 developed vacant single family lots. Multifamily development consists of the Sunrise at Atascocita Apartment complex (144 apartment units – 91% occupied.) Office development includes the Atascocita Office Park encompassing the Bank of America bank building (45,943 square feet), and the Atascocita Kingwood Professional Plaza containing three office buildings encompassing approximately 15,000 square feet each. Office development along West Lake Houston Parkway, south of FM 1960 includes four office buildings on approximately 10 acres. Commercial development includes a Mini Storage consisting of 400 storage units located on 7.5 acres and X L Parts. Retail development includes an 110,000 square foot shopping center consisting of 8 retail outlets. Also located within the District are a Whataburger restaurant, Community Bank, two schools, three churches, a fire station, a hotel, and amenity improvements. See "THE DISTRICT – Status of Development of the District."

### THE BONDS

Description.....	The Bonds in the aggregate principal amount of \$8,865,000 mature serially in varying amounts on September 1 of each year from 2016 through 2021, 2025 and 2029 through 2034, and as Term Bonds which mature September 1, 2024 and September 1, 2028, as set forth on the inside cover page hereof. Interest accrues from December 1, 2014 at the rates per annum set forth on the inside cover page hereof and is payable March 1, 2015 and each September 1 and March 1 thereafter until maturity or earlier redemption. The Bonds are offered in fully registered form in integral multiples of \$5,000 for any one maturity. See "THE BONDS - General Description."
Redemption.....	The District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those Bonds maturing on and after September 1, 2024, in whole or from time to time in part, on September 1, 2021, or on any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date fixed for redemption. The Bonds designated as Term Bonds maturing September 1, 2024 and September 1, 2028 are also subject to mandatory sinking fund redemption. See "THE BONDS - Redemption."

Source of Payment.....	Principal of and interest on the Bonds are payable from the proceeds of a continuing direct annual ad valorem tax levied upon all taxable property within the District, which under Texas law is not limited as to rate or amount. The Bonds are obligations solely of Harris County Municipal Utility District No. 153 and are not obligations of the City of Houston, Texas; Harris County, Texas; the State of Texas; or any entity other than the District. See "THE BONDS - Source of and Security for Payment."
Payment Record.....	The District has never defaulted in the timely payment of principal of or interest on its outstanding obligations. See "FINANCIAL STATEMENT - Outstanding Bonds."
Authority for Issuance .....	The Bonds are the eighth installment of new money bonds issued by the District. At elections held within the District on July 16, 1983 and November 7, 2006, the voters within the District approved the issuance of \$70,070,000 in bonds for water, wastewater and drainage facilities. After the sale of the Bonds, the District will have \$29,265,000 remaining in authorized but unissued bonds. Additionally, the District may issue refunding bonds which increase the principal amount of the outstanding bonds. See "FINANCIAL STATEMENT - Bonds Authorized But Unissued".
Use of Proceeds.....	Proceeds from the sale of the Bonds will be used to finance: (i) Clearing and site preparation for Waterhaven; (ii) storm water pollution prevention services serving Waterhaven, Phase 1; (iii) District's pro rata share of off-site water and wastewater facilities to serve annexation tracts; (iv) District's pro rata share of Harris County Municipal Utility District ("MUD") 152/153 lift station expansion; (v) District's pro rata share of lift station no. 4; (vi) District's pro rata share of water plant no. 1 ground storage tank replacement; (vii) District's pro rata share of water plant no. 2, phase 1; and (viii) water, wastewater and drainage facilities serving Waterhaven, Phase 1. In addition, proceeds of the Bonds will be used to pay certain engineering costs, twenty-four months' capitalized interest and pay certain costs associated with the issuance of the Bonds. See "USE AND DISTRIBUTION OF BOND PROCEEDS."
Tax Exemption.....	In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "TAX MATTERS – Tax Exemption" herein. See "TAX MATTERS – Tax Exemption" for a discussion of the opinion of Bond Counsel, including the alternative minimum tax consequences for corporations.
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 has represented that the total amount of tax-exempt obligations (including the Bonds) issued by it during calendar year 2014 is not reasonably expected to exceed \$10,000,000. See "TAX MATTERS - Qualified Tax-Exempt Obligations for Financial Institutions."
Municipal Bond Rating and Insurance .....	Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") is expected to assign a rating of "AA" (stable outlook) to the Bonds, as a result of a municipal bond insurance policy issued by Build America Mutual Assurance Company ("BAM" or the "Insurer") at the time of delivery of the Bonds. Additionally, Moody's Investors Service, Inc. ("Moody's") has assigned an underlying rating of "A1" to the Bonds.
Bond Counsel.....	Fulbright & Jaworski LLP, a member of Norton Rose Fulbright, Houston, Texas.
Financial Advisor.....	Public Finance Group LLC, Austin, Texas.
Engineer.....	Brown & Gay Engineers, Inc., Houston, Texas.
Paying Agent/Registrar .....	BOKF, N.A., dba Bank of Texas, Austin, Texas.



## **INVESTMENT CONSIDERATIONS**

The purchase and ownership of the Bonds involve certain investment considerations and all prospective purchasers are urged to examine carefully the Official Statement, including particularly the section captioned "INVESTMENT CONSIDERATIONS," with respect to the investment security of the Bonds.

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# **SELECTED FINANCIAL INFORMATION**

(Unaudited as of November 1, 2014)

2013 Certified Assessed Valuation		\$473,362,115	(a)
2014 Certified Assessed Valuation		\$504,329,318	(b)
Gross Debt Outstanding (after issuance of the Bonds)		\$ 26,020,000	(c)
Ratio of Gross Debt to 2013 Certified Assessed Valuation		5.50%	
Ratio of Gross Debt to 2014 Certified Assessed Valuation		5.16%	
2014 Tax Rate			
	Debt Service	\$ 0.4310	
	Maintenance	<u>0.0290</u>	
<b>Total 2014 Tax Rate</b>		<u><b>\$ 0.4600</b></u>	(d)
Debt Service Fund Balance (as of October 15, 2014)		\$ 532,446	(e)
Percentage of current tax collections (Tax Years 1998-2013)		97.41%	(f)
Percentage of total tax collections (Tax Years 1998-2013)		99.91%	(f)
Average Annual Debt Service Requirement of the Bonds and Outstanding Bonds ("Average Requirement") (2014-2034, inclusive)		\$ 1,802,237	
Tax Rate required to pay Average Requirement based upon 2013 Certified Assessed Valuation at 95% collections		\$ 0.41	/ \$100 AV
Tax Rate required to pay Average Requirement based upon 2014 Certified Assessed Valuation at 95% collections		\$ 0.38	/ \$100 AV
Maximum Annual Debt Service Requirement of the Bonds and Outstanding Bonds ("Maximum Requirement") (2015)		\$ 2,252,241	
Tax Rate required to pay Maximum Requirement based upon 2013 Certified Assessed Valuation at 95% collections		\$ 0.51	/ \$100 AV
Tax Rate required to pay Maximum Requirement based upon 2014 Certified Assessed Valuation at 95% collections		\$ 0.48	/ \$100 AV
Number of active connections as of September 22, 2014			
Single Family - Occupied		2,441	
Single Family - Unoccupied		36	
Builder		26	
Multi-Family (144 total apartment units/131 units occupied)		1	
Commercial		35	
Other (Irrigation)		<u>39</u>	
Total Number of Active Connections		2,578	
Estimated Population as of September 22, 2014		8,871	(g)

- (a) Certified assessed valuation of the District as of January 1, 2013 as provided by the Harris County Appraisal District ("HCAD"). See "TAXING PROCEDURES."
- (b) Certified assessed valuation of the District as of January 1, 2014, as provided by HCAD. See "TAXING PROCEDURES."
- (c) Includes the Bonds.
- (d) The District levied a 2014 tax rate of \$0.46 in October 2014.
- (e) Unaudited as of October 15, 2014. Does not contain approximately twenty-four months' capitalized interest included in the Bond proceeds (\$625,763) to be deposited into the Debt Service Fund upon closing. Neither Texas law nor the Bond Order requires the District to maintain any particular sum in the debt service fund.
- (f) See "TAX DATA – Tax Collections."
- (g) Based upon 3.5 residents per occupied single family home and 2.5 residents per occupied multi-family unit at 91% occupancy rate (131 multi-family units are occupied out of 144 total multi-family units).

## **OFFICIAL STATEMENT**

**Relating to**

**\$8,865,000**

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153**  
**(A political subdivision located within Harris County, Texas)**

**Unlimited Tax Bonds, Series 2014**

### **INTRODUCTION**

This Official Statement provides certain information with respect to the issuance by Harris County Municipal Utility District No. 153 (the "District") of its Unlimited Tax Bonds, Series 2014 (the "Bonds"). The Bonds are issued by an order (the "Bond Order") adopted by the Board of Directors of the District, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, and an order of the Texas Commission on Environmental Quality (the "TCEQ").

Included in this Official Statement are descriptions of the Bonds and the Bond Order. ALL DESCRIPTIONS OF DOCUMENTS CONTAINED HEREIN ARE SUMMARIES ONLY AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO EACH SUCH DOCUMENT. Copies of such documents may be obtained from the District, c/o Fulbright & Jaworski LLP, a member of Norton Rose Fulbright, 1301 McKinney, 51<sup>st</sup> Floor, Houston, Texas 77010 upon payment of duplication costs.

### **THE BONDS**

#### **General Description**

The \$8,865,000 Harris County Municipal Utility District No. 153 Unlimited Tax Bonds, Series 2014 will mature on September 1 of the years and in the principal amounts, and will bear interest at the rates per annum, set forth on the inside cover page hereof.

Interest on the Bonds will accrue from December 1, 2014 and is payable March 1, 2015, and each September 1 and March 1 thereafter until the earlier of maturity or redemption, and will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds will be issued in fully registered form only, without coupons, in denominations of \$5,000 or any integral multiple thereof. The initial paying agent/registrar for the Bonds shall be BOKF, N.A., dba Bank of Texas, Austin, Texas ("Paying Agent/Registrar"). The principal of and interest on the Bonds shall be payable without exchange or collection charges, in any coin or currency of the United States of America which, on the date of payment, is legal tender for the payment of debt due the United States of America. Interest on the Bonds (except for interest paid as part of the Redemption Price) which is payable, and which is paid on duly provided for on or within 10 days after any interest payment date shall be paid to the person to whom the Bond is registered on the bond register (the "Register") kept by the Paying Agent/Registrar at the close of business on the 15th calendar day of the month immediately preceding each interest payment date (the "Record Date"). All payments of interest shall be by check mailed, first-class postage prepaid, to the person entitled hereto at such person's address as it appears on the Register, or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and such person at the risk and expense of such person.

If the specified date for any payment of principal (or Redemption Price) of or interest on the Bonds is a Saturday, Sunday, or legal holiday or equivalent (other than a moratorium) for banking institutions generally in the city in which the Place of Payment is located, such payment may be made on the next succeeding day 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 payment.

Initially, the Bonds will be registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. No physical delivery of the Bonds will be made to the beneficial owners. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will distribute the amounts paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "BOOK-ENTRY- ONLY SYSTEM."

## Redemption

**Optional Redemption** . . . The District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those Bonds maturing on and after September 1, 2024, in whole or from time to time in part, on September 1, 2021, or on any date thereafter at a price of par plus accrued interest, if any, from the most recent interest payment date to the date fixed for redemption. Optional redemption of Bonds may be conditional on issuance of refunding bonds or other obligations to pay the Redemption Price.

**Mandatory Sinking Fund Redemption** . . . In addition to being subject to optional redemption, as provided above, the Bonds maturing on September 1, 2024 and September 1, 2028 are subject to mandatory sinking fund redemption prior to maturity by lot in the following amounts, on the following dates and at a price of par plus accrued interest to the redemption date from amounts required to be deposited in the Debt Service Fund:

<b>\$110,000 Term Bond Maturing September 1, 2024</b>		<b>\$675,000 Term Bond Maturing September 1, 2028</b>	
Mandatory Redemption	Principal	Mandatory Redemption	Principal
<u>Date</u>	<u>Amount</u>	<u>Date</u>	<u>Amount</u>
2022	\$ 5,000	2026	\$ 200,000
2023	5,000	2027	225,000
2024*	100,000	2028*	250,000

\* Stated Maturity

The principal amount of the Bonds required to be redeemed pursuant to the operation of the mandatory sinking fund redemption provisions shall be reduced, at the option of the District, by the principal amount of any Bonds of the stated maturity which, at least 50 days prior to a mandatory redemption date: (1) shall have been acquired by the District, at a price not exceeding the principal amount of such Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent for cancellation, (2) shall have been purchased and cancelled by the Paying Agent at the request of the District, with monies in the Debt Service Fund at a price not exceeding the principal amount of the Bonds plus accrued interest to the date of purchase thereof, or (3) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory sinking fund redemption requirement.

**Notice of Redemption** . . . At least 30 calendar days prior to the date fixed for any redemption of Bonds or portions thereof prior to maturity a written notice of such redemption shall be sent by the Paying Agent by United States mail, first-class postage prepaid, at least 30 calendar days prior to the date fixed for redemption, to the registered owner of each Bond to be redeemed at its address as it appeared on the 45th calendar day prior to such redemption date and to major securities depositories and bond information services.

The Bonds of a denomination larger than \$5,000 may be redeemed in part (\$5,000 or any multiple thereof). Any Bond to be partially redeemed must be surrendered in exchange for one or more new Bonds of the same maturity for the unredeemed portion of the principal of the Bonds so surrendered. In the event of redemption of less than all of the Bonds, the particular Bonds to be redeemed shall be selected by the District, if less than all of the Bonds of a particular maturity are to be redeemed; the Paying Agent is required to select the Bonds of such maturity to be redeemed by lot.

### Termination of Book-Entry-Only System

In the event that the Book-Entry-Only System is discontinued by DTC or the District, the following provisions will be applicable to the Bonds. See "BOOK-ENTRY-ONLY SYSTEM".

**Payment** . . . The principal and Redemption Price of the Bonds is payable upon surrender at the Paying Agent/Registrar. If the specified date for any payment of principal (or Redemption Price) of or interest on the Bonds shall be a Saturday, Sunday, or legal holiday or equivalent (other than a moratorium) for banking institutions generally for the Paying Agent/Registrar, such payment may be made on the next succeeding day 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 payment.

Interest on any Bond which is payable, and which is paid or duly provided for on or within 10 days after, any Interest Payment Date shall be paid to the Person in whose name such Bond (or one or more Predecessor Bonds) is registered at the close of

business on the Regular Record Date therefor. Any interest on any Bond which is payable on, but is not paid or duly provided for on or within 10 days after, any Interest Payment Date (herein referred to as "Defaulted Interest") shall forthwith cease to be payable to the Holder on the relevant Regular Record Date solely by virtue of such Holder having been such Holder; and such Defaulted Interest shall be paid to the Person in whose name such Bond (or one or more respective Predecessor Bonds) is registered at the close of business on a special record date (the "Special Record Date") for the payment of such Defaulted Interest. The Regular Record Date for the Bonds is the interest the 15th day (whether or not a business day) of the calendar month next preceding such Interest Payment Date.

If the specified date for any payment of principal (or Redemption Price) of 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 the Place of Payment, such payment may be made on the next succeeding day 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 payment.

**Registration.** . . Upon surrender for transfer of any Bond at the Place of Payment, the District will execute, and the Paying Agent/Registrar will register and deliver, in the name of the designated transferee or transferees, one or more new Bonds of the same Stated Maturity, of any authorized denominations, and of a like aggregate principal amount. New Bonds registered, and delivered in an exchange or transfer will be delivered by the Paying Agent/Registrar at the Place of Payment or sent by United States mail at the Registered Owner's written request, risk, and expense.

At the option of the Registered Owner, Bonds may be exchanged for other Bonds of the same Stated Maturity, of any authorized denominations, and of like aggregate principal amount, upon surrender of the Bonds to be exchanged at the Place of Payment. Whenever any Bonds are so surrendered for exchange, the District will execute, and the Paying Agent/Registrar will register and deliver, the Bonds which the Registered Owner of Bonds making the exchange is entitled to receive.

Every Bond presented or surrendered for transfer or exchange must be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Paying Agent/Registrar duly executed, by the Registered Owner thereof or his attorney duly authorized in writing.

No service charge may be made to the Registered Owner 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 other governmental charge that may be imposed in connection with any transfer or exchange of Bonds.

Neither the District nor the Paying Agent/Registrar is required (1) to transfer or exchange any Bond during a period beginning 45 days prior to a Redemption Date hereunder and ending at the close of business on the day of mailing of a notice of redemption or (2) thereafter to transfer or exchange in whole or in part any Bond so selected for redemption.

#### **Authority for Issuance**

At elections held within the District on July 16, 1983 and November 7, 2006, the voters of the District authorized the issuance of a total of \$70,070,000 principal amount of unlimited tax bonds for the purpose of financing water, sanitary sewer, and drainage facilities. The Bonds constitute the eighth installment of new money bonds issued pursuant to such authorization. After the issuance of the Bonds, \$29,265,000 will remain authorized but unissued for water, sewer and drainage purposes. In addition, the District may issue refunding bonds which increase the principle amount of its outstanding bonds.

The Bonds are issued by the District pursuant to the terms and provisions of the Bond Order; Article XVI, Section 59 of the Texas Constitution; Chapters 49 and 54 of the Texas Water Code, as amended; and an order of the TCEQ.

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

For each year while any Bond is Outstanding and the District remains in existence the District must assess a continuing direct annual ad valorem tax upon each \$100 valuation of taxable property within the District at a rate from year to year sufficient, full allowance being made for anticipated delinquencies, together with revenues and receipts from other sources which are legally available for such purposes, (1) to pay interest on the Bonds as it becomes due, (2) to provide for the payment of the principal of the Bonds when due or the Redemption Price at any earlier required Redemption Date, and (3) to pay the expenses of assessing and collecting such tax.

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

## **Payment Record**

The District has previously issued seven series of new money bonds consisting of: \$7,900,000 Unlimited Tax Bonds, Series 1985; \$4,500,000 Unlimited Tax Bonds, Series 1985A; \$1,550,000 Unlimited Tax Bonds, Series 2001; \$3,310,000 Unlimited Tax Bonds, Series 2003; \$7,650,000 Unlimited Tax Bonds, Series 2004A; \$3,430,000 Unlimited Tax Bonds, Series 2007; and \$3,600,000 Unlimited Tax Bonds, Series 2011. Additionally, the District has previously issued four installments of refunding bonds consisting of: \$11,040,000 Unlimited Tax Refunding Bonds, Series 1997; \$8,220,000 Unlimited Tax Refunding Bonds, Series 2004; \$13,140,000 Unlimited Tax Refunding Bonds, Series 2010; and \$3,085,000 Unlimited Tax Refunding Bonds, Series 2013 (collectively, the "Outstanding Bonds"). The District has not defaulted in the payment of the principal of or interest on the Outstanding Bonds.

## **Flow of Funds**

To provide for the payment of the principal (and Redemption Price) of, interest on, and Paying Agent fees in respect of the Bonds, the District shall maintain a Bond Fund on its books of account as part of its interest and sinking fund. The District shall credit to the Bond Fund all receipts of taxes (and penalty and interest thereon) net of collection costs levied to provide for the payment of principal of and interest on (or fees and expenses of the Paying Agent with respect to) the Bonds, and any other funds of the District deposited to the Bond Fund to pay principal (or Redemption Price) of or interest on the Bonds.

While the Bonds are Outstanding, the Bond Fund shall be used solely to pay principal and Redemption Price of and interest on the Bonds and Paying Agent fees and expenses with respect to the Bonds.

## **Defeasance of Outstanding Bonds**

The Bonds or any principal amount(s) thereof are deemed paid when (i) money sufficient to pay in full such Bonds or the principal amount(s) thereof at each Stated Maturity or (if notice of redemption has been duly given, irrevocably provided for, or waived as provided herein) to the Redemption Date, together with all interest due thereon, is irrevocably deposited with and held in trust by the Paying Agent/Registrar or an authorized escrow agent, or (ii) Governmental Obligations are irrevocably deposited in trust with the Paying Agent/Registrar or an authorized escrow agent, which Governmental Obligations are certified by an independent accounting firm to mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money, together with any moneys deposited therewith, if any, to pay when due the principal of and interest on such Bonds on and prior to the Stated Maturity thereof. The District covenants that no deposit of moneys or Governmental Securities will be made under this Section and no use made of any such deposit which would cause the Bonds to be treated as "arbitrage bonds" within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended, or regulations adopted pursuant thereto.

If such deposit is made with respect to some but not all of the Bonds then Outstanding, the District will designate the Stated Maturities of Bonds with respect to which such deposit is made. If such deposit is sufficient to provide for the payment of the principal of and interest on some but not all Outstanding Bonds of a particular Stated Maturity so designated, the Paying Agent/Registrar will select the Outstanding Bonds of such Stated Maturity with respect to which such deposit is made by such random method as the Paying Agent/Registrar deems fair and appropriate and which may provide for the selection of portions (equal to and leaving unredeemed an authorized denomination) of Bonds a denomination larger than \$5,000.

"Governmental Obligations" means (1) direct obligations of, or obligations the timely payment of the principal of and interest on which are fully and unconditionally guaranteed by, the United States of America, or (2) obligations authorized under Texas law from time to time for discharge and final payment of political or governmental subdivisions which, at the time of deposit have been assigned ratings in the highest rating category of either Moody's Investors Service or Standard & Poor's, or any successor to the bond operations of either of such corporations, but in the case of both Clauses (1) and (2) only if such obligations may not be called for redemption prior to maturity.

## **Paying Agent/Registrar**

The District reserves the right in the Order to remove the Paying Agent/Registrar without cause. Every successor Paying Agent/Registrar must at all times be a commercial bank or trust company organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least \$10,000,000, subject to supervision or examination by federal or state authority, registered as a transfer agent with the Securities and Exchange Commission. Upon any change in the Paying Agent/Registrar, the District

agrees to promptly cause a written notice thereof to be sent to each Registered Owner affected by the change, which notice shall also give the address of the new Paying Agent/Registrar, which shall be the designated Place of Payment.

### **Record Date**

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

### **Issuance of Additional Debt**

The District may issue additional bonds, with the approval of the TCEQ and if necessary the voters of the District, as necessary to provide and maintain improvements and facilities consistent with the purposes for which the District was created. See "THE DISTRICT – General." The District's voters have authorized the issuance of a total of \$70,070,000 in bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities of which \$29,265,000 will remain authorized but unissued after the issuance of the Bonds.

Under Texas Law, the District may issue bonds to refund outstanding unlimited tax bonds in an amount not exceeding the principal amount of the refunded bonds (ignoring premiums which may be required to accomplish the refunding.) In addition, the District has voted authority to exceed such principal amount without decreasing the voted amount of its bonds for water, wastewater, and drainage facilities. See "FINANCIAL STATEMENT – Unlimited Tax Bonds Authorized But Unissued."

Subject to voter approval and the approval of the TCEQ, the District may issue bonds payable from ad valorem taxes to pay for the development and maintenance of park and recreational facilities (other than swimming pools and golf courses).

Neither Texas law nor the Bond Order imposes a limitation on the amount of additional indebtedness which may be issued by the District. Any additional indebtedness issued by the District may dilute the security of the Bonds. See "INVESTMENT CONSIDERATIONS."

