

**PRELIMINARY OFFICIAL STATEMENT DATED AUGUST 24, 2016**

This **PRELIMINARY OFFICIAL STATEMENT** is subject to completion and amendment and is intended solely for the solicitation of initial bids to purchase the Bonds. Upon sale of the Bonds, the **OFFICIAL STATEMENT** will be completed and delivered to the Underwriter.

IN THE OPINION OF BOND COUNSEL, INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER EXISTING LAW, AND THE BONDS ARE NOT SUBJECT TO THE ALTERNATIVE MINIMUM TAX ON INDIVIDUALS AND CORPORATIONS, EXCEPT FOR CERTAIN ALTERNATIVE MINIMUM TAX CONSEQUENCES FOR CORPORATIONS. SEE "LEGAL MATTERS" FOR A DISCUSSION OF THE OPINIONS OF BOND COUNSEL.

THE BONDS WILL BE DESIGNATED "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS. SEE "LEGAL MATTERS—QUALIFIED TAX-EXEMPT OBLIGATIONS."

Underlying Rating: Moody's "Baa1"  
See "MUNICIPAL BOND RATING AND MUNICIPAL BOND INSURANCE" herein.

**NEW ISSUE-Book-Entry-Only**

**\$4,300,000**

**BAY COLONY WEST MUNICIPAL UTILITY DISTRICT**  
*(A political subdivision of the State of Texas located within Galveston County)*  
**UNLIMITED TAX BONDS**  
**SERIES 2016**

The bonds described above (the "Bonds") are obligations solely of Bay Colony West Municipal Utility District (the "District") and are not obligations of the State of Texas, Galveston County, the City of League City or any entity other than the District.

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 taxable property within the District. THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS DESCRIBED HEREIN. See "INVESTMENT CONSIDERATIONS."

**Dated: October 1, 2016**

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

Principal of the Bonds is payable at maturity or earlier redemption at the principal payment office of the paying agent/registrar, initially, The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Paying Agent/Registrar") upon surrender of the Bonds for payment. Interest on the Bonds accrues from October 1, 2016, and is payable each April 1 and October 1, commencing April 1, 2017, until maturity or prior redemption. The Bonds will be issued only in fully registered form in denominations of \$5,000 each or integral multiples thereof. The Bonds are subject to redemption prior to their maturity, as shown below.

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

**MATURITY SCHEDULE**

Due (October 1)	Principal Amount(a)	CUSIP Number(c)	Interest Rate %	Initial Reoffering Yield(d) %	Due (October 1)	Principal Amount(a)	CUSIP Number(c)	Interest Rate %	Initial Reoffering Yield(d) %
2017	\$ 200,000				2027	\$ 200,000	(b)		
2018	200,000				2028	200,000	(b)		
2019	200,000				2029	200,000	(b)		
2020	200,000				2030	200,000	(b)		
2021	200,000				2031	200,000	(b)		
2022	200,000				2032	250,000	(b)		
2023	200,000				2033	250,000	(b)		
2024	200,000 (b)				2034	250,000	(b)		
2025	200,000 (b)				2035	275,000	(b)		
2026	200,000 (b)				2036	275,000	(b)		

- (a) The initial purchaser of the Bonds (the "Underwriter") may designate one or more maturities of term bonds. See accompanying "Official Notice of Sale" and "Official Bid Form."
- (b) Bonds maturing on or after October 1, 2024, are subject to redemption at the option of the District prior to their maturity dates in whole, or from time to time in part, on October 1, 2023, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. See "THE BONDS—Redemption Provisions."
- (c) CUSIP Numbers have been assigned to the Bonds by CUSIP Service Bureau and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Underwriter shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.
- (d) Initial reoffering yield represents the initial offering yield to the public, which has been established by the Underwriter (as herein defined) for offers to the public and which subsequently may be changed.

The Bonds are offered by the Underwriter subject to prior sale, when, as and if issued by the District and accepted by the Underwriter, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Paul A. Philbin & Assoc., P.C., Houston, Texas, Bond Counsel See "LEGAL MATTERS." Delivery of the Bonds is expected on or about October 27, 2016.