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

If (1) any mutilated Bond is surrendered to the Paying Agent/Registrar, or the District and the Paying Agent/Registrar receive evidence to their satisfaction of the destruction, loss, or theft of any Bond, and (2) there is delivered to the District and the Paying Agent/Registrar such security or indemnity as may be required by them to save each of them harmless, then, in the absence of notice to the District or the Paying Agent/Registrar that such Bond has been acquired by a bona fide purchaser, the District shall execute and upon its request the Paying Agent/Registrar shall authenticate and deliver, in exchange for or in lieu of any such mutilated, destroyed, lost, or stolen Bond, a new Bond of the same Stated Maturity and of like tenor and principal amount, bearing a number not contemporaneously outstanding.

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

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

"(a) All bonds, notes and other obligations issue by a district shall be legal and authorized investments for all banks, trust companies, building and loan associations, savings and loan associations, insurance companies of all kinds and types, fiduciaries, and trustees and for all interest and sinking funds and other public funds of the state, and all agencies, subdivisions, and instrumentalities of the state, including all counties, cities, towns, villages, school districts and all other kinds and types of districts, public agencies, and bodies politic."

"(b) A district's bonds, notes and other obligations are eligible and lawful security for all deposits of public funds of the state, and all agencies, subdivisions, and instrumentalities of the state, including all counties, cities, towns, villages, school districts, and all other kinds and types of districts, public agencies, and bodies politic, to the extent of the market value of the bonds, notes, and other obligations when accompanied by any unmatured coupons attached to them."

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

The District has not reviewed the laws in other states to determine whether the Bonds are legal investments for various institutions in those states or eligible to serve as collateral for public funds in those states. The District has made no investigation of any other laws, rules, regulations or investment criteria that might affect the suitability of the Bonds for any of the above purposes or limit the authority of any of the above persons or entities to purchase or invest in the Bonds.

## **Tax Covenants**

In the Bond Order the District has covenanted with respect to, among other matters, the use of the proceeds of the Bonds and the facilities financed therewith and the manner in which the proceeds of the Bonds are to be invested. The District may cease to comply with any such covenant if it has received a written opinion of a nationally recognized bond counsel to the effect that failure to comply with such covenant will not adversely affect the exemption from federal income taxation of interest on the Bonds under Section 103 of the Internal Revenue Code of 1986, as amended.

## **Additional Covenants**

The District has additionally covenanted in the Bond Order that it will:

1. To the extent prudent and ordinary for political subdivisions of types and operating properties similar to the District, the District shall maintain its properties in good condition and repair, ordinary wear and tear and obsolescence excepted, and operate such properties in an efficient manner and at a reasonable cost.
2. The District shall maintain insurance on or self insure its properties of a kind and in an amount which usually would be carried by private companies operating similar properties and engaged in a similar type of business, but considering any governmental immunities to which the District may be entitled.
3. The District shall obtain and comply with the terms and conditions of all franchises, permits, and authorizations obtained from any other governmental agency applicable to or necessary with respect to its properties and shall keep all such franchises, permits, and authorizations in full force and effect.
4. The District shall not mortgage or otherwise encumber the facilities for which the Bonds were issued, or any part thereof, or sell, lease, or otherwise dispose of any substantial portion of such facilities unless in order to cooperate with other political subdivisions or entities to provide for a regional waste disposal or water supply system.

## **Remedies in Event of Default**

The Bond Order provides that, in addition to all other rights and remedies of any owner of Bonds provided by the laws of the State of Texas, in the event the District defaults in the observance or performance of any covenant, condition, or obligation in the Bond Order including payment when due of the principal of and interest on the Bonds, any Bond owner may apply for a writ of mandamus from a court of competent jurisdiction requiring the Board of Directors or other officers of the District to observe or perform such covenants, conditions, or obligations.

The Bond Order provides no additional remedies to a Bond owner. Specifically, the Bond Order does not provide for an appointment of a trustee to protect and enforce the interests of the Bond 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 is a remedy, which may have to be enforced from year to year by the Bond owners.

Texas lower courts have disagreed as to whether statutory language authorizing the District to sue and be sued does not waive the District's sovereign immunity to suit. Under Texas law, no judgment obtained against the District may be enforced by execution of a levy against the District's public purpose property. The Bond owners themselves cannot foreclose on property within the District or sell property within the District in order to pay principal of or interest on the Bonds. In addition, the enforceability of the rights and remedies of the Bond owners may be limited by federal bankruptcy laws or other similar laws affecting the rights of creditors of political subdivisions.

## **Consolidation**

A district (such as the District) has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its water and wastewater systems with the water and wastewater system(s) of the district(s) with which it is consolidating. The revenues of the consolidated system may be pledged equally to all first lien bonds of the consolidating districts. No representation is made that the District will consolidate its water and wastewater system with any other district.



## **Annexation**

The District lies entirely within the extraterritorial jurisdiction of the City of Houston, Texas (“Houston” or the “City”). Under Texas law, the District may be annexed by the City without the District’s consent. Upon annexation, the City would assume the District’s assets and obligations, including the Bonds, and dissolve the District.

In 2005, the District entered into a strategic partnership agreement with the City pursuant to Section 43.0751, Texas Local Government Code, whereby the commercial portion of the District was annexed into the City for limited purposes, while the balance of the District remains in the City’s extraterritorial jurisdiction. As a result of the agreement, the City imposes its one percent sales and use taxes (but not its property taxes) within the area of limited purpose annexation, and remits one-half of the City’s sales and use tax receipts collected within the District to the District to be used for any lawful District purpose. In addition, for the 30-year term of the agreement, the City agrees not to annex the District for general purposes, thus delaying for at least 30 years any dissolution of the District and assumption of its assets and liabilities by the City. The City and the District may amend the strategic partnership agreement at any time. Funds to be received by the City under the agreement are not pledged to the payment of the Bonds.

## **Alteration of Boundaries**

In certain circumstances under State law, the District may alter its boundaries to, upon satisfying certain conditions to deannex and then annex additional territory. No representation is made concerning the likelihood that the District would effect any further change in its boundaries.

## **Approval of the Bonds**

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

## **Amendments to Bond Order**

The District may, without the consent of or notice to any Bondholder, from time to time and at any time amend the Bond Order in any manner not detrimental to the interests of the Holders of the Bonds, including the curing of any ambiguity, inconsistency, or formal defect or omission herein or therein. In addition, the District may, with the written consent of the Holders 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 *except* that, notwithstanding the foregoing, without the consent of the Holders of all of the affected Outstanding Bonds, no such amendment, addition, or rescission shall (1) change the Stated Maturity of the Bonds or any installment of interest thereon, reduce the principal amount thereof, the Redemption Price therefor, or the rate of interest thereon, change the place or places at, or the coin or currency in, which any Bond or the interest thereon is payable, or in any other way modify the terms or sources of payment of the principal of or interest on the Bonds, (2) give any preference to any Bond over any other Bond, (3) modify the provisions of the proviso to the definition of the term “Outstanding”, or (4) modify any of the provisions of this Section, except to increase the percentage provided hereby or to provide that certain other provisions of the Bond Order cannot be modified or waived.

## **BOOK-ENTRY – ONLY SYSTEM**

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

*The District cannot and does not give any assurance that (i) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participant, (ii) 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 (iii) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.*

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered Bonds 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 Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC’s MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

All 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 the 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 Bonds 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, the 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, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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 neither the District nor the Financial Advisor take any responsibility for the accuracy thereof.

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## USE AND DISTRIBUTION OF BOND PROCEEDS

Proceeds from the sale of the Bonds will be used to finance: (i) Clearing and site preparation for Waterhaven; (ii) storm water pollution prevention services serving Waterhaven, Phase 1; (iii) District's pro rata share of off-site water and wastewater facilities to serve annexation tracts; (iv) District's pro rata share of Harris County Municipal Utility District ("MUD") 152/153 lift station expansion; (v) District's pro rata share of lift station no. 4; (vi) District's pro rata share of water plant no. 1 ground storage tank replacement; (vii) District's pro rata share of water plant no. 2, phase 1; and (viii) water, wastewater and drainage facilities serving Waterhaven, Phase 1. In addition, proceeds of the Bonds will be used to pay certain engineering costs, twenty-four months' capitalized interest and pay certain costs associated with the issuance of the Bonds.

The use and distribution of Bond proceeds is set forth below. Of the proceeds to be received from the sale of the Bonds, \$7,090,604 is required for construction costs, and \$1,774,396 is required for non-construction costs, including \$625,763 of capitalized interest (approximately twenty-four months of interest at 3.5294%).

### Construction Costs

#### A. Developer Contribution Items

1. Clearing and Site Preparation for Waterhaven	\$ 21,050
2. Waterhaven, Phase 1 - W, WW, & D	774,677
3. Waterhaven, Phase 1 - SWPPP Services	27,596
4. Engineering (17.58% of item nos 1 and 2)	139,891
5. Materials Testing	17,878
6. Geotechnical/Environmental Studies	4,817
<b>Total Developer Contribution Items</b>	<b>\$ 985,909</b>

#### B. District Items

1. Offsite Water and Wastewater Facilities to Serve Annexation Tracts	\$ 1,229,577
2. Harris County MUD 152/153 Lift Station Expansion	34,985
3. Lift Station No. 4	215,536
4. Water Plant No. 1 Ground Storage Tank Replacement	518,129
5. Water Plant No. 2, Phase 1	3,493,192
6. Contingencies (5% of item nos 1-5)	274,571
7. Engineering (15.00% of item nos 1-5)	821,855
8. Materials Testing (0.32% of item nos 1, 3, 4, and 5)	17,335
9. Special Engineering Reports (0.19% of item nos 1, 3, and 5)	9,515
<b>Total District Items</b>	<b>\$ 6,614,695</b>

*Less Use of Surplus Operating Funds* (510,000)

**Total Construction Costs \$ 7,090,604**

### Non-Construction Costs

A. Legal fees (2%)	\$ 177,300
B. Financial Advisor Fees (2%)	177,300
C. Interest Costs	
1 Capitalized Interest (24 months @ 3.5294%)	625,763
2 Developer Interest <sup>(a)</sup>	245,643
D. Bond Discount (2.11%)	186,691
E. Bond Issuance Expenses	34,325
F. Bond Application Report Costs	45,000
G. Attorney General Fee (0.10%)	8,865
H. TCEQ Bond Issuance Fee (0.25%)	22,163
I. Contingency <sup>(b)</sup>	251,346
<b>Total Non-Construction Costs</b>	<b>\$ 1,774,396</b>

**TOTAL BOND ISSUE REQUIREMENT \$ 8,865,000**

(a) Preliminary; subject to change. The amount of Developer Interest will be finalized in connection with the reimbursement report approved by the Board of Directors prior to disbursement of funds.

(b) The TCEQ, in its approval of the Bonds, directed any surplus Bond proceeds to be shown as a contingency line item and be subject to the TCEQ rules on use of surplus Bond funds.

## INVESTMENT CONSIDERATIONS

### General

The Bonds, which are obligations of the District and are not obligations of the State, 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, on all taxable property located within the District. See "THE BONDS - Source of and Security for Payment". The ultimate security for payment of 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. The collection by the District of delinquent taxes owed to it and the enforcement by registered owners of the District's obligation to collect sufficient taxes may be a costly and lengthy process. Furthermore, the District cannot and does not make any representations that continued development of property within the District will occur or that the development in the District will maintain taxable values sufficient to justify continued payment by property owners or that there will be a market for the property. See "Registered Owners' Remedies" below.

### Factors Affecting Taxable Values and Tax Payments

*Economic Factors, Interest Rates, Credit Availability and Residential Foreclosures:* A substantial percentage of the taxable value of the District results from the current market value of single-family residences. The market value of such homes and lots is related to general economic conditions affecting the demand for and taxable value of residences. Demand for residential dwellings can be significantly affected by factors such as interest rates, credit availability, construction costs, energy availability and the economic prosperity and demographic characteristics of the urban centers 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 existing values.

Interest rates and the availability of credit, including mortgage and development funding, have a direct impact on the construction activity, particularly short-term interest rates at which the Developer and homebuilders are able to obtain financing for development and construction costs. As a result of increasing foreclosure activity, potential adverse impact on assessed valuations and a general tightening of credit that has resulted, lenders have increased lending requirements for both single family mortgage lending and real estate development lending. Additionally, lenders have been selective in recent years in making real estate development loans in the Houston area because of the negative impact to their real estate portfolios. Interest rate levels and the general availability of credit may affect the ability of a landowner with undeveloped property to undertake and complete development activities within the District and the ability of potential homeowners to purchase homes. Because of the numerous and changing factors affecting the availability of funds, the District is unable to assess the future availability of such funds for continued development and construction within the District. In addition, 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 economics.

*Impact on District Tax Rates:* Assuming no further development or construction of taxable improvements, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of the District property owners to pay their taxes. The 2013 certified assessed valuation of the District is \$473,362,115 (see "FINANCIAL STATEMENT"). After issuance of the Bonds, the Maximum Requirement will be \$2,252,241 (2015) and the Average Requirement will be \$1,802,237 (2015 through 2034, inclusive). Assuming (1) no increase or decrease from the 2013 certified assessed valuation, and (2) no use of funds on hand, a tax rate of \$0.51/\$100 assessed valuation, at a 95% collection rate, would be necessary to pay the Maximum Requirement of \$2,252,241, and a tax rate of \$0.41/\$100 assessed valuation at a 95% collection rate would be necessary to pay the Average Requirement of \$1,802,237. The District's 2014 certified assessed valuation is \$504,329,318. Based upon the assumptions above, a tax rate of \$0.48/\$100 assessed valuation, at a 95% collection and a tax rate of \$0.38/\$100 assessed valuation, at a 95% collection would be necessary to pay the Maximum Requirement and the Average Requirement, respectively. See "DEBT SERVICE REQUIREMENTS SCHEDULE – Table 3" and "TAX DATA - Tax Adequacy for Debt Service."

## **Future and Proposed Legislation**

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under Federal or state law and could affect the market price or marketability of the Bonds. Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

## **Tax Collections and Foreclosure Remedies**

The District has a right to seek judicial foreclosure on a tax lien, but such remedy may prove to be costly and time consuming and, since the future market or resale market, if any, of the taxable real property within the District is uncertain, there can be no assurance that such property could be sold and delinquent taxes paid. Additionally, the District's tax lien is on a parity with the liens of all other State and local taxing authorities on the property against which the taxes are levied. Registered Owners are entitled under Texas law to a writ of mandamus to compel the District to perform its obligations. Such remedy would have to be exercised upon each separate default and may prove costly, time consuming and difficult to enforce. Furthermore, there is no trust indenture or trustee, and all legal actions would have to be taken on the initiative of, and be financed by, Registered Owners to enforce such remedies. The rights and remedies of the Registered Owners and the enforceability of the Bonds may also be limited by bankruptcy, reorganization and other similar laws affecting the enforcement of creditors' rights generally.

## **Registered Owners' Remedies**

Bond owners are entitled under Texas Law to seek a writ of mandamus to compel the District to perform its obligations under the Bond Order. Such remedy would have to be exercised upon each separate default and could prove costly, time-consuming and difficult to enforce. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be taken at the initiative of, and be financed by, Bond owners. The Bond Order does not provide for acceleration of maturity of the Bonds upon any default. Sovereign immunity, public property, bankruptcy, reorganization and other similar laws affecting the enforcement of creditor's rights generally may also limit the rights and remedies of the Bond owners and the enforceability of the Bonds. See "THE BONDS – Remedies in Event of Default."

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

The enforceability of the rights and remedies of Bondholders 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. Texas law requires a municipal utility district such as the District to obtain the approval of the TCEQ as a condition to seeking relief under the Federal Bankruptcy Code.

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 Registered Owners 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.

A district may not be forced into bankruptcy involuntarily.

## **The Effect of the Financial Institutions Act of 1989 on Tax Collections of the District**

The "Financial Institutions Reform, Recovery and Enforcement Act of 1989" ("FIRREA"), enacted on August 9, 1989, contains certain provisions which affect the time for protesting property valuations, the fixing of tax liens, and the collection of penalties and interest on delinquent taxes on real property owned by the Federal Deposit Insurance Corporation ("FDIC") when the FDIC is acting as the conservator or receiver of an insolvent financial institution.

Under FIRREA real property held by the FDIC is still subject to ad valorem taxation, but such act states (i) that no real property of the FDIC shall be subject to foreclosure or sale without the consent of the FDIC and no involuntary liens shall attach to such property, (ii) the FDIC shall not be liable for any penalties or fines, including those arising from the failure to pay any real or personal property tax when due and (iii) notwithstanding failure of a person to challenge an appraisal in accordance with state law, such value shall be determined as of the period for which such tax is imposed.

There has been little judicial determination of the validity of the provisions of FIRREA or how they are to be construed and reconciled with respect to conflicting state laws. However, certain recent federal court decisions have held that the FDIC is not liable for statutory penalties and interest authorized by State property tax law, and that although a lien for taxes may exist against real property, such lien may not be foreclosed without the consent of the FDIC, and no liens for penalties, fines, interest, attorney's fees, costs of abstract and research fees exist against the real property for the failure of the FDIC or a prior property owner to pay ad valorem taxes when due. It is also not known whether the FDIC will attempt to claim the FIRREA exemptions as to the time for contesting valuations and tax assessments made prior to and after the enactment of FIRREA. Accordingly, to the extent that the FIRREA provisions are valid and applicable to any property in the District, and to the extent that the FDIC attempts to enforce the same, these provisions may affect the timeliness of collection of taxes on property, if any, owned by the FDIC in the District, and may prevent the collection of penalties and interest on such taxes.

### **Marketability**

The District has no understanding with the Initial Purchaser regarding the reoffering yields or prices of the Bonds and has no control over trading of the Bonds in the secondary market. Moreover, there is no assurance that a secondary market will be made in the Bonds. If there is a secondary market, the difference between the bid and asked price for the Bonds may be greater than the difference between the bid and asked price of bonds of comparable maturity and quality issued by more traditional issuers as such bonds are more generally bought, sold or traded in the secondary market.

### **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 from the gross income of the owners thereof for federal income tax purposes. See "THE BONDS - Specific Tax Covenants." Failure by the District to comply with such covenants on a continuous basis prior to maturity of the Bonds could result in interest on the Bonds becoming taxable retroactively to the date of original issuance. See "LEGAL MATTERS."

### **Future Debt**

The District has reserved in the Bond Order the right to issue the remaining \$29,265,000 authorized but unissued unlimited tax bonds and such additional bonds as may hereafter be approved by both the Board of Directors and voters of the District. All of the remaining \$29,265,000 unlimited tax bonds which have heretofore been authorized by the voters of the District may be issued by the District from time to time for qualified purposes, as determined by the Board of Directors of the District, subject to the approval of the Attorney General of the State of Texas and the TCEQ. In the opinion of the District's engineer, the remaining authorization should be sufficient to complete build out of the District assuming future development within the District consists primarily of single-family residential improvements and to support the major maintenance and preservation program for the District's existing infrastructure. See "THE SYSTEM".

### **Environmental Regulation**

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

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

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

*Air Quality Issues...* Air quality control measures required by the United States Environmental Protection Agency (the “EPA”) and the Texas Commission on Environmental Quality (“TCEQ”) may impact new industrial, commercial and residential development in Houston and adjacent areas. Under the Clean Air Act (“CAA”) Amendments of 1990, the eight-county Houston- Galveston area (“HGB area”) – Harris, Galveston, Brazoria, Chambers, Fort Bend, Waller, Montgomery and Liberty counties – was designated by the EPA in 2007 as a severe ozone nonattainment area. Such areas are required to demonstrate progress in reducing ozone concentrations each year until the EPA “8-hour” ozone standards are met. In early 2008, both the TCEQ and EPA have taken comments on the submission of a new State Implementation Plan (“SIP”) which would account for the severe classification of the HGB area and propose ways of complying with the goals for attainment – the attainment date for severe nonattainment regions is June 15, 2019. To provide for reductions in ozone concentrations as a result of this classification, the EPA and the TCEQ have imposed increasingly stringent limits on sources of air emissions and require any new source of significant air emissions to provide for a net reduction of air emissions. If the HGB area fails to demonstrate progress in reducing ozone concentrations or fails to meet EPA’s standards, EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects, as well as severe emissions offset requirements on new major sources of air emissions for which construction has not already commenced.

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

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

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

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

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



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

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

### **Bond Insurance Risks**

In the event of default of the payment of principal or interest with respect to the Bonds when all or some becomes due, any owner of the Bonds shall have a claim under the applicable Bond Insurance Policy (the “Policy”) for such payments. However, in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments are to be made in such amounts and at such times as such payments would have been due had there not been any such acceleration. The Policy does not insure against redemption premium, if any. The payment of principal and interest in connection with mandatory or optional prepayment of the Bonds by the issuer which is recovered by the issuer from the bond owner as a voidable preference under applicable bankruptcy law is covered by the insurance policy, however, such payments will be made by the Insurer at such time and in such amounts as would have been due absent such prepayment by the Issuer unless the Bond Insurer chooses to pay such amounts at an earlier date.

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

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

The long-term ratings on the Bonds are dependent in part on the financial strength of the Bond Insurer and its claim paying ability. The Bond Insurer’s financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of the Bond Insurer and of the ratings on the Bonds insured by the Bond Insurer will not be subject to downgrade and such event could adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds. See description of “MUNICIPAL BOND RATINGS AND INSURANCE” herein.

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

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

## **Approval of the Bonds**

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

## **Forward Looking Statements**

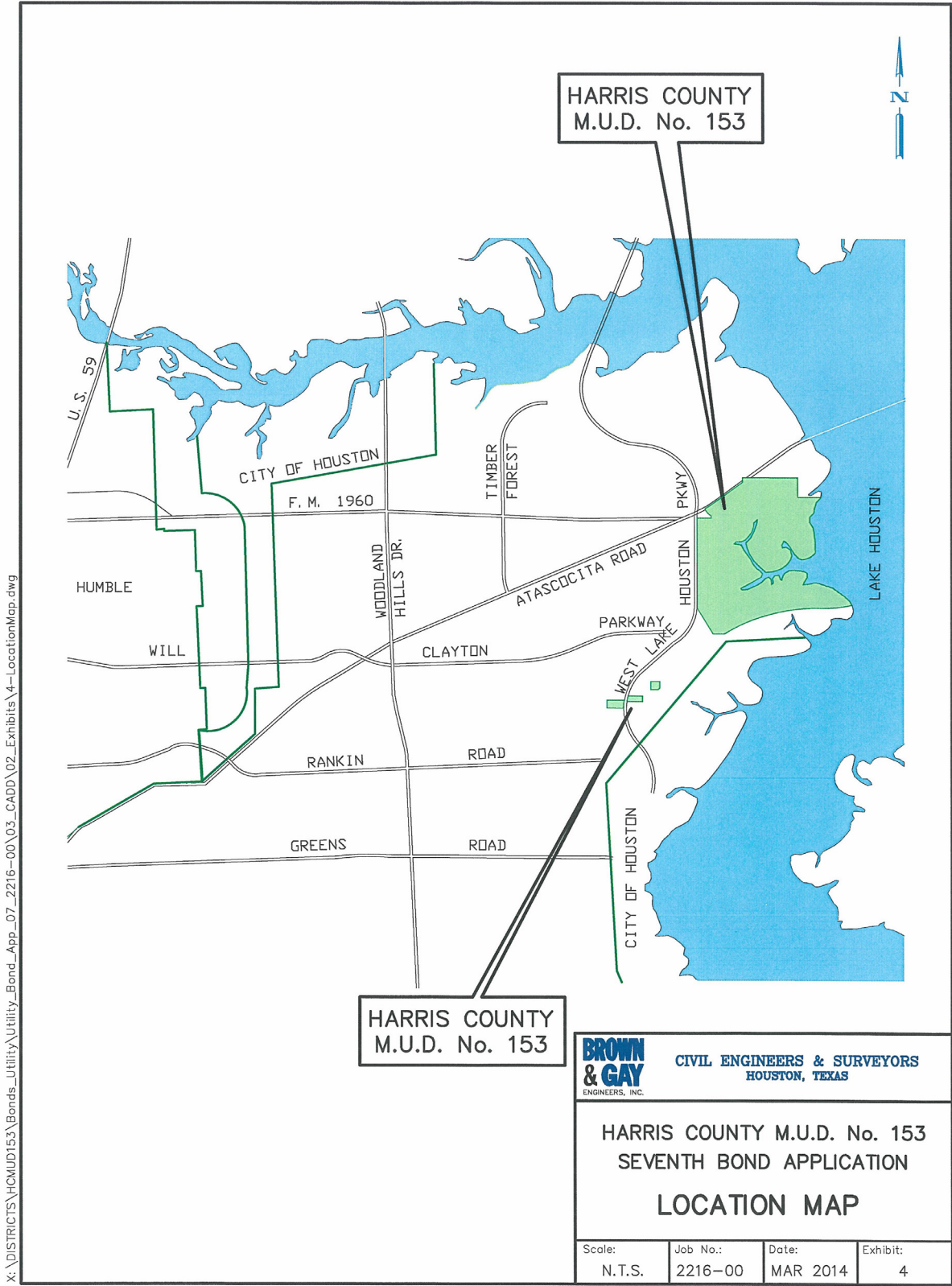
The statements contained in this Official Statement, and in any other information provided by the District, that are not purely historical, are forward-looking statements, including statements regarding the District's expectations, hopes, intentions, or strategies regarding the future.

Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the District on the date hereof, and the District assumes no obligation to update any such forward-looking statements.

The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

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LOCATION MAP



## THE DISTRICT

### General

The District was created on September 23, 1977 by the Texas Water Commission, predecessor to the Texas Natural Resource Conservation Commission, a predecessor to the Texas Commission on Environmental Quality ("TCEQ"), and operates as a municipal utility district pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code, as amended, and other general statutes of the State of Texas applicable to municipal utility districts. The District is empowered to purchase, construct, operate and maintain all works, improvements, facilities, and plants necessary for the supply of water; the collection, transportation and treatment of wastewater; and control and diversion of storm water, among other things. The District may also provide solid waste collection and disposal service and is empowered to establish, operate and maintain a fire department, independently or with one or more other conservation and reclamation districts, if approved by the voters of the District and the TCEQ, and is located within the exclusive extraterritorial jurisdiction of the City of Houston. The District also is located within the boundaries of the Humble Independent School District.

The District as created contained approximately 970.9 acres. Since that time, there have been three annexations (1.5 acres, 2.0 acres and 1.5 acres), bringing the total acreage of the District to approximately 975.9 acres.

### Strategic Partnership Agreement

In 2005, the District entered into a strategic partnership agreement with the City of Houston pursuant to Section 43.0751, Texas Local Government Code, whereby the commercial portion of the District was annexed into the City for limited purposes, while the balance of the District remains in the City's extraterritorial jurisdiction. As a result of the agreement, the City imposes its one percent sales and use taxes (but not its property taxes) within the area of limited purpose annexation, and remits one-half of the City's sales and use tax receipts collected within the District to the District to be used for any lawful District purpose. In addition, for the 30-year term of the agreement, the City agrees not to annex the District for general purposes, thus delaying for at least 30 years any dissolution of the District and assumption of its assets and liabilities by the City. The City and the District may amend the strategic partnership agreement at any time. Funds to be received by the City under the agreement are not pledged to the payment of the Bonds.

Collection of the one percent sales and use tax commenced in October 2005, and to date, the District's 50% share of taxes collected have totaled \$467,603 (audited as of March 31, 2014) or approximately \$4,584 per month. The District does not believe that the receipt of such fees will have a significant impact on the District's finances.

### Management of the District

*Board of Directors:* Governed by a board the District consists of five directors, which has control over and management supervision of all affairs of the District. Directors' terms are four years with elections held within the District on the first Saturday in May in each even numbered year. All of the directors listed below reside in the District.

<u>Name</u>	<u>Position</u>	<u>Length of Service</u>	<u>Term Expires May</u>
Sam Claytor, Jr.	President	8 ½ years	2016
Rick Soliz	Vice President	7 ½ years	2018
Alan Waters	Treasurer	3 ½ years	2018
Ed Cocetti	Secretary	2 ½ years	2016
Ed Wilcox	Asst. Secretary	1 month	2016

### Consultants

*Tax Assessor/Collector:* Land and improvements in the District are being appraised by the Harris County Appraisal District. The Tax Assessor/Collector is appointed by the Board of Directors of the District. Bob Leared of Bob Leared Interests currently serves the District in this capacity under contract. Mr. Leared currently serves approximately 151 other utility districts as tax assessor/collector.

*Bookkeeper:* Municipal Accounts & Consulting L.P. acts as bookkeeper for the District and currently performs similar services for approximately 300 other special districts.

*Operator:* The District contracts with Municipal Operations & Consulting, Inc. to operate and maintain the District's system.

*Engineer:* The District's consulting engineer is Brown & Gay Engineers, Inc. (the "Engineer"). Such firm serves as consulting engineer to 70 other special districts in the Houston metropolitan area.

*Auditor:* McCall, Gibson, Swedlund, Barfoot PLLC, Certified Public Accountants, performed the audit of the District's financial statements for the last fiscal year.

*Bond Counsel:* The District has engaged Fulbright & Jaworski LLP, Houston, Texas, a member of Norton Rose Fulbright, as Bond Counsel in connection with the issuance of the Bonds. The fees of Bond Counsel are contingent upon the sale of and delivery of the Bonds. Fulbright & Jaworski also acts as General Counsel to the District on matters not related to the issuance of bonds and is compensated based on time charges actually incurred.

*Financial Advisor:* Public Finance Group LLC serves as the District's financial advisor (the "Financial Advisor"). The fee for services rendered in connection with the issuance of the Bonds is based upon the percentage of the Bonds actually issued, sold and delivered and, therefore, such fee is contingent upon the sale and delivery of the Bonds.

## **Location**

The District, as originally created, contains approximately 971 acres and lies some 25 miles northeast of the central business district of the City of Houston and its situated approximately 7 miles east of the intersection of Farm-to-Market Road 1960 ("FM 1960") and U.S. Highway 59 ("U.S. 59"). The District is bounded on the North by FM 1960 East, on the West by West Lake Houston Parkway, and on the East by Lake Houston, which is within the city limits of the City of Houston.

## **Status of Development of the District**

Development of the District began in 1982 and approximately 99% of the developable acreage of the District has been developed with water, sanitary sewer and drainage facilities as Walden on Lake Houston, The Pines of Atascocita, Section Four, Walden Green and Waterhaven, a mixed use development including single family, multifamily, office, commercial retail, medical, schools, churches, a fire station and amenity improvements.

*Residential Development . . . .* As of November 1, 2014, approximately 775 acres within the District have been developed with utility facilities to serve ten single family residential subdivisions including 2,570 developed single family lots, 2,412 single family homes completed (includes multiple homes constructed on multiple lots) and/or under construction and 80 vacant developed single family lots.

*Multi-family Development . . . .* The District contains one apartment complex, Sunrise at Atascocita, totaling 144 apartment units. According to management of Sunrise at Atascocita, the apartments were 91% occupied as of November 2014.

*Office Development . . . .* Approximately seven acres located at the intersection of FM 1960 and Farmingham Drive have been developed as the Atascocita Office Park (the "Office Park"). As of November 2014, development within the Office Park included five office buildings: Bank of America Building (45,943 square feet, of which 100% is leased); the Atascocita Professional Plaza (the "Plaza") consisting of three office buildings, (each 15,000 square feet, of which one is 100% leased and two are 90% leased); and the Gulf Systems Building (11,000 square feet, of which 100% is leased). Office development along West Lake Houston Parkway, south of FM 1960, includes four office buildings on approximately 10 acres.

*Commercial Development . . . .* Commercial development within the District as of November 2014, includes a Mini Storage including 400 storage units located on approximately 7.7 acres, X L Parts, Lake Houston Performing Arts Center, Community Bank, and Best Western Hotel.

*Retail Development . . . .* Retail development as of November 2014 was comprised of an 110,000 square foot shopping center which included 8 retail outlets, a 12,000 square foot shopping center which includes three retail outlets, a Mattress Firm, and a Whataburger.

*Amenity Development . . . .* Recreational facilities within the District include the Walden on Lake Houston Country Club including an 18-hole golf course, swimming pool, eight outdoor tennis courts, and a clubhouse. The District also contributed funds to the initial phase of the construction of Walden Park, a 1.3 acre neighborhood park.

*Future Development* . . . The remaining development expected to occur in the District consists of utilities to be constructed to serve approximately 5 acres of vacant commercial tracts. The District cannot predict with certainty if any commercial improvements will be constructed in the District. In addition, the District has initiated annexation of three tracts of land totaling approximately 123.08 acres, which acreage is expected to be developed with residential and commercial improvements. The instigation of any new development will be dependent on several factors including, to a great extent, the general and other economic conditions which would affect any party's ability to sell lots and/or other property and of any home builder to sell completed homes as described in this Official Statement under the caption "INVESTMENT CONSIDERATIONS." The District is under no obligation to complete any development, if begun, and may modify or discontinue development plans in its sole discretion.

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The following chart more completely describes the status of development within the District as of November 1, 2014:

Subdivision	Total Acreage <sup>(a)</sup>	Total District Lots	Complete and/or Under Construction	Vacant Developed Lots
<b>Single Family</b>				
Golfers Village	76.47	212	204	(b) 3
Olympic Village	166.67	549	466	(c) 38
Sportsman's Village	165.71	541	513	(d) 18
Marathon Village	83.61	198	196	(e) -
Trophy Village	37.29	143	143	-
Champions Village	129.41	456	432	(f) 15
Walden Green	7.19	44	42	2
Sprinters Village	44.85	147	139	(g) 1
The Pines at Atascocita - Section Four	44.66	185	185	-
Waterhaven	18.19	95	92	3
Total Single Family	774.04	2,570	2,412	80
<b>Multi-Family</b>				
Sunrise at Atascocita <sup>(h)</sup>	6.63	144		
<b>Office/Commercial/Retail</b>				
Atascocita Office Park	6.27			
Professional Plaza	7.35			
Best Western Hotel	1.08			
Albertson's Center and Adjacent Retail	11.84			
Atascocita Professional Building	1.35			
Westlake Medical	1.29			
Mattress Firm	0.85			
Kingwood Gymnastics	1.33			
Whataburger	0.95			
Medical Center	3.60			
Community Bank	1.04			
Mini Storage	7.73			
Farmingham Place Office Warehouse	2.82			
Golfers Village Office Building	1.38			
Total Office/Commercial/Retail	48.87			
<b>Other</b>				
Atascocita Middle School	19.25			
Montessori School	1.28			
Maplebrook Elementary School	14.00			
Walden Park	1.32			
Church of Christ	8.00			
Episcopal Church	5.00			
Methodist Church	11.95			
Fire Station	0.52			
Misc. Roadway and Drainage Easements	79.23			
Total Other	140.55			
<b>Remaining Developable Acreage</b>	5.84			
<b>Total District Acreage</b>	<b>975.93</b>			

(Footnotes appear on the following page)

- (a) Portions of the Walden on Lake Houston Country Club are located in five subdivisions as follows: 14.187 acres in Golfers Village, 40.515 acres in Olympic Village, 43.404 acres in Sportsman's Village, 30.607 acres in Marathon Village and 19.414 acres in Champions Village for a total of 148.127 acres.
- (b) 5 houses on 2 lots each; 1 lot is yard for adjacent property.
- (c) 32 houses on 2 lots each, 5 houses on 3 lots each, 1 house on 4 lots.
- (d) 9 houses on 2 lots each; 1 lot is yard for adjacent property.
- (e) 2 houses on 2 lots each.
- (f) 5 houses on 2 lots each; 4 lots are yards for adjacent property.
- (g) 1 house on 4 lots; 4 lots owned by HOA and will not be developed.
- (h) Apartment complex including 144 apartment units.

## **Payment Record**

The District has previously issued seven series of new money bonds consisting of: \$7,900,000 Unlimited Tax Bonds, Series 1985; \$4,500,000 Unlimited Tax Bonds, Series 1985A; \$1,550,000 Unlimited Tax Bonds, Series 2001; \$3,310,000 Unlimited Tax Bonds, Series 2003; \$7,650,000 Unlimited Tax Bonds, Series 2004A; \$3,430,000 Unlimited Tax Bonds, Series 2007; and \$3,600,000 Unlimited Tax Bonds, Series 2011. Additionally, the District has previously issued four installments of refunding bonds consisting of: \$11,040,000 Unlimited Tax Refunding Bonds, Series 1997; \$8,220,000 Unlimited Tax Refunding Bonds, Series 2004; \$13,140,000 Unlimited Tax Refunding Bonds, Series 2010; and \$3,085,000 Unlimited Tax Refunding Bonds, Series 2013 (collectively, the "Outstanding Bonds"). The District has not defaulted in the payment of the principal or of interest on the Outstanding Bonds.

The Bonds are payable from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District described under "THE BONDS - Source of and Security for Payment."

## **THE SYSTEM**

### **Water, Sanitary Sewer and Drainage System**

Proceeds of the Outstanding Bonds together with certain non-reimbursable developer contributions were used to provide water distribution, wastewater collection and storm drainage facilities to serve approximately 896 acres of land within the District. The District's water, sanitary sewer and drainage system (the "System") was designed to be in conformity with the then current requirements of the City of Houston, Harris County, Harris County Flood Control District, the TCEQ and the Texas Department of Health.

**Sources of Water Supply:** The District owns and operates one water plant consisting of a 1,900 gallons-per-minute ("gpm") gravel wall well, a booster pump station including two 750 gpm pumps, one 1,000 gpm pump, and three 2,200 gpm pumps, 840,000 gallons ground storage, three 20,000 gallon pressure tanks and auxiliary power facilities. In addition, the District has emergency water supply agreements with Harris County Municipal Utility District No. 132 ("MUD 132") and Harris County Municipal Utility District No. 152 ("MUD 152"). According to the District's engineer, Brown & Gay Engineers, Inc. (the "Engineer"), the District's water supply facilities are sufficient to serve approximately 3,166 equivalent single family connections, which includes 116 lots within the City of Houston and served by the District pursuant to the utility service contract with the City of Houston. In December 2006, the TCEQ approved the District's request for a variance from the elevated storage requirement. With the completion of this bond sale, the District will construct a second water plant, fourth lift station, expand the existing lift station shared with MUD 152, and construct water line and sanitary sewer facilities to serve the current District's projected ultimate development as well as tracts planned for annexation and Harris County Municipal Utility District No. 494 ("MUD 494").

The District is within the boundaries of the Harris-Galveston Subsidence District (the "Subsidence District"), which regulates the withdrawal of ground water within its jurisdiction. The District's authority to pump ground water from its wells is subject to receipt of an annual permit issued by the Subsidence District. On April 14, 1999, the Subsidence District adopted a District Regulatory Plan (the "1999 Plan") to reduce ground water withdrawal through conversion to surface water in areas within the Subsidence District's jurisdiction. Under the 1999 Plan, the District was requested to submit to the Subsidence District by January 2003 a ground water reduction plan and begin construction of surface water conversion infrastructure by January 2005, or pay a disincentive fee (currently \$3.00 per 1,000 gallons) for any ground water withdrawn in excess of 20% of the District's total water demand. Additional disincentive fees will be imposed under the 1999 Plan if the District's ground water withdrawal exceeds 70% or the District's total water demand beginning January 2010, 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 District has complied with the Subsidence District's groundwater reduction plan by approving a contract with the City of Houston whereby the District is a participant in the City Ground Water Reduction Plan. The charge, beginning January 1,



2003, was 30% of the City ordinance rate for bulk water sales. This payment is currently was \$0.897 per thousand gallons of ground water produced and may increase in future years. The contract has been approved by the District Board of Directors and by the Houston City Council. The Board of the District has revised the District Rate Order to pass along this charge directly to the water users in the District on their monthly bills.

**Source of Wastewater Treatment:** The District's wastewater treatment is provided by the Atascocita Central Wastewater Treatment Plant (the "Regional Plant"), which is owned by Harris County Municipal Utility District No. 109 ("MUD 109") pursuant to the Fourth Amended and Restated Waste Disposal Contract (the "Contract") among the District, Harris County Municipal Utility District No. 46 ("MUD 46"), Harris County Municipal Utility District No. 106 ("MUD 106"), MUD 109, MUD 132, Harris County Municipal Utility District No. 151 ("MUD 151"), MUD 152 and MUD 494, dated as of December 1, 2012 (the District, MUD 46, MUD 106, MUD 109, MUD 132, MUD 151, MUD 152 and MUD 494 are collectively referred to as the Participants). See "Waste Disposal Contract" below. Pursuant to the Contract, the District has the exclusive right to deliver 1.68 million gallons per day ("mgd") of untreated sewage through a wastewater interceptor to the Regional Plant, which according to the Engineer is sufficient to serve 5,250 equivalent single family connections. The Regional Plant currently has a total capacity of 9 mgd.

### **Waste Disposal Contract**

The Participants, including the District, are served by the Regional Plant pursuant to the terms of the Contract. While MUD 109 holds legal title to the Regional Plant, each Participant has the right to deliver a certain amount of untreated sewage to the Regional Plant. The Regional Plant, including the wastewater interceptor, is operated by a joint operating board comprised of one member from each participating district. Charges for maintenance and operation of the Regional Plant are made on a pro rata basis as determined by the Contract.

### **100-Year Flood Plain**

According to the FEMA maps dated June 18, 2007, there are approximately 20 acres within the District, outside of drainage easements, which are located in the 100-year flood plain.

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## Rate and Fee Schedule – Table 1

The Board of Directors of the District establishes rates and fees for water and sewer service. The rates are subject to change from time to time. The following general rates were approved on February 15, 2012.

### Monthly Water Service Rates:

<u>Residential</u>	<u>Gallons</u>	<u>Amount</u>
	Minimum 10,000	\$12.00
	10,001 to 20,000	\$1.00 per 1,000 gallons
	20,001 to 30,000	\$1.50 per 1,000 gallons
	30,001 to 40,000	\$2.00 per 1,000 gallons
	40,001 and over	\$3.00 per 1,000 gallons

<u>Commercial</u>	<u>Gallons</u>	<u>Amount</u>
	Minimum 10,000	\$15.00
	10,001 to 20,000	\$1.50 per 1,000 gallons
	20,001 to 30,000	\$2.00 per 1,000 gallons
	30,001 to 40,000	\$2.50 per 1,000 gallons
	40,001 and over	\$3.00 per 1,000 gallons

**Multi-Family and Apartments**      \$2.00 for each unoccupied unit located within the multi-family building or apartment.

\$12.00 minimum for the first 5,000 gallons of water for the occupied unit located within the multi-family building or apartment and an additional charge of \$1.00 per 1,000 gallons of usage above the minimum (5,000 gallons X number of occupied units = minimum).

**Groundwater Reduction Fees**      Equal to  $R \times P \times Q$ ; where “R” is the City of Houston’s GRP ordinance rate for contract treated surface water per 1,000 gallons, adjusted by 10% for accountability; “Q” is the quantity of groundwater used by the customer in thousands of gallons; and “P” is 30%.

**Delinquent Fees**      \$5.00 delinquent letter  
\$4.00 door hanger  
\$15.00 returned check  
\$10.00 transfer of account

### Monthly Sewer Service Rates:

	<u>Gallons</u>	<u>Amount</u>
Each (single-family) Residential connection		\$33.32
Each Pines of Atascocita Section 4 connection		\$14.00/unit
Each Apartment unit and each multi-family unit		\$12.00/unit
Each Commercial connection	First and minimum 10,000 gallons	\$20.00
	Each additional 1,000 gallons or portion thereof or water used	\$1.50

## Waterworks and Sewer Operating Statement – Table 2

The following statement sets forth in condensed form the historical results of operation of the District's water and sewer system. Operating revenues are not pledged to payment of the Bonds, and the summary is included for general information only. Such summary has been prepared by the Financial Advisor for inclusion herein, based upon information obtained from the District's audited financial statements. Reference is made to such statements for further and complete information.

	Fiscal Year End				
	3/31/2014 <sup>(a)</sup>	3/31/2013 <sup>(a)</sup>	3/31/2012 <sup>(a)</sup>	3/31/2011 <sup>(a)</sup>	3/31/2010 <sup>(a)</sup>
<b>REVENUES</b>					
Property Tax	\$ 240,206	\$ 123,136	\$ 214,722	\$ 224,301	\$ 195,911
Sales Tax Rebate <sup>(b)</sup>	71,128	60,677	53,894	58,466	44,852
Water Services	560,229	584,432	649,649	544,558	587,768
Wastewater & Garbage Service	982,115	969,312	960,063	870,679	833,954
Groundwater Reduction Fees	295,601	302,559	343,389	252,559	202,860
Grant Revenue	-	-	-	-	71,614
Tap Connection Fees	77,900	22,175	49,794	14,730	18,850
Penalties & Interest	34,271	36,212	31,905	26,918	30,126
Investment Revenue	9,284	12,227	13,585	24,257	43,184
Other Revenue	16,358	11,334	16,337	10,467	11,875
<b>TOTAL REVENUES</b>	<b>\$ 2,287,092</b>	<b>\$ 2,122,064</b>	<b>\$ 2,333,338</b>	<b>\$ 2,026,935</b>	<b>\$ 2,040,994</b>
<b>EXPENDITURES</b>					
Purchased Water and Wastewater	\$ 280,865	\$ 260,640	\$ 297,295	\$ 266,431	\$ 290,226
Professional Fees	166,066	174,251	163,807	209,000	179,102
Contracted Services <sup>(c)</sup>	581,593	593,790	652,315	582,217	547,273
GRP Regulatory Assessment	296,753	366,920	345,945	255,630	219,665
Utilities	79,495	85,416	109,235	96,750	105,797
Repairs & Maintenance	268,264	297,323	264,619	141,042	205,763
Administrative & Other	222,882	201,108	241,946	245,600	182,416
Capital Outlay <sup>(d)</sup>	601,408	131,517	7,448	499,914	129,847
<b>TOTAL EXPENDITURES</b>	<b>\$ 2,497,326</b>	<b>\$ 2,110,965</b>	<b>\$ 2,082,610</b>	<b>\$ 2,296,584</b>	<b>\$ 1,860,089</b>
<b>NET REVENUES (DEFICIT)</b>	<b>\$ (210,234)</b>	<b>\$ 11,099</b>	<b>\$ 250,728</b>	<b>\$ (269,649)</b>	<b>\$ 180,905</b>
<b>Beginning Fund Balance</b>	<b>\$ 2,592,426</b>	<b>\$ 2,581,327</b>	<b>\$ 2,253,630</b>	<b>\$ 2,370,067</b>	<b>\$ 2,189,162</b>
<b>Plus / (Less): Fund Transfer</b>	<b>164,445</b>	<b>-</b>	<b>76,969</b>	<b>153,212</b>	<b>-</b>
<b>Ending Fund Balance</b>	<b>\$ 2,546,637</b>	<b>\$ 2,592,426</b>	<b>\$ 2,581,327</b>	<b>\$ 2,253,630</b>	<b>\$ 2,370,067</b>

(a) Audited.