**Bids Due: Wednesday, September 28, 2016, 10:00 A.M., Central Daylight Saving Time in Houston, Texas**  
**Bid Award: Wednesday, September 28, 2016, 12:00 Noon, Central Daylight Saving Time in League City, Texas**

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

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## USE OF INFORMATION IN OFFICIAL STATEMENT

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission, as amended and in effect on the date hereof, this document constitutes an OFFICIAL STATEMENT with respect to the Bonds that has been “deemed final” by the District as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

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

All of the summaries of the statutes, resolutions, orders, contracts, audited financial statements, engineering and other related reports set forth in this OFFICIAL STATEMENT are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from Paul A. Philbin & Assoc., P.C., Bond Counsel, 6363 Woodway, Suite 725, Houston, Texas, 77057, for further information.

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 other matters described herein since the date hereof. However, the District has agreed to keep this OFFICIAL STATEMENT current by amendment or sticker to reflect material changes in the affairs of the District and, to the extent that information actually comes to its attention, the other matters described in this OFFICIAL STATEMENT until delivery of the Bonds to the Underwriter (as herein defined) and thereafter only as specified in “PREPARATION OF OFFICIAL STATEMENT—Updating the Official Statement.”

## SALE AND DISTRIBUTION OF THE BONDS

### Award of the Bonds

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 \_\_\_\_\_ (the "Underwriter") bearing the interest rates shown on the cover page hereof, at a price of \_\_\_\_\_% of the par value thereof plus accrued interest to the date of delivery which resulted in a net effective interest rate of \_\_\_\_\_% as calculated pursuant to Chapter 1204 of the Texas Government Code, as amended.

### Prices and Marketability

The delivery of the Bonds is conditioned upon the receipt by the District of a certificate executed and delivered by the Underwriter 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 Underwriter regarding the reoffering yields or prices of the Bonds. Information concerning reoffering yields or prices is the responsibility of the Underwriter.

The prices and other terms with respect to the offering and sale of the Bonds may be changed from time-to-time by the Underwriter after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Bonds into investment accounts. In connection with the offering of the Bonds, the Underwriter may over - allot or effect transactions which stabilize or maintain the market prices of the Bonds at levels above those which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

The District has no control over trading of the Bonds in the secondary market. Moreover, there is no guarantee that a secondary market will be made in the Bonds. In such a secondary market, the difference between the bid and asked price of 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 and the Bonds have not been registered or qualified under the securities laws of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any other jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdiction.

## OFFICIAL STATEMENT SUMMARY

The following is a brief summary of certain information contained herein which is qualified in its entirety by the detailed information and financial statements appearing elsewhere in this OFFICIAL STATEMENT. The summary should not be detached and should be used in conjunction with more complete information contained herein. A full review should be made of the entire OFFICIAL STATEMENT and of the documents summarized or described therein.