(b) The District and the City of Houston have entered into a Strategic Partnership Agreement (the "SPA") effective March 31, 2005, whereby the City agreed to limited purpose annex the property within the boundaries of the District for purpose of applying the City's Planning, Zoning, Health, and Safety Ordinances with the District. Since March 31, 2005, the City has been levying a sales and use tax within the boundaries of the District equal to 1% on taxable retail sales uses. Under the terms of the SPA, the City has agreed to rebate one-half of the sales tax revenues to the District. See "THE DISTRICT - Strategic Partnership Agreement."

(c) The District is a party to a contract with a garbage collection company to provide services to residences within the District. The contract is effective until service is terminated by the District or the waste hauler.

(d) Includes repairs to existing facilities and developer reimbursements for Waterhaven.

**DEBT SERVICE REQUIREMENTS - TABLE 3**

**Harris County Municipal Utility District No. 153**

**\$8,865,000**

**Unlimited Tax Bonds, Series 2014**

**Dated Date: December 1, 2014**

**First Interest Payment Due: March 1, 2015**

Year	Outstanding Bonds				The Bonds				Total	
Ending	Principal	Interest		Total	Principal	Interest		Total	Principal	Debt Service
31-Dec	Due (09/01)	Due (03/01)	Due (09/01)		(Due 9/01)	(Due 3/01)	(Due 9/01)		and Interest	Requirements
2015	\$ 1,390,000	\$ 318,381	\$ 318,381	\$ 2,026,763	\$ -	\$ 75,159	\$ 150,319	\$ 225,478	\$ 225,478	\$ 2,252,241
2016	1,230,000	298,376	298,376	1,826,753	5,000	150,319	150,319	300,638	305,638	2,132,390
2017	1,285,000	275,466	275,466	1,835,933	5,000	150,244	150,244	300,488	305,488	2,141,420
2018	1,365,000	251,401	251,401	1,867,803	5,000	150,169	150,169	300,338	305,338	2,173,140
2019	1,430,000	225,981	225,981	1,881,963	5,000	150,094	150,094	300,188	305,188	2,187,150
2020	1,495,000	199,206	199,206	1,893,413	5,000	150,019	150,019	300,038	305,038	2,198,450
2021	1,575,000	170,219	170,219	1,915,438	5,000	149,944	149,944	299,888	304,888	2,220,325
2022	1,640,000	140,969	140,969	1,921,938	5,000	149,869	149,869	299,738	304,738	2,226,675
2023	1,645,000	110,469	110,469	1,865,938	5,000	149,794	149,794	299,588	304,588	2,170,525
2024	440,000	78,556	78,556	597,113	100,000	149,719	149,719	299,438	399,438	996,550
2025	450,000	70,575	70,575	591,150	150,000	148,219	148,219	296,438	446,438	1,037,587.50
2026	475,000	62,406	62,406	599,813	200,000	145,781	145,781	291,563	491,563	1,091,375
2027	485,000	53,800	53,800	592,600	225,000	142,531	142,531	285,063	510,063	1,102,662.50
2028	525,000	45,000	45,000	615,000	250,000	138,875	138,875	277,750	527,750	1,142,750
2029	550,000	34,500	34,500	619,000	300,000	134,813	134,813	269,625	569,625	1,188,625
2030	575,000	23,500	23,500	622,000	500,000	129,938	129,938	259,875	759,875	1,381,875
2031	600,000	12,000	12,000	624,000	1,000,000	121,813	121,813	243,625	1,243,625	1,867,625
2032	-	-	-	-	2,000,000	105,563	105,563	211,125	2,211,125	2,211,125
2033	-	-	-	-	2,000,000	73,063	73,063	146,125	2,146,125	2,146,125
2034	-	-	-	-	2,100,000	38,063	38,063	76,125	2,176,125	2,176,125
	<u>\$ 17,155,000</u>	<u>\$ 2,370,806</u>	<u>\$ 2,370,806</u>	<u>\$ 21,896,613</u>	<u>\$ 8,865,000</u>	<u>\$ 2,603,984</u>	<u>\$ 2,679,144</u>	<u>\$ 5,283,128</u>	<u>\$ 14,148,128</u>	<u>\$ 36,044,741</u>

**FINANCIAL STATEMENT**  
**(Unaudited as of November 1, 2014)**

**Assessed Value - Table 4**

2013 Certified Assessed Valuation		\$473,362,115	(a)
2014 Certified Assessed Valuation		\$504,329,318	(b)
Gross Debt Outstanding (after issuance of the Bonds)		\$ 26,020,000	(c)
Ratio of Gross Debt to 2013 Certified Assessed Valuation		5.50%	
Ratio of Gross Debt to 2014 Certified Assessed Valuation		5.16%	
2014 Tax Rate			
	Debt Service	\$ 0.4310	
	Maintenance	<u>0.0290</u>	
	<b>Total 2014 Tax Rate</b>	<u>\$ 0.4600</u>	(d)
Debt Service Fund Balance (as of October 15, 2014)		\$ 532,446	(e)
Estimated Population as of September 22, 2014 .....		8,871	(f)
Area of District: 975.93 acres			

- (a) Certified assessed valuation of the District as of January 1, 2013 as provided by the Harris County Appraisal District ("HCAD"). See "TAXING PROCEDURES."
- (b) Certified assessed valuation of the District as of January 1, 2014, as provided by HCAD. See "TAXING PROCEDURES."
- (c) Includes the Bonds.
- (d) The District levied a 2014 tax rate of \$0.46 in October 2014.
- (e) Unaudited as of October 15, 2014. Does not contain approximately twenty-four months' capitalized interest included in the Bond proceeds (\$625,763) to be deposited into the Debt Service Fund upon closing. Neither Texas law nor the Bond Order requires the District to maintain any particular sum in the Debt Service Fund.
- (f) Based upon 3.5 residents per occupied single family home and 2.5 residents per occupied multi-family unit at 91% occupancy rate (131 multi-family units are occupied out of 144 total multi-family units).

**Bonds Authorized but Unissued - Table 5**

Date of Authorization	Purpose	Authorized	Issued to Date	Unissued
7/16/1983	Water, Wastewater & Drainage	\$ 31,900,000	\$ 31,900,000	\$ -
11/7/2006	Water, Wastewater & Drainage	<u>38,170,000</u>	<u>8,905,000</u> (a)	<u>29,265,000</u>
<b>Total</b>		<b>\$ 70,070,000</b>	<b>\$ 40,805,000</b>	<b>\$ 29,265,000</b>

- (a) Includes the Bonds.

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## Outstanding Bonds - Table 6

Dated Date	Purpose	Original Series	Original Principal Amount	Principal Amount Outstanding after the Issuance of the Bonds
<b>A. New Money Bonds</b>				
06/01/1985	Water, Wastewater & Drainage	1985	\$ 7,900,000	\$ -
09/01/1985	Water, Wastewater & Drainage	1985A	4,500,000	-
12/01/2001	Water, Wastewater & Drainage	2001	1,550,000	-
03/01/2003	Water, Wastewater & Drainage	2003	3,310,000	-
11/01/2004	Water, Wastewater & Drainage	2004A	7,650,000	-
05/01/2007	Water, Wastewater & Drainage	2007	3,430,000	-
11/01/2011	Water, Wastewater & Drainage	2011	3,600,000	3,585,000
12/01/2014	Water, Wastewater & Drainage	2014	8,865,000	8,865,000 <sup>(a)</sup>
<b>Subtotal</b>			<b>\$ 40,805,000</b>	<b>\$ 12,450,000</b>
<b>B. Refunding Bonds</b>				
01/01/1997	Refunding	1997	\$ 11,040,000	\$ -
01/01/2004	Refunding	2004	8,220,000	-
09/01/2010	Refunding	2010	13,140,000	10,500,000
03/01/2013	Refunding	2013	3,085,000	3,070,000
<b>Subtotal</b>			<b>\$ 35,485,000</b>	<b>\$ 13,570,000</b>
<b>Total</b>			<b>\$ 76,290,000</b>	<b>\$ 26,020,000</b>

(a) The Bonds.

## Cash and Investment Balances (Unaudited as of October 15, 2014)-Table 7

General Fund	\$ 2,551,283
Debt Service Fund	532,446 (a)
Capital Projects Fund	388,987

(a) Does not contain approximately twenty-four months' capitalized interest included in the Bond proceeds (\$625,763) to be deposited into the Debt Service Fund upon closing. Neither Texas law nor the Bond Order requires the District to maintain any particular sum in the Debt Service Fund.

## Investment Authority and Investment Practices of the District

Under Texas law and the District's current investment policy, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) certificates of deposit meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) that are issued by or through an institution that either has its main office or a branch in Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (5) or in any other manner and amount provided by law for District deposits; (7) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas; (8) certain bankers' acceptances with the remaining term of 270

days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency, (9) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (10) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share, and (11) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invested exclusively in obligations described in the this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAm or an equivalent by at least one nationally recognized rating service. The District may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance, or resolution. The District is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for District funds, the maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield. The District's investment policy is subject to change from time to time by the Board of Directors but any such changes must comply with Chapter 2256, Texas Government Code, the Public Funds Investment Act.

Under Texas law, the District's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment considering the probable safety of capital and the probable income to be derived." At least quarterly the District's investment officers must submit an investment report to the Board of Directors detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, and any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategies and (b) Texas law. No person may invest District funds without express written authority from the Board of Directors.

Under Texas law, the District is additionally required to: (1) annually review its adopted policies and strategies, (2) require any investment officers with personal business relationships or family relationships with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the District, (3) require the registered principal of firms seeking to sell securities to the District to (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements, (4) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the District's investment policy, (5) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement, (6) restrict the investment in non-money market mutual funds in the aggregate to no more than 15% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, and (7) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements.

## Current Investments

As of October 15, 2014, the District is currently invested in money market accounts and certificates of deposits. State law requires the District to mark its investments to market price each calendar quarter and upon the conclusion of each fiscal year, for the purpose of compliance with applicable accounting policies concerning the contents of the District's audited financial statements.

	Investment Value as of October 15, 2014
Cash	\$ 114,816
Money Market Funds	627,886
Certificates of Deposit	2,730,014
<b>Total Investments</b>	<b>\$ 3,472,717</b>

## Estimated Overlapping Debt Statement

Other governmental entities whose boundaries overlap the District have outstanding bonds payable from ad valorem taxes. The following statement of direct and estimated overlapping ad valorem tax debt was developed from several sources, including information contained in "Texas Municipal Reports," published by the Municipal Advisory Council of Texas. Except for the amount relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person is entitled to rely upon information as being accurate or complete. Furthermore, certain of the entities listed below may have issued additional bonds since the dates stated in this table, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined. Political subdivisions overlapping the District are authorized by Texas law to levy and collect ad valorem taxes for operation, maintenance and/or general revenue purposes in addition to taxes of debt service and the tax burden for operation, maintenance and/or general purposes is not included in these figures.

Taxing Body <sup>(a)</sup>	Gross Debt		% of Overlapping Net Debt	Amount of Overlapping Net Debt
	Amount	As of		
Harris County	2,088,615,319	8/1/2014	0.150%	\$ 3,127,079
Harris Co Department of Education	7,605,000	8/1/2014	0.150%	11,381
Harris Co Flood Control District	91,076,282	8/1/2014	0.155%	141,222
Harris County Toll Road <sup>(b)</sup>	-	8/1/2014	0.150%	-
Humble Independent School District	564,666,524	8/1/2014	4.247%	23,981,657
Lone Star College System	452,277,583	8/1/2014	0.363%	1,639,795
Port of Houston Authority	673,026,397	8/1/2014	0.189%	1,271,463
<b>DEBT</b>				<b>\$ 30,172,596</b>
The District <sup>(c)</sup>	\$ 26,020,000	12/1/2014	100.00%	<u>26,020,000</u>
<b>TOTAL ESTIMATED DIRECT AND OVERLAPPING DEBT</b>				<b><u>\$ 56,192,596</u></b>
<b>Ratio of Estimated and Overlapping Debt to 2013 Certified Assessed Valuation</b>				<b>11.87%</b>
<b>Ratio of Estimated and Overlapping Debt to 2014 Certified Assessed Valuation</b>				<b>11.14%</b>

(a) Taxing jurisdictions with outstanding debt.

(b) Currently has no general obligation debt outstanding due to the Toll Road Authority being a self-supporting entity.

(c) Includes the Bonds.



## Overlapping Taxes for 2014

Overlapping Entity	2014 Tax Rate Per	
	\$100 Assessed Valuation	Average Tax Bill <sup>(a)</sup>
	Harris County	Harris County
Harris County	\$0.417310	\$ 741
Harris Co Department of Education	0.005999	11
Harris Co Flood Control District	0.027360	51
Harris County Toll Road <sup>(b)</sup>	-	-
Humble Independent School District	1.520000	2,719
Lone Star College System	0.108100	207
Port of Houston Authority	0.015310	31
The District	<u>0.460000</u>	<u>823</u>
<b>Total</b>	<b><u>\$2.562338</u></b>	<b><u>\$ 4,583</u></b>

(a) Based upon the 2014 average single-family home value of \$192,120 as provided by the District's Tax Assessor/Collector.

## TAX DATA

### Classification of Assessed Valuation - Table 8

Type Property	2014		2013		2012	
	Amount	%	Amount	%	Amount	%
Single Family	\$436,283,628	87.47%	\$411,560,235	86.93%	\$398,312,782	87.10%
Multi-Family	6,723,180	1.35%	6,061,350	1.28%	5,654,624	1.24%
Commercial	40,369,389	8.09%	40,447,321	8.54%	38,123,799	8.34%
Personal	11,176,787	2.24%	8,102,298	1.71%	7,568,659	1.65%
Acreage	365,316	0.07%	277,249	0.06%	277,249	0.06%
Vacant Lot	3,856,316	0.77%	4,844,717	1.02%	5,027,465	1.10%
Other	-	0.00%	2,127,010	0.45%	2,364,956	0.52%
<b>Total</b>	<b><u>\$498,774,616</u></b>	<b><u>100.00%</u></b>	<b><u>\$473,420,180</u></b>	<b><u>100.00%</u></b>	<b><u>\$457,329,534</u></b>	<b><u>100.00%</u></b>

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## Tax Collections - Table 9

The following statement of tax collections reflects the historical tax collection experience of the District. Such summary has been prepared for inclusion herein based upon information from District audits and records of the Tax Assessor/Collector. Reference is made to such audits and records for further and more complete information.

Tax Year	Assessed Valuation <sup>(a)</sup>	Tax Rate	Tax Levy	Current Collections		Total Collections		Year Ending
				Amount	%	Amount	%	
1998	\$ 129,327,630	\$ 0.8800	\$ 1,138,083	\$ 1,137,397	99.94%	\$ 1,138,083	100.00%	3/31/1999 <sup>(b)</sup>
1999	157,326,660	0.7000	1,121,161	1,120,116	99.91%	1,121,161	100.00%	3/31/2000 <sup>(b)</sup>
2000	198,214,610	0.6000	1,207,104	1,197,329	99.19%	1,207,104	100.00%	3/31/2001 <sup>(b)</sup>
2001	243,310,430	0.5200	1,283,306	1,218,220	94.93%	1,283,306	100.00%	3/31/2002 <sup>(b)</sup>
2002	267,470,020	0.4500	1,203,615	1,195,671	99.34%	1,203,615	100.00%	3/31/2003 <sup>(b)</sup>
2003	291,112,180	0.4500	1,310,005	1,244,762	95.02%	1,310,004	100.00%	3/31/2004 <sup>(b)</sup>
2004	331,720,700	0.4500	1,492,743	1,483,998	99.41%	1,492,741	100.00%	3/31/2005 <sup>(b)</sup>
2005	374,061,189	0.4500	1,690,577	1,638,535	96.92%	1,690,530	100.00%	3/31/2006 <sup>(b)</sup>
2006	396,842,377	0.4500	1,840,639	1,826,592	99.24%	1,840,534	99.99%	3/31/2007 <sup>(b)</sup>
2007	457,420,032	0.4500	2,062,400	1,928,237	93.49%	2,060,481	99.91%	3/31/2008 <sup>(b)</sup>
2008	479,847,512	0.4500	2,156,385	2,060,304	95.54%	2,153,031	99.84%	3/31/2009 <sup>(b)</sup>
2009	471,402,429	0.4400	2,074,925	1,997,703	96.28%	2,070,567	99.79%	3/31/2010 <sup>(b)</sup>
2010	469,079,192	0.4400	2,063,773	1,985,036	96.18%	2,058,878	99.76%	3/31/2011 <sup>(b)</sup>
2011	463,796,031	0.4400	2,040,703	1,979,659	97.01%	2,034,734	99.71%	3/31/2012 <sup>(b)</sup>
2012	457,290,684	0.4600	2,103,716	2,037,811	96.87%	2,092,466	99.47%	3/31/2013 <sup>(b)</sup>
2013	473,362,115	0.4600	2,176,776	2,161,153	99.28%	2,177,442	100.03%	3/31/2014 <sup>(b)</sup>
2014	504,329,318	0.4600	2,319,915	<i>In Process of Collection</i>				3/31/2015 <sup>(c)</sup>

(a) Assessed Valuation reflects the adjusted value at March 31<sup>st</sup> of each respective year as included in the audited financial statement.

(b) Audited.

(c) Taxes are due with no penalty by January 31, 2015.

## District Tax Rates - Table 10

	Tax Rates per \$100 Assessed Valuation								
	2014	2013	2012	2011	2010	2009	2008	2007	2006
<b>Debt Service</b>	\$0.4310	\$0.4086	\$0.4335	\$0.3940	\$0.3918	\$0.4000	\$0.3766	\$0.4014	\$0.3697
<b>Maintenance</b>	0.0290	0.0514	0.0265	0.0460	0.0482	0.0400	0.0734	0.0486	0.0803
<b>Total</b>	<b>\$0.4600</b>	<b>\$0.4600</b>	<b>\$0.4600</b>	<b>\$0.4400</b>	<b>\$0.4400</b>	<b>\$0.4400</b>	<b>\$0.4500</b>	<b>\$0.4500</b>	<b>\$0.4500</b>

## Tax Rate Limitation

### Debt Service Tax

The District's tax rate for debt service on the Bonds is legally unlimited as to rate or amount.

### Maintenance Tax

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for planning, constructing, acquiring, maintaining, repairing or operating the District's improvements, if such maintenance tax is authorized by a vote of the District's electors. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Outstanding Bonds, the Bonds, and any tax bonds which may be issued in the future. At an election held on November 7, 2000, voters within the District authorized a maintenance tax not to exceed \$1.00/\$100 assessed valuation. As shown above under "District Tax Rates," the District levied a 2014 maintenance and operations tax of \$0.029/\$100 assessed valuation.

## Principal Taxpayers – Table 11

The following list of principal taxpayers was provided by the Tax Assessor/Collector based on the 2014, 2013 and 2012 tax rolls of the District.

Name	Type of Property	2014	2013	2012
Sunrise Partners, LLP	Land and Improvements	\$ 6,723,180	\$ 6,061,350	\$ 5,654,624
UPG Atascocita	Land and Improvements	5,615,000	5,031,000	4,320,000
WSG Walden IV, LP	Land and Improvements	4,495,601	4,837,361	5,038,492
Bonita Investments	Land and Improvements	4,218,694	3,741,550	3,230,977
Sovran Acquisition LP <sup>(b)</sup>	Land and Improvements	4,155,000	3,736,184	3,067,036
7702 FM 1960, Ltd.	Land and Improvements	3,753,136	(a)	(a)
7702 FM 1960, Ltd.	Land and Improvements	3,650,000	3,673,438	3,573,447
18700 WHLP, LP	Land and Improvements	3,150,000	3,495,000	3,100,000
Atascocita Hospitality	Land and Improvements	2,526,808	2,850,000	3,029,986
Centerpoint Energy	Personal Property	2,186,420	1,969,860	1,512,030
Brookwood Mountain view	Land and Improvements	(a)	1,671,878	1,493,489
<b>Total</b>		<b>\$ 40,473,839</b>	<b>\$ 37,067,621</b>	<b>\$ 34,020,081</b>
Percent of Assessed Valuation		8.03%	7.83%	7.44%

(a) Not a top ten taxpayer in respective year.

(b) Formerly called Stor A Way Investments.

## Tax Adequacy for Debt Service

The calculations shown below assume, solely for purposes of illustration, no increase or decrease in the District's 2014 Certified Assessed Valuation and utilize tax rates adequate to service the District's total debt service requirements, including the Bonds. No available debt service funds are reflected in these computations. See "INVESTMENT CONSIDERATIONS - Factors Affecting Taxable Values and Tax Payments-Impact on District Tax Rates."

Average Requirement on the Bonds and the Outstanding Bonds (2015 through 2034).....	\$1,802,237
\$0.38 Tax Rate on 2014 Certified Assessed Valuation of \$504,329,318 @ 95% collections produces.....	\$1,820,629
Maximum Requirement on the Bonds (2015).....	\$2,252,241
\$0.48 Tax Rate on 2014 Certified Assessed Valuation of \$504,329,318 @ 95% collections produces.....	\$2,299,742

## Debt Service Fund Management Index

Debt Service Requirements for year ending 12/31/15 .....	\$2,252,241 <sup>(a)</sup>
Unaudited Debt Service Fund Balance as of 9/17/2014.....	\$ 527,363 <sup>(b)</sup>
Capitalized Interest.....	\$ 625,763 <sup>(c)</sup>
Projected 2014 Tax Levy @ 95% collections produces.....	\$ 2,064,976 <sup>(d)</sup>
Total Available for Debt Service .....	<u>\$3,218,102</u>

(a) Interest requirements on the Bonds begin March 1, 2015.

(b) Unaudited debt service fund balance as of September 17, 2014. Represents debt service fund balance after all 2014 debt service requirements have been paid. Neither Texas law nor the Bond Order requires the District to maintain any particular sum in the Debt Service Fund.

(c) Approximately 24 months of capitalized interest to be deposited into the Debt Service Fund from proceeds of the Bonds at closing.

(d) The District levied a 2014 debt service tax rate of \$0.4310 per \$100 assessed valuation in October 2014.

## **TAXING PROCEDURES**

### **Authority to Levy Taxes**

The Board is authorized to levy an annual ad valorem tax on all taxable property within the District in an amount sufficient to pay the principal of and interest on the Bonds, its other remaining outstanding bonds, and any additional bonds payable from taxes which the District may hereafter issue (see "INVESTMENT CONSIDERATIONS - Future Debt") and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Order to levy such a tax from year-to-year as described more fully herein under "THE BONDS - Source of and Security for Payment." Under Texas law, the Board is also authorized to levy and collect an ad valorem tax for the operation and maintenance of the District and its water and wastewater system and for the payment of certain contractual obligations, if authorized by its voters. See "TAX DATA - Tax Rate Limitation."

### **Property Tax Code and County Wide Appraisal District**

The Texas Property Tax Code (the "Property Tax Code") establishes an appraisal district and an appraisal review board in each county of the State. The appraisal district is governed by a board of directors which is elected by the governing bodies of cities, towns, school districts, and conservation and reclamation districts such as the District that participate in the appraisal district and of the county. The board of directors of the appraisal district selects a chief appraiser to manage the appraisal offices 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 District must use the appraisal roll as approved by the Harris County Appraisal Review Board to establish its tax roll and tax rate. The Texas Comptroller of Public Accounts may provide for the administration and enforcement of uniform standards and procedures for appraisal of property.

### **Property Subject to Taxation by the District**

**General:** Except for certain exemptions provided by Texas law, all property with a tax situs in the District is subject to taxation by the District; however, no effort is made by the District to collect taxes on tangible or intangible personal property not devoted to commercial or industrial use. Principal categories of exempt property include: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain non-profit cemeteries; farm products owned by the producer; and certain property owned by charitable, religious, scientific, literary, student housing, veterans, youth, development or fraternal 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 has been granted an exemption from \$5,000 up to \$12,000 of assessed value. Additionally, effective January 1, 2012, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied.

**Residential Homestead Exemptions:** The Board may exempt up to 20% of the market value of residential homesteads from ad valorem taxation. Such exemption would be in addition to any other applicable exemptions provided by law. However, if ad valorem taxes have previously been pledged for the payment of debt, then the Board may continue to levy and collect taxes against the exempted value of the homesteads until the debt is discharged if the cessation of the levy would impair the obligation of the contract by which the debt was created. The Board has not granted any residential homestead exemptions from ad valorem taxation for 1998 or any prior years. Also exempt, if approved by the Board or through a process of petition and referendum by the District's voters, are residential homesteads of certain persons who are disabled or at least 65 years old, to the extent of \$3,000 of appraised value or more. The District is authorized by statute to disregard such exemptions for the elderly and disabled if granting the exemptions would impair the District's obligation to pay tax supported debt incurred prior to adoption of the exemptions by the District. The Board has granted such elderly and disabled exemptions in the amount of \$25,000 of assessed valuation for 1998 and thereafter.

**Freeport Goods and Goods-in-Transit Exemptions:** Article VIII, Section 1-j of the Texas Constitution provides for an exemption from ad valorem taxation for "freeport property," which is defined as goods detained in the state for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Taxing units that took action prior to April 1, 1990 may continue to tax freeport property and decisions to continue to tax freeport property may be reversed in the future. However, decisions to exempt freeport property are not subject to reversal. A "Goods-in-Transit" exemption is applicable to the same categories of tangible personal property which are covered by the Freeport Exemption, if, for tax year 2011 and prior

applicable years, such property is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation, and the location where said property is detained during that period is not directly or indirectly owned or under the control of the property owner. For tax year 2012 and subsequent years, such Goods-in-Transit Exemption is limited to tangible personal property acquired in or imported into Texas for storage purposes only if such property is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and outboard motor, heavy equipment and manufactured housing inventory. After holding a public hearing, a taxing unit may take action by January 1 of the year preceding a tax year to tax goods-in-transit during the following tax year. A taxpayer may obtain only a freeport exemption or a goods-in-transit exemption for items of personal property. The District has not adopted a freeport exemption or a goods-in-transit exemption.

**Tax Abatement:** Harris County or the City of Houston may designate all or part of the area within the District as a reinvestment zone. Thereafter, the District may enter into tax abatement agreements with owners of real property within the District for 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 and the District does not expect any area within the District to be so designated in the foreseeable future.

### **Valuation of Property for Taxation**

Generally, all taxable property in the District must be appraised by the Harris County Appraisal District at one hundred percent (100%) of market value as of January 1 of each year, subject to review and approval by the Appraisal Review Board. In determining market value, either for replacement cost or the market data method of valuation may be used, whichever is appropriate.

Certain land may be appraised at less than market value under the Property Tax Code. A residence homestead is to be appraised solely on the basis of its value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. Increases in the appraised value of residence homesteads are limited to 10 percent annually regardless of the market value of the property. Upon application of a landowner, land which qualifies as "open-space land" is appraised based on the category of land, using accepted income capitalization methods applied to the average net income derived from the use of the land for agriculture and hunting or recreational leases. Upon application of a landowner, land which qualifies as "timber land" is appraised using accepted income capitalization methods applied to the average net income derived from the use of the land for production of timber. Land which qualifies as an aesthetic management zone, critical wildlife management zone, or streamside management zone or is being regenerated for timber production for 10 years after harvest is valued at one-half that amount. In the case of both open space and timber land valuations, if the use of land changes, an additional tax is generally imposed on the land equal to the difference between the taxes imposed on the land for each of the five (5) years preceding the year in which the change of use occurs and the tax that would have been imposed had the land been taxed on the basis of market value in each of those years, plus interest at an annual rate of seven percent (7%) calculated from the dates on which the differences would have become due. There are also special appraisal methods for agricultural land owned by individuals whose primary occupation and income are farming and for recreational, park, and scenic land. Also, houses or lots 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, upon application of the owner.

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 one every three (3) years. It is not known what frequency of reappraisal will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone or county-wide basis.

### **District and Taxpayer Remedies**

The chief appraiser must give written notice before the Appraisal Review Board meeting to an affected owner if a reappraisal has resulted in an increase in value over the prior year or the value rendered by the owner, or if property not previously included on the appraisal roll has been appraised. Any owner who has timely filed notice with the Appraisal Review Board

may appeal the final determination by the Appraisal Review Board of the owner's protest by filing suit in Texas district court. Prior to such appeal, 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, but not to exceed 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 appraisal of certain category of property, the exclusion of property from the appraisal records, or the grant in whole or in part of a partial exemption, or a determination that land qualifies for a special use appraisal (agricultural or timber classification, for example). The District may not, however, protest a valuation of individual property.

### **Levy of Taxes**

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

Unless the Board, or the qualified voters of the District or of Harris County at an election held for such purpose, determines to transfer the collection of taxes to the HCAD or another taxing unit, the District is responsible for the levy and collection of its taxes.

### **Collection of Taxes**

Taxes are due on receipt of the tax bill and become delinquent after January 31 of the following year. However, a person over 65 is entitled by law to pay current taxes on his residential homestead in installments or to defer taxes without penalty during the time he owns and occupies the property as his residential homestead. The date of the delinquency may be postponed if the tax bills are mailed after January 10 of any year. Delinquent taxes are subject to a 6% penalty for the first month of delinquency, one percent (1%) for each month thereafter to July 1, and 12% total if any taxes are unpaid on July 1. Delinquent taxes also accrue interest at the rate of 1% per month during the period they remain outstanding. In addition, where a district engages an attorney for collection of delinquent taxes, the Board may impose a further penalty not to exceed fifteen percent 15% on all taxes unpaid on July 1 in lieu of recovering attorney's fees. The District may be prohibited from collection of penalties and interest on real property owned by the Federal Depository Insurance Corporation. In prior years the District has engaged a delinquent tax attorney and imposed such a penalty.

Taxes levied by the District are a personal obligation of the owner of the property on January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of each state and local taxing unit, including the District, having power to tax the property. The District's tax lien is on parity with tax liens of such other taxing units (see "FINANCIAL STATEMENT - Overlapping Taxes for 2014"). A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, 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.

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights (a taxpayer may redeem property within two years of foreclosure) or by bankruptcy proceedings which restrict the collection of taxpayer debts. See "INVESTMENT CONSIDERATIONS - Tax Collections".

Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

### **District's Rights In The Event Of Tax Delinquencies**

Taxes levied by the District are a personal obligation of the owner of the property on January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State of Texas and each local taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of such other taxing units. See "FINANCIAL STATEMENT - Overlapping Taxes for 2013". A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, 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. Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights (a taxpayer may redeem property within two years after the purchaser's deed issued at the foreclosure sale is filed in the county records) or by bankruptcy proceedings which restrict the collection of taxpayer debts. See "INVESTMENT CONSIDERATIONS – General" and "– Tax Collections and Foreclosure Remedies."

## **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 initial Bonds are valid and binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the District. Issuance of the Bonds is also subject to the legal opinion of Fulbright & Jaworski LLP, a member of Norton Rose Fulbright, Houston, Texas ("Bond Counsel"), based upon examination of a transcript of the proceedings incident to authorization and issuance of the Bonds, to the effect that the Bonds are valid and 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. Bond Counsel's legal opinion will also address the matters described below under "TAX MATTERS – Tax Exemption." Such opinions will express no opinion with respect to the sufficiency of the security for or the marketability of the Bonds. In connection with the issuance of the Bonds, Bond Counsel has been engaged by, and only represents, the District.

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

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction, nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

### **No-Litigation Certificate**

The District will furnish to the Initial Purchaser a certificate, dated as of the date of delivery of the Bonds, executed by both the President and Secretary of the Board, to the effect that no litigation of any nature has been filed or is then pending or threatened, either in state or federal courts, contesting or attacking the Bonds; restraining or enjoining the issuance, execution or delivery of the Bonds; affecting the provisions made for the payment of or security for the Bonds; in any manner questioning the authority or proceedings for the issuance, execution, or delivery of the Bonds; or affecting the validity of the Bonds.

### **No Material Adverse Change**

The obligations of the Initial Purchaser to take and pay for the Bonds, and of the District to deliver the Bonds, are subject to the condition that, up to the time of delivery of and receipt of payment for the Bonds, there shall have been no material adverse change in the condition (financial or otherwise) of the District from that set forth or contemplated in the Official Statement.

## **TAX MATTERS**

### **Tax Exemption**

The delivery of the Bonds is subject to an opinion of Fulbright & Jaworski LLP, Bond Counsel, to the effect that, pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions thereunder, interest on the Bonds for federal income tax purposes (1) will be excludable from the gross income, as defined in Section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), of the owners, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change.

Interest on the Bonds owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation, other than an S corporation, a qualified mutual fund, a real estate investment trust, a real estate mortgage investment conduit, or a financial asset securitization investment trust ("FASIT"). 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 the foregoing opinions, Bond Counsel will rely upon representations and certifications of the District made in a certificate dated the date of delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance by the District with the provisions of the Bond Order subsequent to the issuance of the Bonds. The Bond Order contains covenants by the District with respect to, among other matters, the use of the proceeds of the Bonds and the facilities financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage "profits" from the investment of the proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

Except as described above, Bond Counsel will express no other opinion with respect to any other federal, state or local tax consequences 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, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, S corporations with "subchapter C" earnings and profits, 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 judgment 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 "IRS") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the IRS. The IRS 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 IRS 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.

Existing law may change to reduce or eliminate the benefit to bondholders of the exclusion of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed or future changes in tax law.

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

The initial public offering price of Bonds maturing in the years 2030 through 2032 (the "Discount Bonds") is 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 initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial 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, owners of an interest in a FASIT, 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 of accrued original issue discount on Discount Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of 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 price of Bonds maturing in the years 2016 through 2021, 2024, 2025, 2028 and 2029 (the "Premium Bonds") is 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 Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for 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 a sale or other taxable disposition of 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 the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium on Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

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

Section 265 of the Code provides, in general, that interest expense to acquire or carry tax-exempt obligations is not deductible from the gross income of the owner of such obligations. In addition, section 265 of the Code generally disallows 100% of any deduction for interest expense which is incurred by "financial institutions" described in such section and is allocable, as computed in such section, to tax-exempt interest on obligations acquired after August 7, 1986. Section 265(b) of the Code provides an exception to this interest disallowance rule for interest expense allocable to tax-exempt obligations (other than private activity bonds that are not qualified 501(c)(3) bonds) which are designated by an issuer as "qualified tax-exempt obligations." An issuer may designate obligations as "qualified tax-exempt obligations" only if the amount of the issue of which they are a part, when added to the amount of all other tax-exempt obligations (other than private activity bonds that are not qualified 501(c)(3) obligations and other than certain refunding 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 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 which purchase the Bonds will not be subject to the 100% disallowance of interest expense allocable to interest on the Bonds under section 265(b)

of the Code. However, 20% of the interest expense incurred by a financial institution which is allocable to the interest on the Bonds will not be deductible pursuant to section 291 of the Code.

## **CONTINUING DISCLOSURE OF INFORMATION**

In the Bond Order, the District has 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 ("MSRB"). This information will be available free of charge by the MSRB via the Electronic Municipal Market Access ("EMMA") system at [www.emma.msrb.org](http://www.emma.msrb.org).

### **Annual Reports**

The District will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement under Tables 1 through 12 and in Appendix A. The District will update and provide this information within six months after the end of each fiscal year. The District will provide the updated information to the MSRB.

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

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

### **Notice of Certain Events**

The District will provide notice to the MSRB of any of the following events with respect to the Bonds, if such event is material within the meaning of the federal securities laws: (1) non-payment related defaults; (2) modifications to rights of bondholders; (3) Bond calls; (4) release, substitution, or sale of property securing repayment of the Bonds; (5) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, 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; and (6) appointment of a successor or additional trustee or the change of name of a trustee.

The District will also provide notice to the MSRB of any of the following events with respect to the Bonds without regard to whether such event is considered material within the meaning of the federal securities laws: (1) principal and interest payment delinquencies; (2) unscheduled draws on debt service reserves reflecting financial difficulties; (3) unscheduled draws on credit enhancements reflecting financial difficulties; (4) substitution of credit or liquidity providers, or their failure to perform; (5) adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other events affecting the tax-exempt status of the Bonds; (6) tender offers; (7) defeasances; (8) rating changes; and (9) bankruptcy, insolvency, receivership or similar event of the District (which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District).

The District will provide notice of the aforementioned events to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event). The District will also provide timely notice of any failure by the District to provide annual financial information in accordance with their agreement described above under "– Annual Reports."

### **Availability of Information from the MSRB**

The District has agreed to provide the foregoing information only to the MSRB. All documents provided by the District to the MSRB described above under “Annual Reports” and “Notice of Certain Events” will be in an electronic format and accompanied by identifying information as prescribed by the MSRB.

The address of the MSRB is 1900 Duke Street, Suite 600, Alexandria, VA 22314, and its telephone number is (703) 797-6600.

### **Limitations and Amendments**

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

This continuing disclosure agreement may be amended by the District from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, but only if (i) the provisions, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances and (ii) either (a) the holders of a majority in aggregate principal amount (or any greater amount required by any other provision of this Order that authorizes such an amendment) of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the District (such as nationally recognized bond counsel) determined that such amendment will not materially impair the interest of the Holders and beneficial owners of the Bonds. If the District so amends its continuing disclosure it will include with any amended financial information or operating data next provided described under “– Annual Reports” herein an explanation, in narrative form, of the reason for the amendment and of the impact of any change in the type of financial information so provided. The District may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid and 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**

During the last five years, the District has complied in all material respects with its continuing disclosure agreements made by it in accordance with the Rule.

### **FINANCIAL ADVISOR**

The Official Statement was compiled and edited under the supervision of Public Finance Group LLC (the "Financial Advisor"), which firm was employed in 2014 as Financial Advisor to the District. The fees paid the Financial Advisor for services rendered in connection with the issuance and sale of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered, and therefore such fees are contingent on the sale and delivery of the Bonds.

## OFFICIAL STATEMENT

### Preparation

The information in this Official Statement was compiled and edited by the District's Financial Advisor. In addition to compiling and editing such information, the Financial Advisor has obtained the information set forth herein under the captions indicated from the following sources:

"THE DISTRICT" – Brown & Gay Engineers, Inc. ("Engineer"); "THE SYSTEM" - Engineer; "FINANCIAL STATEMENT-Unlimited Tax Bonds Authorized but Unissued" - Records of the District ("Records"); "FINANCIAL STATEMENT" – Harris County Appraisal District; "ESTIMATED OVERLAPPING DEBT STATEMENT" - Municipal Advisory Council of Texas and Southwest Securities ("Financial Advisor"); "TAX DATA" and "WATER AND SEWER OPERATIONS" - Audits, Harris County Appraisal District, Records and Tax Assessor/Collector; "MANAGEMENT" - District Directors; "DEBT SERVICE REQUIREMENTS" - Financial Advisor.

Fulbright & Jaworski LLP has reviewed the summaries included herein contained under the captions "THE BONDS" (but not under the heading "Payment Record"), and "CONTINUING DISCLOSURE OF INFORMATION" (but not under the heading "Compliance with Prior Undertakings"), to determine that such summaries correctly describe the Bonds and the Order for the purposes intended, and that matters discussed herein under the headings "THE DISTRICT – General", "TAXING PROCEDURES", and "TAX MATTERS," are correct as to matters of law.

### Consultants

In approving this Official Statement, the District has relied upon the following consultants in addition to the Financial Advisor.

*The Engineer:* The information contained in the Official Statement relating to engineering matters and to the description of the System and, in particular, that information included in the sections entitled "THE DISTRICT" and "THE SYSTEM," has been provided by Brown & Gay Engineers, Inc. and has been included in reliance upon the authority of said firm in the field of civil engineering.

*Tax Assessor/Collector:* The information contained in this Official Statement relating to the certified assessed valuation of property in the District and, in particular, such information contained in the section captioned "FINANCIAL STATEMENT," has been provided by the Harris County Appraisal District in reliance upon its authority in the field of appraising and tax assessing. The information contained in this Official Statement relating to tax collection rates, and principal taxpayers has been provided by Bob Leared Interests in reliance upon their authority in the field of tax assessing and collecting.

*Auditor:* The District's 2014 financial statements were audited by audited by McCall, Gibson, Swedlund, Barfoot P.L.L.C., Certified Public Accountants, and excerpts of the District's Audited Financial Statements as of March 31, 2014 have been included as Appendix A.

### Updating the Official Statement During Underwriting Period

If, subsequent to the date of the Official Statement, the District learns, through the ordinary course of business and without undertaking any investigation or examination for such purposes, or is notified by the Underwriter, of any adverse event which causes the Official Statement to be materially misleading, and unless the Underwriter elects to terminate its obligation to purchase the Bonds, the District will promptly prepare and supply to the Underwriter an appropriate amendment or supplement to the Official Statement satisfactory to the Underwriter provided, however, that the obligation of the District to so amend or supplement the Official Statement will terminate when the District delivers the Bonds to the Underwriter, unless the Underwriter notifies the District on or before such date that fewer 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 District delivers the Bonds) until all of the Bonds have been sold to ultimate customers.

**Certification as to Official Statement**

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

This Official Statement was approved by the Board of Directors of Harris County Municipal Utility District No. 153, as of the date shown on the first page hereof.

## PHOTOGRAPHS

The following photographs were taken in the District. The homes and commercial establishments shown in the photographs are representative of the type of construction presently located within the District, and these photographs are presented solely to illustrate such construction. The District makes no representation that any additional construction such as that as illustrated in the following photographs will occur in the District. See "THE DISTRICT."















**APPENDIX A**  
**Audited Financial Statements**

The information contained in this appendix has been excerpted from the audited financial statements of Harris County Municipal Utility District No. 153 for the fiscal year ended March 31, 2014. Certain information not considered to be relevant to this financing has been omitted; however, complete audit reports are available upon request.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153**

**HARRIS COUNTY, TEXAS**

**ANNUAL FINANCIAL REPORT**

**MARCH 31, 2014**

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153**

**HARRIS COUNTY, TEXAS**

**ANNUAL FINANCIAL REPORT**

**MARCH 31, 2014**

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# **McCALL GIBSON SWEDLUND BARFOOT PLLC**

*Certified Public Accountants*

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## **INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Harris County Municipal  
Utility District No. 153  
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Harris County Municipal Utility District No. 153 (the "District"), as of and for the year ended March 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

### **Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District'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 major fund of the District as of March 31, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 through 7 and the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund on page 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

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

  
McCall Gibson Swedlund Barfoot PLLC  
Certified Public Accountants

June 18, 2014



**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED MARCH 31, 2014**

Management's discussion and analysis of Harris County Municipal Utility District No. 153's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended March 31, 2014. Please read it in conjunction with the District's financial statements, which begin on page 8.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The basic financial statements include: (1) combined fund financial statements and government-wide financial statements and (2) notes to the financial statements. The combined fund financial statements and government-wide financial statements combine both: (1) the Statement of Net Position and Governmental Funds Balance Sheet and (2) the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances. This report also includes other supplementary information in addition to the basic financial statements.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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

The first of the government-wide statements is the Statement of Net Position. This information is found in the Statement of Net Position column on pages 8 through 11. The Statement of Net Position is the District-wide statement of its financial position presenting information that includes all of the District's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

The government-wide portion of the Statement of Activities on pages 13 through 14 reports how the District's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid.

**FUND FINANCIAL STATEMENTS**

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



**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED MARCH 31, 2014**

**FUND FINANCIAL STATEMENTS (Continued)**

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

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. The adjustments columns, the Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position on page 12 and the Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities on page 15 explain the differences between the two presentations and assist in understanding the differences between these two perspectives.

**NOTES TO THE FINANCIAL STATEMENTS**

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements can be found on pages 16 through 33 in this report.

**OTHER INFORMATION**

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information ("RSI"). A budgetary comparison schedule is included as RSI for the General Fund.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$1,028,880 as of March 31, 2014.

A portion of the District's net position reflects its net investment in capital assets (water, wastewater and drainage systems less any debt used to acquire those assets that is still outstanding). The District uses these assets to provide water and wastewater services.

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED MARCH 31, 2014**

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

	Summary of Changes in the Statement of Net Position		
	2014	2013	Change Positive (Negative)
Current and Other Assets	\$ 5,294,350	\$ 6,018,748	\$ (724,398)
Capital Assets (Net of Accumulated Depreciation)	16,194,705	16,239,974	(45,269)
Total Assets	\$ 21,489,055	\$ 22,258,722	\$ (769,667)
Long -Term Liabilities	\$ 17,550,700	\$ 18,807,134	\$ 1,256,434
Other Liabilities	2,909,475	3,212,507	303,032
Total Liabilities	\$ 20,460,175	\$ 22,019,641	\$ 1,559,466
Net Position:			
Net Investment in Capital Assets	\$ (3,810,979)	\$ (4,957,144)	\$ 1,146,165
Restricted	2,283,470	2,596,869	(313,399)
Unrestricted	2,556,389	2,599,356	(42,967)
Total Net Position	\$ 1,028,880	\$ 239,081	\$ 789,799

The following table provides a summary of the District's operations for the years ended March 31, 2014, and March 31, 2013. The District increased its net position by \$789,799.