### THE DISTRICT

<i>Description...</i>	The District is a political subdivision of the State of Texas, created by order of the Texas Commission on Environmental Quality (“TCEQ”), dated March 2, 2004, and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. The District consists of approximately 537 acres of land. See “THE DISTRICT.”
<i>Location...</i>	The District is located in Galveston County, approximately 26 miles south of the central downtown business district of the City of Houston and within the corporate boundaries of the City of League City (the “City”). The District is also within the boundaries of the Dickinson Independent School District. Access to the District is provided by Interstate Highway 45 to Calder Road. See “THE DISTRICT—Description and Location” and “AERIAL LOCATION MAP.”
<i>The Developer and Major Property Owner...</i>	<p>Bay Colony Expansion 369 Ltd. (“Bay Colony 369”), a Texas limited partnership, has developed 916 single-family residential lots on approximately 167 acres. The general partner of Bay Colony 369 is Lennar Texas Holding Company, a Texas corporation, which is indirectly wholly owned by Lennar Corporation, a publicly-held corporation, the stock of which is traded on the New York Stock Exchange. Bay Colony 369 owns approximately 52 acres of undeveloped but developable land in the District. Bay Colony 369 is referred to herein as the “Developer.” See “THE DEVELOPER AND MAJOR PROPERTY OWNER.”</p> <p>Inter National Bank (“INB”) is a bank located in McAllen, Texas. An affiliate of INB, Solida Administradora de Portafolios, S.A. de C.V., a Mexican corporation (“Solida Mexico”), owns approximately 125 acres of undeveloped but developable property in the District. Solida USA, LLC (“Solida USA”), another INB affiliate located in McAllen, Texas, is currently managing the marketing of the 125 acres of developable land on behalf of Solida Mexico. See “THE DEVELOPER AND MAJOR PROPERTY OWNER.”</p>
<i>Status of Development...</i>	<p>Development within the District is being marketed as Bay Colony Meadows West, Bay Colony Pointe West and Enclave at Bay Colony West. Development within the District currently includes 916 completed single-family residential lots on approximately 223 acres. New houses within Bay Colony Meadows West have an average sales price of approximately \$160,000, new houses within Bay Colony Pointe West have an average sales price of approximately \$145,000, and new houses within the Enclave at Bay Colony West, Section One, Phases I through III have an average sales price of approximately \$130,000. As of August 12, 2016, 903 homes were completed in the District, 10 homes were under construction, and 3 developed lots were available for home construction. Anglia Homes is actively building homes in Bay Colony Pointe West, Section Ten. See “THE DISTRICT—Status of Development” and “—Homebuilding.”</p> <p>There are approximately 177 developable acres that have not been provided with water distribution, wastewater collection and storm drainage facilities. Approximately 137 acres in the District are not developable (detention, easements, rights-of-way, landscaping and open spaces). See “THE DISTRICT—Land Use.”</p>
<i>Water and Wastewater...</i>	Water supply and wastewater treatment for the District is provided by the City. See “UTILITY AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF LEAGUE CITY” and “THE SYSTEM.”
<i>Payment Record...</i>	The District has previously issued \$14,610,000 principal amount of unlimited tax bonds in four series and one series of unlimited tax refunding bonds in the principal amount of \$4,815,000, of which \$13,420,000 principal amount collectively remains outstanding (the “Outstanding Bonds”) as of the date hereof. The District has never defaulted in the payment of principal and interest on the Outstanding Bonds. See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds.”

## THE BONDS

<i>Description...</i>	<p>\$4,300,000 Unlimited Tax Bonds, Series 2016 (the “Bonds”) are being issued as fully registered bonds pursuant to a resolution authorizing the issuance of the Bonds adopted by the District’s Board of Directors (the “Board”). The Bonds are scheduled to mature as serial bonds on October 1 in the years 2017 through 2036, both inclusive, in the principal amounts and paying interest at the rates shown on the cover page hereof. The Bonds will be issued in denominations of \$5,000 or integral multiples of \$5,000. Interest on the Bonds accrues from October 1, 2016, and is payable April 1, 2017, and each October 1 and April 1 thereafter, until the earlier of maturity or redemption. See “THE BONDS.”</p>
<i>Book-Entry-Only System...</i>	<p>The Depository Trust Company (defined as “DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede &amp; Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds and will be deposited with DTC. See “BOOK-ENTRY-ONLY SYSTEM.”</p>
<i>Redemption...</i>	<p>Bonds maturing on or after October 1, 2024 are subject to redemption in whole, or from time to time in part, at the option of the District prior to their maturity dates on October 1, 2023, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. See “THE BONDS—Redemption Provisions.”</p>
<i>Use of Proceeds...</i>	<p>Proceeds of the Bonds will be used to pay for the items shown herein under “USE AND DISTRIBUTION OF BOND PROCEEDS,” including to capitalize six (6) months of interest on the Bonds; and to pay administrative costs and certain other costs of issuance and engineering fees related to the issuance of the Bonds. See “USE AND DISTRIBUTION OF BOND PROCEEDS.”</p>
<i>Authority for Issuance...</i>	<p>The Bonds are the fifth series of bonds issued out of an aggregate of \$44,000,000 principal amount of unlimited tax bonds authorized by the District’s voters for the purpose of purchasing and constructing water, wastewater and/or storm drainage facilities. The Bonds are issued by the District pursuant to an Order of the TCEQ, the terms and conditions of the Bond Order, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, and general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas. See “THE BONDS—Authority for Issuance” “—Issuance of Additional Debt,” and “INVESTMENT CONSIDERATIONS—Future Debt.”</p>
<i>Source of Payment...</i>	<p>Principal of and interest on the Bonds and the Outstanding Bonds are payable from the proceeds of a continuing, direct, annual ad valorem tax, without legal limitation as to rate or amount, levied against taxable property within the District. The Bonds are obligations of the District and are not obligations of the City, Galveston County, the State of Texas or any entity other than the District. See “THE BONDS—Source of Payment.”</p>
<i>Municipal Bond Rating and Municipal Bond Insurance...</i>	<p>Moody’s Investors Service (“Moody’s”) has assigned a credit rating of “Baa1” on the Bonds. An explanation of the rating may be obtained from Moody’s, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007. The fee associated with the rating assigned to the District by Moody’s will be paid by the District; however, the fee associated with ratings provided by other agencies will be at the expense of the Underwriter. See “MUNICIPAL BOND RATING AND MUNICIPAL BOND INSURANCE.”</p> <p>Applications have also been made for the qualification of the Bonds for municipal bond insurance. If qualified, such insurance will be available at the option and expense of the Underwriter. The rating fees of Moody’s will be paid by the District; any other rating fees associated with the insurance will be the responsibility of the Underwriter. See “INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance” and “MUNICIPAL BOND RATING AND MUNICIPAL BOND INSURANCE.”</p>
<i>Qualified Tax-Exempt Obligations...</i>	<p>The District will designate the Bonds as “qualified tax-exempt obligations” pursuant to Section 265(b) of the Internal Revenue Code of 1986 and will represent that the total amount of tax-exempt bonds (including the Bonds) issued by it during calendar year 2016 is not expected to exceed \$10,000,000. See “LEGAL MATTERS—Qualified Tax-Exempt Obligations.”</p>