	Summary of Changes in the Statement of Activities		
	2014	2013	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 2,175,052	\$ 2,093,693	\$ 81,359
Charges for Services	1,971,066	1,933,037	38,029
Other Revenues	104,869	97,079	7,790
Total Revenues	\$ 4,250,987	\$ 4,123,809	\$ 127,178
Expenses for Services	3,461,188	3,527,873	66,685
Change in Net Position	\$ 789,799	\$ 595,936	\$ 193,863
Net Position, Beginning of Year	239,081	(356,855)	595,936
Net Position, End of Year	\$ 1,028,880	\$ 239,081	\$ 789,799

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED MARCH 31, 2014**

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

The District's combined fund balances as of March 31, 2014, were \$4,788,395, a decrease of \$357,427 from the prior year.

The General Fund fund balance decreased by \$45,789, primarily due to operating costs exceeding current year service revenues.

The Debt Service Fund fund balance decreased by \$66,865, primarily due to the structure of the District's outstanding debt.

The Capital Projects Fund fund balance decreased by \$244,773 due to the capital outlay expenditures for waterline rehabilitation, phase 1.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The Board of Directors did not amend the budget during the current fiscal year. Actual revenue was \$186,392 more than budgeted revenue, primarily due to property tax revenue being more than anticipated. Actual expenditures were \$550,476 more than budgeted expenditures primarily due to capital costs being paid from the General Fund. See the budget to actual comparison on page 35.

**CAPITAL ASSETS**

Capital assets as of March 31, 2014, total \$16,194,705 (net of accumulated depreciation) and include land and bridges as well as the water and wastewater systems. Capital asset activity during the current fiscal year included waterline rehabilitation, phase 1. Additional information on the District's capital assets can be found in Note 6 of this report.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2014	2013	Change Positive (Negative)
Land and Land Improvements	\$ 409,449	\$ 409,449	\$
Construction in Progress	146,685	3,416,330	(3,269,645)
Bridge	17,122	31,424	(14,302)
Water System	6,603,423	2,922,244	3,681,179
Wastewater System	5,925,217	6,135,742	(210,525)
Drainage System	957,318	977,218	(19,900)
Investment in Joint Ventures	2,135,491	2,347,567	(212,076)
Total Net Capital Assets	<u>\$ 16,194,705</u>	<u>\$ 16,239,974</u>	<u>\$ (45,269)</u>

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED MARCH 31, 2014**

**LONG-TERM DEBT ACTIVITY**

At year end, the District had total bond debt payable of \$18,500,000. The changes in the debt position of the District during the fiscal year ended March 31, 2014, are summarized as follows:

Bond Debt Payable, April 1, 2013	\$ 19,780,000
Less: Bond Principal Paid	<u>1,280,000</u>
Bond Debt Payable, March 31, 2014	<u>\$ 18,500,000</u>

The District's underlying rating is "A1". The Series 2007, Series 2010 Refunding and Series 2011 bonds carry an insured rating of "A2" by virtue of bond insurance issued by Assured Guaranty Municipal Corp. Credit enhanced ratings provided through bond insurance policies are subject to change based on the rating of the bond insurance company. The above ratings reflect all rating changes of the bond insurers through the year ended March 31, 2014.

**CONTACTING THE DISTRICT'S MANAGEMENT**

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Harris County Municipal Utility District No. 153, c/o Norton Rose Fulbright, 1301 McKinney Avenue, Suite 5100, Houston, TX 77010-3095.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153**  
**STATEMENT OF NET POSITION AND**  
**GOVERNMENTAL FUNDS BALANCE SHEET**  
**MARCH 31, 2014**

	<u>General Fund</u>	<u>Debt Service Fund</u>
<b>ASSETS</b>		
Cash, Note 5	\$ 658,242	\$ 619,146
Investments, Note 5	1,970,014	1,625,000
Receivables:		
Property Taxes	9,752	82,731
Penalty and Interest on Delinquent Taxes		15,478
Service Accounts (Net of Allowance for Doubtful Accounts of \$2,000)	148,401	
Accrued Interest	4,195	1,079
Other	33,420	
Due from Other Funds, Note 2		2,097
Advance for Regional Wastewater Treatment Plant Operations, Note 10	126,892	
Land, Note 6		
Construction in Progress, Note 6		
Capital Assets (Net of Accumulated Depreciation), Note 6		
<b>TOTAL ASSETS</b>	<u>\$ 2,950,916</u>	<u>\$ 2,345,531</u>

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

<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 1,277,388	\$	\$ 1,277,388
3,595,014		3,595,014
92,483		92,483
15,478		15,478
148,401		148,401
5,274		5,274
33,420		33,420
2,097	(2,097)	
126,892		126,892
	409,449	409,449
	146,685	146,685
	<u>15,638,571</u>	<u>15,638,571</u>
<u>\$ 5,296,447</u>	<u>\$ 16,192,608</u>	<u>\$ 21,489,055</u>

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153**  
**STATEMENT OF NET POSITION AND**  
**GOVERNMENTAL FUNDS BALANCE SHEET**  
**MARCH 31, 2014**

	<u>General Fund</u>	<u>Debt Service Fund</u>
<b>LIABILITIES</b>		
Accounts Payable	\$ 166,539	\$ 4,062
Accrued Interest Payable		
Due to Developers, Note 17		
Due to Other Funds, Note 2	2,097	
Due to Taxpayers		1,502
Security Deposits	225,891	
Long Term Liabilities:		
Bonds Payable Within One Year, Note 3		
Bonds Payable After One Year, Note 3		
<b>TOTAL LIABILITIES</b>	<u>\$ 394,527</u>	<u>\$ 5,564</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Property Taxes	\$ 9,752	\$ 82,731
Penalty and Interest on Delinquent Taxes		15,478
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>\$ 9,752</u>	<u>\$ 98,209</u>
<b>FUND BALANCES</b>		
Nonspendable:		
Operating Advance	\$ 126,892	\$
Restricted for Debt Service		2,241,758
Unassigned	2,419,745	
<b>TOTAL FUND BALANCES</b>	<u>\$ 2,546,637</u>	<u>\$ 2,241,758</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<u>\$ 2,950,916</u>	<u>\$ 2,345,531</u>
<b>NET POSITION</b>		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
<b>TOTAL NET POSITION</b>		

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

Total	Adjustments	Statement of Net Position
\$ 170,601	\$	\$ 170,601
	56,497	56,497
	1,109,984	1,109,984
2,097	(2,097)	
1,502		1,502
225,891		225,891
	1,345,000	1,345,000
	17,550,700	17,550,700
<u>\$ 400,091</u>	<u>\$ 20,060,084</u>	<u>\$ 20,460,175</u>
\$ 92,483	\$ (92,483)	\$
15,478	(15,478)	
<u>\$ 107,961</u>	<u>\$ (107,961)</u>	<u>\$ -0-</u>
\$ 126,892	\$ (126,892)	\$
2,241,758	(2,241,758)	
2,419,745	(2,419,745)	
<u>\$ 4,788,395</u>	<u>\$ (4,788,395)</u>	<u>\$ - 0 -</u>
<u>\$ 5,296,447</u>		
	\$ (3,810,979)	\$ (3,810,979)
	2,283,470	2,283,470
	2,556,389	2,556,389
	<u>\$ 1,028,880</u>	<u>\$ 1,028,880</u>

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



**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE**  
**SHEET TO THE STATEMENT OF NET POSITION**  
**MARCH 31, 2014**

Total Fund Balances - Governmental Funds	\$	4,788,395
--	----	-----------

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.		16,194,705
--	--	------------

Deferred tax revenues and deferred penalty and interest revenues on delinquent taxes for the 2013 and prior tax levies became part of recognized revenue in the governmental activities of the District.		107,961
--	--	---------

Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year end consist of:

Due to Developer	\$ (1,109,984)	
Accrued Interest Payable	(56,497)	
Bonds Payable Within One Year	(1,345,000)	
Bonds Payable After One Year	<u>(17,550,700)</u>	<u>(20,062,181)</u>

Total Net Position - Governmental Activities	\$	<u>1,028,880</u>
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The accompanying notes to the financial  
statements are an integral part of this report.

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**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153**  
**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED MARCH 31, 2014**

	General Fund	Debt Service Fund
<b>REVENUES</b>		
Property Taxes	\$ 240,206	\$ 1,935,717
Sales Tax Rebate, Note 13	71,128	
Water Service	560,229	
Wastewater Service	982,115	
Groundwater Reduction Fees	295,601	
Penalty and Interest	34,271	20,340
Tap Connection and Inspection Fees	77,900	
Investment Revenues	9,284	4,766
Miscellaneous Revenues	16,358	3,073
<b>TOTAL REVENUES</b>	<u>\$ 2,287,092</u>	<u>\$ 1,963,896</u>
<b>EXPENDITURES/EXPENSES</b>		
Service Operations:		
Professional Fees	\$ 166,066	\$ 6,436
Contracted Services	581,593	49,487
Purchased Wastewater Service, Notes 10 and 11	280,865	
GRP Regulatory Assessment, Note 12	296,753	
Utilities	79,495	
Repairs and Maintenance	268,264	
Depreciation, Note 6		
Other	222,882	3,976
Capital Outlay	601,408	
Debt Service:		
Bond Principal		1,280,000
Bond Interest		690,862
<b>TOTAL EXPENDITURES/EXPENSES</b>	<u>\$ 2,497,326</u>	<u>\$ 2,030,761</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES</b>	<u>\$ (210,234)</u>	<u>\$ (66,865)</u>
<b>OTHER FINANCING SOURCES (USES)</b>		
Transfers In(Out), Note 19	\$ 164,445	\$ -0-
<b>NET CHANGE IN FUND BALANCES</b>	\$ (45,789)	\$ (66,865)
<b>CHANGE IN NET POSITION</b>		
<b>FUND BALANCES/NET POSITION - APRIL 1, 2013</b>	<u>2,592,426</u>	<u>2,308,623</u>
<b>FUND BALANCES/NET POSITION - MARCH 31, 2014</b>	<u>\$ 2,546,637</u>	<u>\$ 2,241,758</u>

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 2,175,923	\$ (871)	\$ 2,175,052
	71,128		71,128
	560,229		560,229
	982,115		982,115
	295,601		295,601
	54,611	610	55,221
	77,900		77,900
260	14,310		14,310
	19,431		19,431
<u>\$ 260</u>	<u>\$ 4,251,248</u>	<u>\$ (261)</u>	<u>\$ 4,250,987</u>
\$	\$ 172,502	\$	\$ 172,502
90	631,170		631,170
	280,865		280,865
	296,753		296,753
	79,495		79,495
	268,264		268,264
		727,135	727,135
40	226,898		226,898
80,458	681,866	(681,866)	
	1,280,000	(1,280,000)	
	690,862	87,244	778,106
<u>\$ 80,588</u>	<u>\$ 4,608,675</u>	<u>\$ (1,147,487)</u>	<u>\$ 3,461,188</u>
<u>\$ (80,328)</u>	<u>\$ (357,427)</u>	<u>\$ 1,147,226</u>	<u>\$ 789,799</u>
<u>\$ (164,445)</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
\$ (244,773)	\$ (357,427)	\$ 357,427	\$
		789,799	789,799
<u>244,773</u>	<u>5,145,822</u>	<u>(4,906,741)</u>	<u>239,081</u>
<u>\$ -0-</u>	<u>\$ 4,788,395</u>	<u>\$ (3,759,515)</u>	<u>\$ 1,028,880</u>

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF  
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED MARCH 31, 2014**

Net Change in Fund Balances - Governmental Funds	\$ (357,427)
--	--------------

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

Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied.	(871)
--	-------

Governmental funds report penalty and interest revenue on property taxes when collected. However, in the Statement of Activities, revenue is recorded when penalties and interest are assessed.	610
---	-----

Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.	(727,135)
--	-----------

Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected.	681,866
---	---------

Governmental funds report bond principal payments as expenditures. However, in the Statement of Net Position, bond principal payments are reported as decreases in long-term liabilities.	1,280,000
---	-----------

Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end.	(87,244)
---	----------

Change in Net Position - Governmental Activities	\$ <u>789,799</u>
--	-------------------

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2014**

**NOTE 1. CREATION OF DISTRICT**

Harris County Municipal Utility District No. 153 (the "District") was created effective September 23, 1977 by an Order of the Texas Water Rights Commission, presently known as the Texas Commission on Environmental Quality (the "Commission"). Pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, sanitary sewer service, storm sewer drainage, irrigation, solid waste collection and disposal, including recycling, and to construct parks and recreational facilities for the residents of the District. The District is also empowered to contract for or employ its own peace officers with powers to make arrests and to establish, operate and maintain a fire department to perform all fire-fighting activities within the District. The Board of Directors held its first meeting on November 14, 1977, and the first bonds were sold on May 13, 1985.

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES**

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

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

The District is a participant with several other districts and entities in the Atascocita Regional Sewage Treatment Plant (the "Plant"). Oversight of the Plant is exercised by a Joint Operations Board comprised of one member from each participating district having five or more single family residential connections or the equivalent thereto. Based on the criteria described above, the Plant's financial activity has not been included in the District's financial statements. Transactions with and summary financial information of this joint venture are described in Note 10.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2014**

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

Financial Statement Presentation

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

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

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

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

Government-Wide Financial Statements

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

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2014**

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

Government-Wide Financial Statements (Continued)

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

Fund Financial Statements

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

Governmental Funds

The District has three governmental funds and considers each to be a major fund.

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

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

Capital Projects Fund - To account for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs. This fund was closed during the current year.

Basis of Accounting

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



**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2014**

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

Basis of Accounting (Continued)

Property taxes considered available by the District and included in revenue include taxes collected during the year and taxes collected after year-end which were considered available to defray the expenditures of the current year. Deferred tax revenues are those taxes which the District does not reasonably expect to be collected soon enough in the subsequent period to finance current expenditures.

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis. As of March 31, 2014, the General Fund owed the Debt Service Fund \$2,097 for an over transfer of maintenance tax collections.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenditures in the governmental fund incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Interest costs, including developer interest, engineering fees and certain other costs are capitalized as part of the asset.

Assets are capitalized, including infrastructure assets, if they have an original cost greater than \$5,000 and a useful life over two years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation. Estimated useful lives are as follows:

	<u>Years</u>
Water System	10-45
Wastewater System	10-45
Drainage System	10-45
All Other Equipment	3-20

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2014**

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

Budgeting

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

Pensions

The District has not established a pension plan as the District does not have employees. The Internal Revenue Service has determined that fees of office received by Directors are considered to be wages subject to federal income tax withholding for payroll purposes only.

Measurement Focus

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

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

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

*Restricted:* amounts that can be spent only for specific purposes because of constitutional provisions, or enabling legislation, or because of constraints that are imposed externally.

*Committed:* amounts that can be spent only for purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. This action must be made no later than the end of the fiscal year. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. The District does not have any committed fund balances.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2014**

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

Measurement Focus (Continued)

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

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

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

Accounting Estimates

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

**NOTE 3. LONG-TERM DEBT**

The following is a summary of transactions regarding long-term liabilities for the year ended March 31, 2014:

	April 1, 2013	Additions	Retirements	March 31, 2014
Bonds Payable	\$ 19,780,000	\$	\$ 1,280,000	\$ 18,500,000
Unamortized Discounts	(368,782)		(153,570)	(215,212)
Unamortized Premiums	675,916		65,004	610,912
Bonds Payable, net	<u>\$ 20,087,134</u>	<u>\$ -0-</u>	<u>\$ 1,191,434</u>	<u>\$ 18,895,700</u>
		Amount Due Within One Year		\$ 1,345,000
		Amount Due After One Year		<u>17,550,700</u>
		Bonds Payable, net		<u>\$ 18,895,700</u>

As of March 31, 2014, the District has authorized but unissued bonds for water, sewer and drainage purposes in the amount of \$38,130,000 and authorized but unissued refunding bonds in the amount of \$45,510,000.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2014**

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

As of March 31, 2014, the debt service requirements on the bonds outstanding were as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 1,345,000	\$ 657,363	\$ 2,002,363
2016	1,390,000	616,758	2,006,758
2017	1,230,000	573,843	1,803,843
2018	1,285,000	526,868	1,811,868
2019	1,365,000	477,383	1,842,383
2020-2024	7,785,000	1,546,262	9,331,262
2025-2029	2,375,000	576,621	2,951,621
2030-2032	1,725,000	105,500	1,830,500
	<u>\$ 18,500,000</u>	<u>\$ 5,080,598</u>	<u>\$ 23,580,598</u>

	<u>Series 2007</u>	<u>Refunding Series 2010</u>	<u>Series 2011</u>
Amounts Outstanding - March 31, 2014	\$ 150,000	\$ 11,675,000	\$ 3,590,000
Interest Rates	3.70%	3.00% - 4.00%	2.00% - 4.00%
Maturity Dates - Serially Beginning/Ending	September 1, 2014	September 1, 2014/2023	September 1, 2014/2031
Interest Payment Dates	September 1/ March 1	September 1/ March 1	September 1/ March 1
Callable Dates	September 1, 2013*	September 1, 2016*	September 1, 2016*

	<u>Refunding Series 2013</u>
Amounts Outstanding - March 31, 2014	\$ 3,085,000
Interest Rates	2.00% - 3.50%
Maturity Dates - Serially Beginning/Ending	September 1, 2014/2027
Interest Payment Dates	September 1/ March 1
Callable Dates	September 1, 2019*

\* At the option of the District as a whole or from time to time in part on the call option date or any date thereafter, at par plus accrued interest to the date of redemption. The Series 2007 bonds maturing September 1, 2025, and September 1, 2027, are term bonds and are subject to mandatory sinking fund redemption. The Series 2011 bonds maturing September 1, 2031, are term bonds and are subject to mandatory sinking fund redemption.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2014**

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

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

During the year ended March 31, 2014, the District levied an ad valorem debt service tax rate of \$0.4086 per \$100 of assessed valuation, which resulted in a tax levy of \$1,933,691 on the adjusted taxable valuation of \$473,420,180 for the 2013 tax year. The bond orders require the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. See Note 7 for the maintenance tax levy.

The District's tax calendar is as follows:

Levy Date	- October 1 or as soon thereafter as practicable.
Lien Date	- January 1.
Due Date	- Not later than January 31.
Delinquent Date	- February 1, at which time the taxpayer is liable for penalty and interest.

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

- A. The Bond Orders state that the District shall maintain insurance on the system of a kind and in an amount which usually would be carried by private companies engaged in a similar type of business, but considering any governmental immunities to which the District may be entitled.
- B. The Bond Orders state that the District is required by the Securities and Exchange Commission to provide continuing disclosure of certain general financial information and operating data with respect to the District and each significant developer to the state information depository. This information, along with the audited annual financial statements, is to be provided within six months after the end of each fiscal year and shall continue to be provided through the life of the bonds.
- C. The District has covenanted that it will take all necessary steps to comply with the requirement that rebatable arbitrage earnings on the investment of the gross proceeds of the Bonds, within the meaning of section 148(f) of the Internal Revenue Code, be rebated to the federal government. The minimum requirement for determination of the rebatable amount is on the five-year anniversary of each issue.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2014**

**NOTE 5. DEPOSITS AND INVESTMENTS**

Deposits

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District's deposit policy for custodial credit risk requires compliance with the provisions of Texas statutes.

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District's deposits was \$4,872,402 and the bank balance was \$4,928,008. Of the bank balance, \$3,602,776 was covered by federal depository insurance and the balance was covered by collateral pledged in the name of the District and held in a third party depository.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at March 31, 2014, as listed below:

	<u>Cash</u>	<u>Certificates of Deposit</u>	<u>Total</u>
GENERAL FUND	\$ 658,242	\$ 1,970,014	\$ 2,628,256
DEBT SERVICE FUND	<u>619,146</u>	<u>1,625,000</u>	<u>2,244,146</u>
TOTAL DEPOSITS	<u>\$ 1,277,388</u>	<u>\$ 3,595,014</u>	<u>\$ 4,872,402</u>

Investments

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2014**

**NOTE 5. DEPOSITS AND INVESTMENTS (Continued)**

Investments (Continued)

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. Authorized investments are summarized as follows: (1) obligations of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (5) certain A rated or higher obligations of states, agencies, counties, cities, and other political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) insured or collateralized certificates of deposit, (8) certain fully collateralized repurchase agreements secured by delivery, (9) certain bankers' acceptances with limitations, (10) commercial paper rated A-1 or P-1 or higher and a maturity of 270 days or less, (11) no-load money market mutual funds and no-load mutual funds with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools and (14) a qualified securities lending program.

As of March 31, 2014, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities in Years		
		Less Than 1	1-5	6-10
<u>GENERAL FUND</u>				
Certificates of Deposit	\$ 1,970,014	\$ 1,970,014	\$	\$
<u>DEBT SERVICE FUND</u>				
Certificates of Deposit	<u>1,625,000</u>	<u>1,625,000</u>		
TOTAL INVESTMENTS	\$ 3,595,014	\$ 3,595,014	\$ - 0 -	\$ - 0 -

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The District manages credit risk by typically investing in certificates of deposit with balances below FDIC coverage.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District typically manages interest rate risk by investing in certificates of deposit with maturities of less than one year.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2014**

**NOTE 5. DEPOSITS AND INVESTMENTS (Continued)**

Restrictions

All cash and investments of the Debt Service Fund are restricted for the payment of debt service and the cost of assessing and collecting taxes.

**NOTE 6. CAPITAL ASSETS**

Capital asset activity for the year ended March 31, 2014:

	April 1, 2013	Increases	Decreases	March 31, 2014
<b>Capital Assets Not Being Depreciated</b>				
Land and Land Improvements	\$ 409,449	\$	\$	\$ 409,449
Construction in Progress	3,416,330	681,866	3,951,511	146,685
<b>Total Capital Assets Not Being Depreciated</b>	<u>\$ 3,825,779</u>	<u>\$ 681,866</u>	<u>\$ 3,951,511</u>	<u>\$ 556,134</u>
<b>Capital Assets Subject to Depreciation</b>				
Bridge	\$ 429,053	\$	\$	\$ 429,053
Water System	5,180,987	3,951,511		9,132,498
Wastewater System	9,175,558			9,175,558
Drainage System	1,074,371			1,074,371
Investment in Wastewater Treatment Plant	4,691,226			4,691,226
Investment in Lift Station	404,840			404,840
<b>Total Capital Assets Subject to Depreciation</b>	<u>\$ 20,956,035</u>	<u>\$ 3,951,511</u>	<u>\$ - 0 -</u>	<u>\$ 24,907,546</u>
<b>Accumulated Depreciation</b>				
Bridge	\$ 397,629	\$ 14,302	\$	\$ 411,931
Water System	2,258,743	270,332		2,529,075
Wastewater System	3,039,816	210,525		3,250,341
Drainage System	97,153	19,900		117,053
Investment in Wastewater Treatment Plant	2,508,237	199,425		2,707,662
Investment in Lift Station	240,262	12,651		252,913
<b>Total Accumulated Depreciation</b>	<u>\$ 8,541,840</u>	<u>\$ 727,135</u>	<u>\$ - 0 -</u>	<u>\$ 9,268,975</u>
<b>Total Depreciable Capital Assets, Net of Accumulated Depreciation</b>	<u>\$ 12,414,195</u>	<u>\$ 3,224,376</u>	<u>\$ - 0 -</u>	<u>\$ 15,638,571</u>
<b>Total Capital Assets, Net of Accumulated Depreciation</b>	<u>\$ 16,239,974</u>	<u>\$ 3,906,242</u>	<u>\$ 3,951,511</u>	<u>\$ 16,194,705</u>

The District has financed drainage facilities which have been conveyed to other entities for maintenance. As a result, the District's long-term debt is greater than its net capital assets.