<i>Bond Counsel...</i>	Paul A. Philbin & Assoc., P.C., Houston, Texas. See “MANAGEMENT OF THE DISTRICT” and “LEGAL MATTERS.”
<i>Disclosure Counsel...</i>	Norton Rose Fulbright US LLP, Houston, Texas.
<i>Financial Advisor...</i>	FirstSouthwest, a Division of Hilltop Securities Inc., Houston, Texas. See “MANAGEMENT OF THE DISTRICT” and “PREPARATION OF THE OFFICIAL STATEMENT.”
<i>Paying Agent/Registrar...</i>	The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. See “THE BONDS—Method of Payment of Principal and Interest.”

### **INVESTMENT CONSIDERATIONS**

The purchase and ownership of the Bonds are subject to special investment considerations and all prospective purchasers are urged to examine carefully this entire OFFICIAL STATEMENT with respect to the investment security of the Bonds, including particularly the section captioned “INVESTMENT CONSIDERATIONS.”

**SELECTED FINANCIAL INFORMATION (UNAUDITED)**

2016 Taxable Assessed Valuation.....	\$152,882,160	(a)
Estimated Taxable Assessed Valuation as of July 15, 2016.....	\$161,770,335	(b)
Gross Direct Debt Outstanding .....	\$17,720,000	(c)
Estimated Overlapping Debt .....	17,084,471	(d)
Gross Direct Debt and Estimated Overlapping Debt.....	\$34,804,471	
Ratios of Gross Direct Debt to:		
2016 Taxable Assessed Valuation.....	11.59%	
Estimated Taxable Assessed Valuation as of July 15, 2016.....	10.95%	
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:		
2016 Taxable Assessed Valuation.....	22.77%	
Estimated Taxable Assessed Valuation as of July 15, 2016.....	21.51%	
Funds Available for Debt Service:		
Debt Service Fund Balance as of August 24, 2016 .....	\$1,873,634	
Capitalized Interest from proceeds of the Bonds (Six (6) Months) .....	75,250	(e)
Total Funds Available for Debt Service .....	\$1,948,884	
Operating Funds Available as of August 24, 2016.....	\$186,355	(f)
Capital Projects Funds Balance as of August 24, 2016.....	\$489,339	
Anticipated 2016 Debt Service Tax Rate .....	\$0.86	
Anticipated 2016 2015 Maintenance Tax Rate .....	0.14	
Anticipated 2016 Total Tax Rate .....	\$1.00	(g)
Average Annual Debt Service Requirement (2017-2036).....	\$1,172,159	(h)
Maximum Annual Debt Service Requirement (2017).....	\$1,428,268	(h)
Tax Rates Required to Pay Average Annual Debt Service (2017-2036) at a 95% Collection Rate		
Based upon 2016 Taxable Assessed Valuation .....	\$0.81	(i)
Based upon Estimated Taxable Assessed Valuation as of July 15, 2016.....	\$0.77	(i)
Tax Rates Required to Pay Maximum Annual Debt Service (2017) at a 95% Collection Rate		
Based upon 2016 Taxable Assessed Valuation .....	\$0.99	(i)
Based upon Estimated Taxable Assessed Valuation as of July 15, 2016.....	\$0.93	(i)
Status of Development as of August 12, 2016 (i):		
Developed Lots .....	916	
Homes Completed.....	903	
Homes Under Construction.....	10	
Lots Available for Home Construction .....	3	
Estimated Population .....	3,160	(k)

- (a) The 2016 Taxable Assessed Valuation shown herein includes \$151,640,125 of certified value and \$1,242,035 of uncertified value. The uncertified value represents Galveston Central Appraisal District's (the "Appraisal District") opinion of the value; however, such value is subject to change and downward revision prior to certification. No tax will be levied on said uncertified value until it is certified by the Appraisal District. See "TAXING PROCEDURES."
- (b) Provided by the Appraisal District for informational purposes only. Such amounts reflect an estimate of the taxable assessed valuation within the District on July 15, 2016. Increases in value that occur between January 1, 2016 and July 15, 2016 will be assessed for purposes of taxation on January 1, 2017. See "TAXING PROCEDURES."
- (c) Includes the Bonds and the Outstanding Bonds. See FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds."
- (d) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt."
- (e) The District will capitalize six (6) months of interest on the Bonds. The amount above is estimated using 3.50%. See "USE AND DISTRIBUTION OF BOND PROCEEDS."
- (f) Approximately \$50,000 of the Bond proceeds will be deposited to the operating fund to reimburse such fund for engineering fees for preparing the bond application for submittal to the TCEQ.
- (g) On August 24, 2016, the District authorized the publication of a notice of its intent to adopt a total 2016 tax rate in the amount of \$1.00 per \$100 of taxable assessed valuation. In September 2016, the District expects to adopt such rate, of which \$0.86 per \$100 of taxable assessed valuation will be allocated to debt service and \$0.14 per \$100 of taxable assessed valuation will be allocated to maintenance. See "TAX DATA—Tax Rate Distribution."
- (h) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements."
- (i) See "TAX DATA—Tax Adequacy for Debt Service" and "INVESTMENT CONSIDERATIONS—Possible Impact on District Tax Rates."
- (j) See "THE DISTRICT—Land Use" and "—Status of Development."
- (k) Based upon 3.5 persons per occupied single-family residence.



## PRELIMINARY OFFICIAL STATEMENT

**\$4,300,000**

### **BAY COLONY WEST MUNICIPAL UTILITY DISTRICT** *(A political subdivision of the State of Texas located within Galveston County)*

#### **UNLIMITED TAX BONDS SERIES 2016**

This OFFICIAL STATEMENT provides certain information in connection with the issuance by Bay Colony West Municipal Utility District (the "District") of its \$4,300,000 Unlimited Tax Bonds, Series 2016 (the "Bonds").

The Bonds are issued by the District pursuant to the terms and conditions of an order (the "Bond Order") adopted by the Board of Directors of the District (the "Board"), Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, an election held within the District and general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas.

This OFFICIAL STATEMENT includes descriptions, among others, of the Bonds and the Bond Order, and certain other information about the District, Bay Colony Expansion 369, Ltd. (the "Bay Colony 369"), a Utility Agreement (hereinafter defined) between the District and the City of League City (the "City") and development activity in the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of documents may be obtained from Paul A. Philbin & Assoc., P.C., Bond Counsel, 6363 Woodway, Suite 725, Houston, Texas 77057.