**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2014**

**NOTE 7. MAINTENANCE TAX**

On July 16, 1983, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$1.00 per \$100 of assessed valuation. During the year ended March 31, 2014, the District levied an ad valorem maintenance tax rate of \$0.0514 per \$100 of assessed valuation, which resulted in a tax levy of \$243,249 on the adjusted taxable valuation of \$473,420,180 for the 2013 tax year. This maintenance tax is to be used by the General Fund to pay expenditures of operating the District's waterworks and sanitary sewer system.

**NOTE 8. INTERIM AND EMERGENCY WATER SUPPLY CONTRACTS**

On August 20, 1984, the District executed an emergency water supply agreement with Harris County Municipal Utility District No. 132 (District No. 132). The agreement was for a period of ten (10) years and provides for each district to repay the other district in kind for water supplied on an emergency basis, except that should one district use water for greater than five (5) days there is a provision that there be a reimbursement based upon the existing out-of-district water service rates. Each district is required to pay its cost of getting to a point of connection and its proportionate share of operation and maintenance costs. During a prior fiscal year, the District and District No. 132 extended the term of the original emergency water supply agreement to March 1, 2014. The agreement expired during the current fiscal year.

On February 16, 1982, and as amended on August 8, 1983, October 15, 1985, February 10, 1992 and November 17, 1999, the District entered into an Interim and Emergency Water Supply contract with Harris County Municipal Utility District No. 152 (District No. 152). On September 15, 2004, the District entered into an Amended and Restated Water Supply Contract with District No. 152. The contract was amended on December 18, 2013. District No. 152 will charge \$1.00 per 1,000 gallons of water plus a pumpage fee for emergency water service. This contract also states District No. 152 will continue to supply water to the District sufficient to serve the Atascocita Middle School at the rates for customers in District No. 152. The term of this agreement is 40 years, but may be terminated by either district giving 180 days notice of termination.

**NOTE 9. UTILITY SERVICE CONTRACT - CITY OF HOUSTON**

On September 27, 1983, the District authorized the execution of a contract with the City of Houston, Texas. The contract provides for the District to provide water and sewer service to a tract of land located within the City of Houston and adjacent to the District. The District is currently providing service to the residents within the tract.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2014**

**NOTE 10. SEWAGE TREATMENT OPERATIONS AND MAINTENANCE AGREEMENTS**

Harris County Municipal Utility District Nos. 46, 106, 109, 132, 151, 152 and 153 previously entered into a Waste Disposal Contract to operate and maintain a regional sewage treatment plant to serve surrounding areas. The agreement calls for each district to pay its pro rata share of operating costs of the plant based upon a budget of the estimated costs. The participants in the plant amended the agreement to provide for the establishment of a Joint Operations Board. The Joint Operations Board is responsible for adoption of a budget for both Exhibit B and C costs for the fiscal year June 1 through May 31 and determines the rates to be charged based upon the expected operating budgets.

On December 1, 2012, the participants in the treatment plant executed a Fourth Amended and Restated Waste Disposal Contract whereby certain participants agreed to sell and assign capacity to Harris County Municipal Utility District No. 494 (District No 494). The sale will occur in stages on or before December 31 of each of the years 2014, 2016, 2017, and 2018. The pro rata share of capacity will be amended upon each sale. The term of the agreement ends August 1, 2048.

On December 1, 2012, the participants also executed an amended sanitary sewer line contract which provides for the participants to sell capacity in the line to District No. 494.

The following summary financial data on the regional sewage treatment plant is presented for the fiscal year ended May 31, 2013. A copy of the financial statements for the plant can be obtained by contracting Norton Rose Fulbright.

	<u>Joint Venture</u>
Total Assets	\$ 1,032,299
Total Liabilities	<u>286,549</u>
Total Fund Balance	<u>\$ 745,750</u>
Total Revenues	\$ 1,531,205
Total Expenditures	<u>1,531,205</u>
Excess Revenues (Expenditures)	<u>\$ -0-</u>
Other Financing Sources (Uses)	
Reserve Adjustment	<u>\$ 35,000</u>
Net Increase (Decrease) in Fund Balance	\$ (35,000)
Fund Balance, Beginning of Year	<u>780,750</u>
Fund Balance, End of Year	<u>\$ 745,750</u>

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2014**

**NOTE 10. SEWAGE TREATMENT OPERATIONS AND MAINTENANCE AGREEMENTS (Continued)**

During the current fiscal year, the District's advance for operations and maintenance of the Regional Sewage Treatment Plant was \$126,892 and the District recorded total expenditures of \$280,865 as its share of the operating costs of the plant.

**NOTE 11. WASTEWATER PUMP STATION AND FORCE MAIN AGREEMENT**

On November 21, 1983, the District executed an amendment to an agreement with District No. 132 and District No. 151. The amended agreement provides for the acquisition and construction of a wastewater pump station and force main to provide for transportation of waste from the land within each districts' boundaries to the Atascocita Central Sewage Treatment Plant. Construction of these facilities was completed in a prior year.

The amended agreement further provides that District No. 132 will operate and maintain the facilities, and each district will pay its pro rata share of the operating and maintenance costs. The term of the contract is 40 years. During the current fiscal year, of the District's pro rata share was \$26,634.

**NOTE 12. CITY OF HOUSTON WATER SUPPLY AND GROUNDWATER REDUCTION PLAN AGREEMENT**

On March 19, 2003 the District executed a City of Houston Water Supply and Groundwater Reduction Plan Agreement for Regulatory Area 3 of the Harris Galveston Subsidence District (the "Agreement"). The Agreement is between the District and the City of Houston, Texas (the "City"). Under the terms of the Agreement the City is responsible for the design, construction and operation of a project to meet compliance criteria of the Harris Galveston Subsidence District (the "Subsidence District"). That criteria has deadlines as follows: January 2005 for commencement of construction of the initial phase; January 2010 deadline to reduce groundwater withdrawals such that the City and participants, including the District, have a group withdrawal from groundwater of no more than 70% of overall demand, and subsequent deadlines in 2020 and 2030 to further reduce and maintain groundwater withdrawals.

The District must begin taking water under the Agreement, if ever, at a date to be decided by the City, or earlier if needed (and agreed to by the City). The City may not require the District to take water prior to January 1, 2010. The City will determine the minimum amount of water to be taken and establish maximum peak rates of flow. The City can specify where the District will connect to the system.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2014**

**NOTE 12. CITY OF HOUSTON WATER SUPPLY AND GROUNDWATER REDUCTION PLAN AGREEMENT (Continued)**

The City will develop a Ground Reduction Plan (GRP) for itself, the District and all other entities who execute a similar agreement with the City. The GRP will be based upon the project to supply treated water from alternative sources and shall include a plan for co-permitting all groundwater wells owned or controlled by the other participants in accordance with requirements of the Subsidence District. The City and District agree to cooperate to allow co-permitting of their wells under the Subsidence District's rules as provided in the GRP.

Charges to the District commenced in July 2003. The payment amount is calculated as follows:

- Until the date on which the District connects or is required by the City to connect to the project the District will pay the amount determined by the formula:
  - $R \times P \times Q$  where:
    - R is the base GRP Rate per thousand gallons
    - Q is a quantity of groundwater pumped by the District in thousands of gallons
    - P is 30% through 2016, 70% from 2017 through 2026, and thereafter is 80%, except such percentage may be increased or reduced by the City.
- After the date on which the District connects or is required by the City to connect to the project, the District will pay the amount determined by the formula;
  - $R \times C$ , where
    - R is the GRP Rate (including base rate and any peaking surcharge) per thousand gallons
    - C is the Contract Quantity or such greater quantity of water taken by the District in thousands of gallons

The GRP Rate is the City's then current ordinance rate for contract treated surface water. As of March 31, 2014, the GRP rate was \$2.690 per thousand gallons. The District is responsible for 30% of this rate or \$0.807 per 1,000 gallons of water produced. The District adds 10% to this cost for its charge to the customers of the District. The District paid \$296,753 to the City in accordance with this agreement during the current fiscal year.

The term of the Agreement extends until noon on December 31, 2040, unless sooner terminated pursuant to the terms of the Agreement.

**NOTE 13. STRATEGIC PARTNERSHIP AGREEMENT**

On March 7, 2005, the District entered into a Strategic Partnership Agreement with the City of Houston, Texas. The effective date of the agreement is March 31, 2005. The agreement provides that in accordance with Subchapter F of Chapter 43 of the Local Government Code and Act, the City shall annex the land within the District (the tract) for the limited purposes of applying the City's Planning, Zoning, Health, and Safety Ordinances within the tract. The District will

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2014**

**NOTE 13. STRATEGIC PARTNERSHIP AGREEMENT (Continued)**

continue to develop, to own, and to operate and maintain a water, wastewater, and drainage system in the District.

All taxable property within the tract 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 within the District. Provisions of the Regulatory Plan adopted by the City will be applicable to the Subject Tract of land within the District. The District's assets, liabilities, indebtedness, and obligations will remain the responsibility of the District during the period preceding full-purpose annexation.

After the tract is annexed for limited purposes by the City, the qualified voters of the tract may vote in City elections pursuant to Local Government Code. The City is responsible for notifying the voters within the Subject Tract.

The City shall impose a Sales and Use Tax within the boundaries of the Subject Tract upon the limited-purpose annexation of the Subject Tract. The Sales and Use Tax shall be imposed on the receipts from the sale and use at retail of taxable items at the rate of one percent or the rate specified under the future amendments to Chapter 321 of the Tax Code. The City agreed to pay to the District an amount equal to one-half of all Sales and Use Tax revenues generated within the boundaries of the tract. The City agreed to deliver to the District its share of the sales tax receipts within 30 days of the City receiving the funds from the State Comptroller's office. Sales tax revenues in the current fiscal year were \$71,128.

The City agrees that it will not annex the District for full purposes or commence any action to annex the District for full purposes during the term of this Agreement. The term of this Agreement is 30 years from the effective date of the agreement. The District agrees to prepare an annual audit within 120 days of its fiscal year end and provide a copy of the annual audit to the City within 30 days after the audit is completed. The term of this Agreement is 30 years from the effective date of the agreement.

**NOTE 14. RISK MANAGEMENT**

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

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2014**

**NOTE 15. AGREEMENT FOR CONSTRUCTION, MAINTENANCE, SALE AND LEASE OF WASTEWATER PUMP STATION, FORCE MAIN AND SITE**

On March 11, 1983, and as amended on June 14, 2006, the District entered into an agreement with Harris County Municipal Utility District No. 152 to acquire, construct, operate and maintain a wastewater pump station and force main for the transportation of waste from the land within their boundaries to the Atascocita Central Sewage Treatment Plant. Under the terms of the agreement, each district agrees to pay its pro-rata share of the construction costs. The District will operate and maintain the facilities and each district will pay its pro-rata share of operating and maintenance costs. The term of the contract is 40 years.

**NOTE 16. WATER SUPPLY AND SANITARY SEWER AGREEMENT**

The District entered into a Water Supply and Sanitary Sewer Agreement with Harris County Municipal Utility District No. 494 (District No. 494), effective May 1, 2013. The District agrees to sell 150 initial connections of potable water and waste conveyance capacity and related services. District No. 494 is responsible for construction of a water line and sewer line to connect with the District water system and wastewater facilities prior to the purchase of connections. The districts acknowledge that District No. 494's Developer has paid to the District \$522,377 for District No. 494's share of certain fees and expenses of the District's engineering work related to the joint lift station and force main facilities, joint water trunk line (collectively, Phase II) and initial water plant no. 1 hydropneumatic tank costs. The District is responsible for the engineering and construction of Phase II and the District will fund their pro rata share of engineering and construction costs. The District is also responsible for the engineering and construction of the joint water plant (Phase III and Phase IV) and District No. 494 will fund their pro-rata share of engineering and construction costs. Upon completion of Phases III and IV construction, the joint water plant will be owned by the District. The term of this agreement is 40 years.

**NOTE 17. UNREIMBURSED COSTS**

In accordance with the terms of certain development financing agreements, certain Developers within the District have made expenditures on behalf of the District for various projects for which the District has not sold bonds. As of the balance sheet date, the District has recorded \$1,109,984 due to the Developer for completed projects. Any reimbursement will come from proceeds of future bond sales.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2014**

**NOTE 18. REFUNDING BONDS**

On March 5, 2013, the District issued its \$3,085,000 Series 2013 Unlimited Tax Refunding Bonds. The net proceeds of \$3,116,143 were used to refund \$515,000 of Series 2003 Bonds and \$2,550,000 of Series 2007 Bonds. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from the Statement of Net Position of the District. The District refunded the following bonds to restructure its outstanding debt, the effect of which generated a decrease in total debt service cost of \$233,047 and a net present value savings of \$190,680.

<u>REFUNDED BONDS</u>				
<u>Issue</u>	<u>Interest Rates</u>	<u>Maturities</u>	<u>Callable Date</u>	<u>Outstanding at March 31, 2014</u>
2003	4.00%	2021/2022	September 1, 2010	\$ -0-
2007	3.70%-4.00%	2015/2027	September 1, 2013	<u>-0-</u>
TOTAL				<u>\$ -0-</u>

**NOTE 19. TRANSFERS**

During the current year, \$164,445 was transferred from the Capital Projects Fund to the General Fund for the Water Line Rehabilitation, Phase I project and closing the Capital Projects Fund.

**NOTE 20. SUBSEQUENT EVENT**

Subsequent to year-end, the District submitted a Bond Application in the amount of \$9,055,000 to the Commission. As of the date of this report, the application is pending approval.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153**

**REQUIRED SUPPLEMENTARY INFORMATION**

**MARCH 31, 2014**



**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND**  
**FOR THE YEAR ENDED MARCH 31, 2014**

	Original and Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>			
Property Taxes	\$ 116,300	\$ 240,206	\$ 123,906
Sales Tax Rebate	47,500	71,128	23,628
Water Service	571,000	560,229	(10,771)
Wastewater Service	965,000	982,115	17,115
Groundwater Reduction Fees	326,000	295,601	(30,399)
Penalty and Interest	37,000	34,271	(2,729)
Tap Connection and Inspection Fees	19,000	77,900	58,900
Investment Revenues	8,400	9,284	884
Miscellaneous Revenues	10,500	16,358	5,858
<b>TOTAL REVENUES</b>	<u>\$ 2,100,700</u>	<u>\$ 2,287,092</u>	<u>\$ 186,392</u>
<b>EXPENDITURES</b>			
Services Operations:			
Professional Fees	\$ 178,750	\$ 166,066	\$ 12,684
Contracted Services	606,800	581,593	25,207
GRP Regulatory Assessment	368,000	296,753	71,247
Purchased Wastewater Service	271,800	280,865	(9,065)
Utilities	88,200	79,495	8,705
Repairs and Maintenance	189,700	268,264	(78,564)
Other	218,600	222,882	(4,282)
Capital Outlay	25,000	601,408	(576,408)
<b>TOTAL EXPENDITURES</b>	<u>\$ 1,946,850</u>	<u>\$ 2,497,326</u>	<u>\$ (550,476)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>\$ 153,850</u>	<u>\$ (210,234)</u>	<u>\$ (364,084)</u>
<b>OTHER FINANCING SOURCES(USES)</b>			
Transfers In (Out)	<u>\$ -0-</u>	<u>\$ 164,445</u>	<u>\$ 164,445</u>
<b>NET CHANGE IN FUND BALANCE</b>	\$ 153,850	\$ (45,789)	\$ (199,639)
<b>FUND BALANCE - APRIL 1, 2013</b>	<u>2,592,426</u>	<u>2,592,426</u>	<u></u>
<b>FUND BALANCE - MARCH 31, 2014</b>	<u>\$ 2,746,276</u>	<u>\$ 2,546,637</u>	<u>\$ (199,639)</u>

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153**

**SUPPLEMENTARY INFORMATION – REQUIRED BY THE  
WATER DISTRICT FINANCIAL MANAGEMENT GUIDE**

**MARCH 31, 2014**



**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153**  
**SERVICES AND RATES**  
**FOR THE YEAR ENDED MARCH 31, 2014**

**2. RETAIL SERVICE PROVIDERS (Continued)**

**b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)**

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered			x 1.0	
≤¾"	<u>2,457</u>	<u>2,422</u>	x 1.0	<u>2,422</u>
1"	<u>72</u>	<u>72</u>	x 2.5	<u>180</u>
1½"	<u>5</u>	<u>5</u>	x 5.0	<u>25</u>
2"	<u>31</u>	<u>31</u>	x 8.0	<u>248</u>
3"			x 15.0	
4"	<u>6</u>	<u>6</u>	x 25.0	<u>150</u>
6"			x 50.0	
8"			x 80.0	
10"			x 115.0	
Total Water Connections	<u>2,571</u>	<u>2,536</u>		<u>3,025</u>
Total Wastewater Connections	<u>2,531</u>	<u>2,496</u>	x 1.0	<u>2,496</u>

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

Gallons pumped into system:	359,554,000	Water Accountability Ratio: 95% (Gallons billed and maintenance/Gallons pumped)
Gallons billed to customers:	336,514,000	
Maintenance:	4,350,000	

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153**  
**SERVICES AND RATES**  
**FOR THE YEAR ENDED MARCH 31, 2014**

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

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

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

**5. LOCATION OF DISTRICT:**

Is the District located entirely within one county?

Yes ☒ No ☐

County or Counties in which District is located:

Harris County, Texas

Is the District located within a city?

Entirely ☐ Partly ☐ Not at all ☒

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

Entirely ☒ Partly ☐ Not at all ☐

ETJ's in which District is located:

City of Houston, Texas

Are Board Members appointed by an office outside the District?

Yes ☐ No ☒

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153**  
**GENERAL FUND EXPENDITURES**  
**FOR THE YEAR ENDED MARCH 31, 2014**

<b>PROFESSIONAL FEES:</b>	
Auditing	\$ 15,600
Engineering	104,677
Legal	44,039
Financial Advisor	<u>1,750</u>
<b>TOTAL PROFESSIONAL FEES</b>	<b>\$ <u>166,066</u></b>
<b>PURCHASED SERVICES FOR RESALE:</b>	
GRP Regulatory Assessment	\$ 296,753
Purchased Wastewater Service	<u>280,865</u>
<b>TOTAL PURCHASED SERVICES FOR RESALE</b>	<b>\$ <u>577,618</u></b>
<b>CONTRACTED SERVICES:</b>	
Bookkeeping	\$ 20,233
Operations and Billing	<u>106,695</u>
<b>TOTAL CONTRACTED SERVICES</b>	<b>\$ <u>126,928</u></b>
<b>UTILITIES:</b>	
Electricity	\$ 76,326
Telephone	<u>3,169</u>
<b>TOTAL UTILITIES</b>	<b>\$ <u>79,495</u></b>
<b>REPAIRS AND MAINTENANCE</b>	<b>\$ <u>268,264</u></b>
<b>ADMINISTRATIVE EXPENDITURES:</b>	
Director Fees	\$ 11,100
Insurance	11,665
Office Supplies and Postage	55,704
Payroll Taxes	849
Travel and Meetings	6,557
Other	<u>24,381</u>
<b>TOTAL ADMINISTRATIVE EXPENDITURES</b>	<b>\$ <u>110,256</u></b>

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153**  
**GENERAL FUND EXPENDITURES**  
**FOR THE YEAR ENDED MARCH 31, 2014**

CAPITAL OUTLAY:	
Capitalized Assets	\$ 601,408
Expenditures Not Capitalized	
TOTAL CAPITAL OUTLAY	<u>\$ 601,408</u>
TAP CONNECTIONS	<u>\$ 37,400</u>
SOLID WASTE DISPOSAL	<u>\$ 454,665</u>
OTHER EXPENDITURES:	
Chemicals	\$ 11,177
Laboratory Fees	5,091
Permit Fees	13,720
Reconnection Fees	14,530
Meter Replacement	15,230
Inspection Fees	7,860
Regulatory Assessment	<u>7,618</u>
TOTAL OTHER EXPENDITURES	<u>\$ 75,226</u>
TOTAL EXPENDITURES	<u>\$ 2,497,326</u>

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153**  
**INVESTMENTS**  
**MARCH 31, 2014**

<u>Funds</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at End of Year</u>
<b><u>GENERAL FUND</u></b>					
Certificate of Deposit	XXXX5065	0.400%	04/26/14	\$ 200,000	\$ 762
Certificate of Deposit	XXXX0640	0.400%	08/20/14	200,000	276
Certificate of Deposit	XXXX1966	0.350%	02/06/15	240,000	122
Certificate of Deposit	XXXX2012	0.350%	06/24/14	200,000	537
Certificate of Deposit	XXXX4526	0.350%	07/09/14	150,000	381
Certificate of Deposit	XXXX5243	0.550%	10/15/14	150,000	301
Certificate of Deposit	XXXX0333	0.350%	12/03/14	240,014	175
Certificate of Deposit	XXXX6936	0.360%	11/18/14	240,000	232
Certificate of Deposit	XXXX8706	0.500%	04/07/14	200,000	981
Certificate of Deposit	XXXX2778	0.320%	05/10/14	150,000	428
<b>TOTAL GENERAL FUND</b>				<b><u>\$ 1,970,014</u></b>	<b><u>\$ 4,195</u></b>
<b><u>DEBT SERVICE FUND</u></b>					
Certificate of Deposit	XXXX1691	0.200%	08/19/14	\$ 240,000	\$ 51
Certificate of Deposit	XXXX1347	0.400%	08/20/14	185,000	375
Certificate of Deposit	XXXX1586	0.550%	08/11/14	240,000	203
Certificate of Deposit	XXXX0346	0.300%	08/20/14	240,000	110
Certificate of Deposit	XXXX5134	0.320%	08/19/14	240,000	82
Certificate of Deposit	XXXX0066	0.300%	08/20/14	240,000	111
Certificate of Deposit	XXXX7720	0.400%	08/02/14	240,000	147
<b>TOTAL DEBT SERVICE FUND</b>				<b><u>\$ 1,625,000</u></b>	<b><u>\$ 1,079</u></b>
<b>TOTAL - ALL FUNDS</b>				<b><u>\$ 3,595,014</u></b>	<b><u>\$ 5,274</u></b>

See accompanying independent auditor's report.



**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153**  
**TAXES LEVIED AND RECEIVABLE**  
**FOR THE YEAR ENDED MARCH 31, 2014**

	<u>Maintenance Taxes</u>		<u>Debt Service Taxes</u>	
<b>TAXES RECEIVABLE -</b>				
APRIL 1, 2013	\$	6,930	\$	86,424
Adjustments to Beginning Balance		<u>(221)</u>	<u>(1,667)</u>	\$ 84,757
Original 2013 Tax Levy	\$	220,948	\$	1,756,413
Adjustment to 2013 Tax Levy		<u>22,301</u>	<u>177,278</u>	<u>1,933,691</u>
<b>TOTAL TO BE ACCOUNTED FOR</b>		\$ 249,958		\$ 2,018,448
<b>TAX COLLECTIONS:</b>				
Prior Years	\$	3,726	\$	55,840
Current Year		<u>236,480</u>	<u>1,879,877</u>	<u>1,935,717</u>
<b>TAXES RECEIVABLE - MARCH 31, 2014</b>		<u>\$ 9,752</u>		<u>\$ 82,731</u>
<b>TAXES RECEIVABLE BY YEAR:</b>				
2013	\$	6,769	\$	53,814
2012		648		10,602
2011		624		5,345
2010		536		4,359
2009		396		3,962
2008		547		2,807
2007		207		1,712
2006		19		86
2005		5		42
2004		1		1
2003				<u>1</u>
<b>TOTAL</b>		<u>\$ 9,752</u>		<u>\$ 82,731</u>

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153**  
**TAXES LEVIED AND RECEIVABLE**  
**FOR THE YEAR ENDED MARCH 31, 2014**

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
PROPERTY VALUATIONS:				
Land	\$ 104,291,370	\$ 104,186,295	\$ 106,276,398	\$ 105,213,794
Improvements	382,276,005	364,820,246	368,408,730	374,116,832
Personal Property	14,427,958	10,938,597	13,059,421	14,671,117
Exemptions	<u>(27,575,153)</u>	<u>(22,615,604)</u>	<u>(23,948,518)</u>	<u>(24,962,619)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 473,420,180</u>	<u>\$ 457,329,534</u>	<u>\$ 463,796,031</u>	<u>\$ 469,039,124</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.4086	\$ 0.4335	\$ 0.3940	\$ 0.3918
Maintenance	<u>0.0514</u>	<u>0.0265</u>	<u>0.0460</u>	<u>0.0482</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.4600</u>	<u>\$ 0.4600</u>	<u>\$ 0.4400</u>	<u>\$ 0.4400</u>
ADJUSTED TAX LEVY*	<u>\$ 2,176,940</u>	<u>\$ 2,103,716</u>	<u>\$ 2,040,703</u>	<u>\$ 2,063,773</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>97.22 %</u>	<u>99.47 %</u>	<u>99.71 %</u>	<u>99.76 %</u>

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

Maintenance Tax – Maximum tax rate of \$1.00 per \$100 of assessed valuation approved by voters on July 16, 1983.

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153**  
**PRINCIPAL TAXPAYERS**  
**FOR THE YEAR ENDED MARCH 31, 2014**

<u>Top Ten Taxpayers</u>	<u>Assessed Value</u>
1. Sunrise Partners, LLP	\$ 6,061,350
2. UPG Atascocita	5,031,000
3. WSG Walden IV, LP	4,837,361
4. Bonita Investments LLC	3,741,550
5. Sovran Acquisition LP	3,736,184
6. 7702 FM 1960, Ltd.	3,673,438
7. 18700 WHLP, LP	3,495,000
8. Atascocita Hospitality	2,850,000
9. Centerpoint Energy	1,969,860
10. Brookwood Mountainview	<u>1,671,878</u>
 Total Ten Principal Taxpayers	 <u>\$ 37,067,621</u>

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153**  
**ASSESSED VALUE BY CLASSIFICATION**  
**FOR THE YEAR ENDED MARCH 31, 2014**

Type of Property	2013 Tax Roll Year	
	Amount	Percentage
Single Family	\$ 411,560,235	86.9%
Multi-Family	6,061,350	1.3%
Commercial	40,447,321	8.5%
Personal	8,102,298	1.7%
Acreage	277,249	0.1%
Vacant Lot	4,844,717	1.0%
Other	<u>2,127,010</u>	<u>0.5%</u>
Total	<u>\$ 473,420,180</u>	<u>100.0%</u>

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**MARCH 31, 2014**

<u>S E R I E S - 2 0 0 7</u>			
<u>Due During Fiscal Years Ending March 31</u>	<u>Principal Due September 1</u>	<u>Interest Due September 1/ March 1</u>	<u>Total</u>
2015	\$ 150,000	\$ 2,775	\$ 152,775
2016			
2017			
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
	<u>\$ 150,000</u>	<u>\$ 2,775</u>	<u>\$ 152,775</u>

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**MARCH 31, 2014**

<u>REFUNDING SERIES - 2010</u>			
Due During Fiscal Years Ending March 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2015	\$ 1,175,000	\$ 425,425	\$ 1,600,425
2016	1,220,000	389,500	1,609,500
2017	1,060,000	350,000	1,410,000
2018	1,120,000	306,400	1,426,400
2019	1,175,000	260,500	1,435,500
2020	1,245,000	212,100	1,457,100
2021	1,310,000	161,000	1,471,000
2022	1,120,000	112,400	1,232,400
2023	1,175,000	66,500	1,241,500
2024	1,075,000	21,500	1,096,500
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
	\$ 11,675,000	\$ 2,305,325	\$ 13,980,325

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**MARCH 31, 2014**

<u>S E R I E S - 2 0 1 1</u>			
Due During Fiscal Years Ending March 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2015	\$ 5,000	\$ 139,838	\$ 144,838
2016	5,000	139,733	144,733
2017	5,000	139,618	144,618
2018	5,000	139,493	144,493
2019	5,000	139,358	144,358
2020	5,000	139,213	144,213
2021	5,000	139,050	144,050
2022	5,000	138,862	143,862
2023	5,000	138,662	143,662
2024	350,000	132,000	482,000
2025	225,000	121,219	346,219
2026	235,000	112,594	347,594
2027	235,000	103,782	338,782
2028	250,000	94,688	344,688
2029	525,000	79,500	604,500
2030	550,000	58,000	608,000
2031	575,000	35,500	610,500
2032	600,000	12,000	612,000
	<u>\$ 3,590,000</u>	<u>\$ 2,003,110</u>	<u>\$ 5,593,110</u>

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**MARCH 31, 2014**

<u>REFUNDING SERIES - 2013</u>			
Due During Fiscal Years Ending March 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2015	\$ 15,000	\$ 89,325	\$ 104,325
2016	165,000	87,525	252,525
2017	165,000	84,225	249,225
2018	160,000	80,975	240,975
2019	185,000	77,525	262,525
2020	180,000	73,875	253,875
2021	180,000	69,375	249,375
2022	450,000	59,925	509,925
2023	460,000	46,275	506,275
2024	220,000	35,525	255,525
2025	215,000	27,913	242,913
2026	215,000	20,387	235,387
2027	240,000	12,425	252,425
2028	235,000	4,113	239,113
2029			
2030			
2031			
2032			
	\$ 3,085,000	\$ 769,388	\$ 3,854,388

See accompanying independent auditor's report.



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**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**MARCH 31, 2014**

ANNUAL REQUIREMENTS  
FOR ALL SERIES

Due During Fiscal Years Ending March 31	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2015	\$ 1,345,000	\$ 657,363	\$ 2,002,363
2016	1,390,000	616,758	2,006,758
2017	1,230,000	573,843	1,803,843
2018	1,285,000	526,868	1,811,868
2019	1,365,000	477,383	1,842,383
2020	1,430,000	425,188	1,855,188
2021	1,495,000	369,425	1,864,425
2022	1,575,000	311,187	1,886,187
2023	1,640,000	251,437	1,891,437
2024	1,645,000	189,025	1,834,025
2025	440,000	149,132	589,132
2026	450,000	132,981	582,981
2027	475,000	116,207	591,207
2028	485,000	98,801	583,801
2029	525,000	79,500	604,500
2030	550,000	58,000	608,000
2031	575,000	35,500	610,500
2032	600,000	12,000	612,000
	<u>\$ 18,500,000</u>	<u>\$ 5,080,598</u>	<u>\$ 23,580,598</u>

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153**  
**CHANGE IN LONG-TERM BOND DEBT**  
**FOR THE YEAR ENDED MARCH 31, 2014**

Description	Original Bonds Issued	Bonds Outstanding April 1, 2013
Harris County Municipal Utility District No. 153 Unlimited Tax Bonds - Series 2007	\$ 3,430,000	\$ 275,000
Harris County Municipal Utility District No. 153 Unlimited Tax Refunding Bonds - Series 2010	13,140,000	12,825,000
Harris County Municipal Utility District No. 153 Unlimited Tax Bonds - Series 2011	3,600,000	3,595,000
Harris County Municipal Utility District No. 153 Unlimited Tax Refunding Bonds - Series 2013	<u>3,085,000</u>	<u>3,085,000</u>
<b>TOTAL</b>	<u><b>\$ 23,255,000</b></u>	<u><b>\$ 19,780,000</b></u>
 Bond Authority:	<u>Tax Bonds</u>	<u>Refunding Bonds</u>
Amount Authorized by Voters	\$ 70,070,000	\$ 47,910,000
Amount Issued	<u>31,940,000</u>	<u>2,400,000</u>
Remaining to be Issued	<u><b>\$ 38,130,000</b></u>	<u><b>\$ 45,510,000</b></u>
 Debt Service Fund cash, investments and cash with paying agent balances as of March 31, 2014:		<u><b>\$ 2,244,146</b></u>
 Average annual debt service payment (principal and interest) for remaining term of all debt:		<u><b>\$ 1,310,033</b></u>

See Note 3 for interest rate, interest payment dates and maturity dates.

See accompanying independent auditor's report.

Current Year Transactions				
Bonds Sold	Retirements		Bonds Outstanding March 31, 2014	Paying Agent
	Principal	Interest		
\$	\$ 125,000	\$ 7,894	\$ 150,000	Wells Fargo Bank Houston, Texas
	1,150,000	454,550	11,675,000	Wells Fargo Bank Houston, Texas
	5,000	139,938	3,590,000	The Bank of New York Mellon Trust Company, NA Dallas, Texas
		88,480	3,085,000	Bank of Texas Austin, Texas
<u>\$ - 0 -</u>	<u>\$ 1,280,000</u>	<u>\$ 690,862</u>	<u>\$ 18,500,000</u>	

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153**  
**COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES**  
**GENERAL FUND – FIVE YEARS**

	Amounts		
	2014	2013	2012
<b>REVENUES</b>			
Property Taxes	\$ 240,206	\$ 123,136	\$ 214,722
Sales Tax Rebate	71,128	60,677	53,894
Water Service	560,229	584,432	649,649
Wastewater Service	982,115	969,312	960,063
Groundwater Reduction Fees	295,601	302,559	343,389
Grant Revenue			6,993
Penalty and Interest	34,271	36,212	31,905
Tap Connection and Inspection Fees	77,900	22,175	49,794
Investment Revenues	9,284	12,227	13,585
Miscellaneous Revenues	16,358	11,334	9,344
<b>TOTAL REVENUES</b>	<u>\$ 2,287,092</u>	<u>\$ 2,122,064</u>	<u>\$ 2,333,338</u>
<b>EXPENDITURES</b>			
Professional Fees	\$ 166,066	\$ 174,251	\$ 163,807
Contracted Services	581,593	593,790	652,315
Purchased Wastewater Service	280,865	260,640	297,295
GRP Regulatory Assessment	296,753	366,920	345,945
Utilities	79,495	85,416	109,235
Repairs and Maintenance	268,264	297,323	264,619
Other	222,882	201,108	241,946
Capital Outlay	601,408	131,517	7,448
<b>TOTAL EXPENDITURES</b>	<u>\$ 2,497,326</u>	<u>\$ 2,110,965</u>	<u>\$ 2,082,610</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>\$ (210,234)</u>	<u>\$ 11,099</u>	<u>\$ 250,728</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In(Out)	\$ 164,445	\$	\$ 76,969
Developer Contributions			
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>\$ 164,445</u>	<u>\$ - 0 -</u>	<u>\$ 76,969</u>
<b>NET CHANGE IN FUND BALANCE</b>	\$ (45,789)	\$ 11,099	\$ 327,697
<b>BEGINNING FUND BALANCE</b>	<u>2,592,426</u>	<u>2,581,327</u>	<u>2,253,630</u>
<b>ENDING FUND BALANCE</b>	<u>\$ 2,546,637</u>	<u>\$ 2,592,426</u>	<u>\$ 2,581,327</u>

See accompanying independent auditor's report.

		Percentage of Total Revenue						
2011	2010	2014	2013	2012	2011	2010		
\$ 224,301	\$ 195,911	10.6 %	5.8 %	9.3 %	11.0 %	9.6 %		
58,466	44,852	3.1	2.9	2.3	2.9	2.2		
544,558	587,768	24.5	27.5	27.8	26.9	28.8		
870,679	833,954	42.9	45.7	41.1	43.0	40.9		
252,559	202,860	12.9	14.3	14.7	12.5	9.9		
	71,614			0.3		3.5		
26,918	30,126	1.5	1.7	1.4	1.3	1.5		
14,730	18,850	3.4	1.0	2.1	0.7	0.9		
24,257	43,184	0.4	0.6	0.6	1.2	2.1		
10,467	11,875	0.7	0.5	0.4	0.5	0.6		
<u>\$ 2,026,935</u>	<u>\$ 2,040,994</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>		
\$ 209,000	\$ 179,102	7.3 %	8.2 %	7.0 %	10.3 %	8.8 %		
582,217	547,273	25.4	28.0	28.0	28.7	26.8		
266,431	290,226	12.3	12.3	12.7	13.1	14.2		
255,630	219,665	13.0	17.3	14.8	12.6	10.8		
96,750	105,797	3.5	4.0	4.7	4.8	5.2		
141,042	205,763	11.7	14.0	11.3	7.0	10.1		
245,600	182,416	9.7	9.5	10.4	12.1	8.9		
499,914	129,847	26.3	6.2	0.3	24.7	6.4		
<u>\$ 2,296,584</u>	<u>\$ 1,860,089</u>	<u>109.2 %</u>	<u>99.5 %</u>	<u>89.2 %</u>	<u>113.3 %</u>	<u>91.2 %</u>		
<u>\$ (269,649)</u>	<u>\$ 180,905</u>	<u>(9.2) %</u>	<u>0.5 %</u>	<u>10.8 %</u>	<u>(13.3) %</u>	<u>8.8 %</u>		
\$ 153,212	\$							
<u>\$ 153,212</u>	<u>\$ - 0 -</u>							
\$ (116,437)	\$ 180,905							
<u>2,370,067</u>	<u>2,189,162</u>							
<u>\$ 2,253,630</u>	<u>\$ 2,370,067</u>							

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153**  
**COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES**  
**DEBT SERVICE FUND - FIVE YEARS**

	Amounts		
	2014	2013	2012
<b>REVENUES</b>			
Property Taxes	\$ 1,935,717	\$ 1,971,269	\$ 1,835,305
Penalty and Interest	20,340	22,522	23,300
Investment Revenues	4,766	5,611	9,783
Miscellaneous Revenues	<u>3,073</u>		<u>178</u>
<b>TOTAL REVENUES</b>	<u>\$ 1,963,896</u>	<u>\$ 1,999,402</u>	<u>\$ 1,868,566</u>
<b>EXPENDITURES</b>			
Tax Collection Expenditures	\$ 57,849	\$ 57,816	\$ 61,133
Debt Service Principal	1,280,000	1,245,000	1,210,000
Debt Service Interest and Fees	692,912	756,350	693,210
Bond Issuance Costs		<u>88,290</u>	
<b>TOTAL EXPENDITURES</b>	<u>\$ 2,030,761</u>	<u>\$ 2,147,456</u>	<u>\$ 1,964,343</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>\$ (66,865)</u>	<u>\$ (148,054)</u>	<u>\$ (95,777)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from Sale of Bonds	\$	\$ 3,085,000	\$ 147,694
Payment to Refunded Bond Escrow Agent		(3,116,143)	
Bond Discount		(28,316)	
Bond Premium		<u>150,330</u>	
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>\$ - 0 -</u>	<u>\$ 90,871</u>	<u>\$ 147,694</u>
<b>NET CHANGE IN FUND BALANCE</b>	\$ (66,865)	\$ (57,183)	\$ 51,917
<b>BEGINNING FUND BALANCE</b>	<u>2,308,623</u>	<u>2,365,806</u>	<u>2,313,889</u>
<b>ENDING FUND BALANCE</b>	<u>\$ 2,241,758</u>	<u>\$ 2,308,623</u>	<u>\$ 2,365,806</u>
<b>TOTAL ACTIVE RETAIL WATER CONNECTIONS</b>	<u>2,536</u>	<u>2,474</u>	<u>2,457</u>
<b>TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS</b>	<u>2,496</u>	<u>2,434</u>	<u>2,417</u>

See accompanying independent auditor's report.

		Percentage of Total Revenue				
2011	2010	2014	2013	2012	2011	2010
\$ 1,828,642	\$ 1,892,065	98.6 %	98.6 %	98.3 %	97.6 %	96.9 %
29,618	31,992	1.0	1.1	1.2	1.6	1.6
14,870	28,538	0.2	0.3	0.5	0.8	1.5
173	704	0.2				
<u>\$ 1,873,303</u>	<u>\$ 1,953,299</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 62,908	\$ 61,023	2.9 %	2.9 %	3.3 %	3.4 %	3.1 %
1,185,000	1,130,000	65.2	62.3	64.8	63.3	57.9
701,049	795,237	35.3	37.8	37.1	37.4	40.7
439,881			4.4		23.5	
<u>\$ 2,388,838</u>	<u>\$ 1,986,260</u>	<u>103.4 %</u>	<u>107.4 %</u>	<u>105.2 %</u>	<u>127.6 %</u>	<u>101.7 %</u>
\$ (515,535)	\$ (32,961)	(3.4) %	(7.4) %	(5.2) %	(27.6) %	(1.7) %
\$ 13,140,000	\$					
(13,224,336)						
(82,405)						
606,622						
<u>\$ 439,881</u>	<u>\$ - 0 -</u>					
\$ (75,654)	\$ (32,961)					
2,389,543	2,422,504					
<u>\$ 2,313,889</u>	<u>\$ 2,389,543</u>					
2,415	2,408					
2,372	2,369					

See accompanying independent auditor's report.



**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153  
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS  
MARCH 31, 2014**

District Mailing Address - Harris County Municipal Utility District No. 153  
c/o Norton Rose Fulbright  
1301 McKinney Avenue, Suite 5100  
Houston, TX 77010-3095

District Telephone Number - (713) 651-3610

<b>Board Members</b>	<b>Term of Office (Elected or Appointed)</b>	<b>Fees of office for the year ended March 31, 2014</b>	<b>Expense reimbursements for the year ended March 31, 2014</b>	<b>Title</b>
Samuel Claytor	05/2012 – 05/2016 (Elected)	\$ 1,050	\$ 157	President
Rick Soliz	05/2010 – 05/2014 (Elected)	\$ 3,750	\$ 3,056	Vice President
William A. Clarey	05/2012 – 05/2016 (Elected)	\$ 3,300	\$ 859	Secretary
Alan Waters	05/2010 – 05/2014 (Elected)	\$ 1,350	\$ 304	Treasurer
Ed Cocetti	05/2012 – 05/2016 (Elected)	\$ 1,650	\$ -0-	Assistant Secretary

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

Submission date of most recent District Registration Form (TWC Sections 36.054 and 49.054): March 31, 2014.

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by Board Resolution (TWC Section 49.060) on May 18, 2005. Fees of Office are the amounts actually paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 153**  
**BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS**  
**MARCH 31, 2014**

<b>Consultants:</b>	<u>Date Hired</u>	<u>Fees for the year ended March 31, 2014</u>	<u>Title</u>
Norton Rose Fulbright	11/14/1977	\$ 41,763	Attorney
McCall Gibson Swedlund Barfoot PLLC	03/25/2004	\$ 16,200	Auditor
Municipal Accounts & Consulting, L.P.	04/26/1999	\$ 23,253	Bookkeeper
Perdue, Brandon, Fielder, Collins & Mott, L.L.P.	1996	\$ 6,436	Delinquent Tax Attorney
Brown & Gay Engineers, Inc.	08/13/2003	\$ 224,727	Engineer
Public Finance Group	03/27/2014	\$ -0-	Financial Advisor
SWS Securities	06/01/1997 to 03/27/2014	\$ 1,750	Prior Financial Advisor
Mark Burton	05/17/06	\$ -0-	Investment Officer
Municipal Operations and Consulting, Inc.	03/08/2009	\$ 608,867	Operator
Bob Leared, RTA	06/15/1982	\$ 33,532	Tax Assessor/ Collector

See accompanying independent auditor's report.

**APPENDIX B**  
**Form of Bond Counsel Opinion**

**[Date]**

Fulbright & Jaworski LLP  
1301 McKinney, Suite 5100  
Houston, Texas 77010-3095  
United States

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Fax +1 713 651 5246  
nortonrosefulbright.com

**Re: Harris County Municipal Utility District No. 153, Unlimited Tax Bonds, Series 2014**

We have acted as bond counsel in connection with the issuance by Harris County Municipal Utility District No. 153 (the "*Issuer*") of its Unlimited Tax Bonds, Series 2014 (the "*Bonds*") in the aggregate principal amount of \$8,865,000.

In rendering the opinions herein we have examined and relied upon an executed Bond; original or certified copies of the proceedings had in connection with issuance of the Bonds, including the Order of the governing body of the Issuer which authorizes issuance of the Bonds (the "*Order*"); certificates of officers of the Issuer related to the expected use and investment of proceeds of the sale of the Bonds and certain other funds of the Issuer, which are within its sole knowledge and control; and such other material and such matters of law as we deem relevant to the matters discussed below. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements contained in such certificates.

Based upon such examination, we are of the opinion, that, under applicable law of the United States of America and the State of Texas in force and effect on the date hereof:

1. The Bonds are valid and legally binding obligations of the Issuer 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.
2. The Bonds are payable from and equally and ratably secured solely by a lien on and pledge of ad valorem taxes levied, without legal limit as to rate or amount, upon all taxable property within the Issuer.
3. Pursuant to the Internal Revenue Code of 1986, as amended and in force on the date hereof (the "*Code*"), and existing regulations, published rulings, and court decisions thereunder, assuming continuing compliance with the provisions of the Order relating to sections 141 through 150 of the Code, interest on the Bonds is excludable from the gross income, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes pursuant to section 103 of the Code, and such interest will not be included for federal income

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Fulbright & Jaworski LLP, Norton Rose Fulbright LLP, Norton Rose Fulbright Australia, Norton Rose Fulbright Canada LLP, Norton Rose Fulbright South Africa (incorporated as Deneys Reitz, Inc.), each of which is a separate legal entity, are members of Norton Rose Fulbright Verein, a Swiss Verein. Details of each entity, with certain regulatory information, are at [nortonrosefulbright.com](http://nortonrosefulbright.com). Norton Rose Fulbright Verein helps coordinate the activities of the members but does not itself provide legal services to clients.

tax purposes in computing the alternative minimum taxable income of the owners thereof who are individuals.

We call to your attention that interest on all tax-exempt obligations, such as the Bonds, owned by a corporation (other than an "S" corporation or a qualified mutual fund, real estate mortgage investment conduit (REMIC), financial asset securitization investment trust (FASIT), real estate investment trust (REIT)) is includable in its adjusted current earnings for purposes of calculating its 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 is computed.

We express no other opinion with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. 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, "S" corporations with "subchapter C" earnings and profits, certain foreign corporations doing business in the United States, individual recipients of Social Security or Railroad Retirement benefits, taxpayers otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, 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.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any change in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service or any court; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

**APPENDIX C**  
**SPECIMEN MUNICIPAL BOND INSURANCE POLICY**



## 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)

SPECIMEN