### **THE BONDS**

#### **Description**

The Bonds will be dated and accrue interest from October 1, 2016, with interest payable each April 1 and October 1, beginning April 1, 2017 (each an "Interest Payment Date"), and will mature on the dates and in the amounts and accrue interest at the rates shown on the cover page hereof. The Bonds are issued in fully registered form, in denominations of \$5,000 or any integral multiple of \$5,000. Interest calculations are based on a 360-day year comprised of twelve 30-day months.

#### **Method of Payment of Principal and Interest**

In the Bond Order, the Board has appointed The Bank of New York Mellon Trust Company, N.A., Dallas, Texas as the initial Paying Agent/Registrar for the Bonds. The principal of 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 debts due the United States of America. In the event the book-entry system is discontinued, principal of the Bonds shall be payable upon presentation and surrender of the Bonds as they respectively become due and payable, at the principal payment office of the Paying Agent/Registrar in Dallas, Texas and interest on each Bond shall be payable by check payable on each Interest Payment Date, mailed by the Paying Agent/Registrar on or before each Interest Payment Date to the Registered Owner of record as of the close of business on the March 15 or September 15 immediately preceding each Interest Payment Date (defined herein as the "Record Date"), to the address of such Registered Owner as shown on the Paying Agent/Registrar's records (the "Register") or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and the Registered Owners at the risk and expense of the Registered Owners.

If the date for payment of the principal of or interest on any Bond is not a business day, then the date for such payment shall be the next succeeding business day, as defined in the Bond Order.

#### **Source of Payment**

While the Bonds or any part of the principal thereof or interest thereon remain outstanding and unpaid, the District covenants to levy and annually assess and collect in due time, form and manner, and at the same time as other District taxes are appraised, levied and collected, in each year, an annual ad valorem tax, without limit as to rate, upon all taxable property in the District sufficient to pay the interest on the Bonds as the same becomes due and to pay each installment of the principal of the Bonds as the same matures, with full allowance being made for delinquencies and costs of collection. In the Bond Order, the District covenants that said taxes are irrevocably pledged to the payment of the interest on and principal of the Bonds and to no other purpose.

The Bonds are obligations of the District and are not the obligations of the State of Texas, Galveston County, the City, or any entity other than the District.

## **Funds**

In the Bond Order, the Debt Service Fund is confirmed, and the proceeds from all debt service taxes levied, assessed and collected for and on account of the Bonds authorized by the Bond Order shall be deposited, as collected, in such fund.

Accrued interest on the Bonds and six (6) months of capitalized interest shall be deposited into the Debt Service Fund upon receipt. Approximately \$50,000 of the Bond proceeds will be deposited to the operating fund to reimburse such fund for engineering fees for preparing the bond application for submittal to the TCEQ. The remaining proceeds of sale of the Bonds shall be deposited into the Capital Projects Fund, to be used for the purposes of reimbursing the Developer and Inter National Bank for certain construction costs and for paying the costs of issuance of the Bonds. Any monies remaining in the Capital Projects Fund will be used as described in the Bond Order or ultimately transferred to the Debt Service Fund. See "USE AND DISTRIBUTION OF BOND PROCEEDS" for a complete description of the use of Bond proceeds and the projects related thereto.

## **Redemption Provisions**

The District reserves the right, at its option, to redeem the Bonds maturing on or after October 1, 2024, prior to their scheduled maturities, in whole or in part, in integral multiples of \$5,000 on October 1, 2023, or any date thereafter, at a price of par value plus accrued interest on the principal amounts called for redemption to the date fixed for redemption.

If less than all of the Bonds are redeemed at any time, the maturities of the Bonds to be redeemed will be selected by the District. If less than all the Bonds of a certain maturity are to be redeemed, the particular Bonds to be redeemed shall be selected by the Paying Agent/Registrar by lot or other random method (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form).

If a Bond subject to redemption is in a denomination larger than \$5,000, a portion of such Bond may be redeemed, but only in integral multiples of \$5,000. Upon surrender of any Bond for redemption in part, the Paying Agent/Registrar shall authenticate and deliver in exchange therefor a Bond or Bonds of like maturity and interest rate in an aggregate principal amount equal to the unredeemed portion of the Bond so surrendered.

Notice of any redemption identifying the Bonds to be redeemed in whole or in part shall be given by the Paying Agent/Registrar at least thirty (30) days prior to the date fixed for redemption by sending written notice by first class mail to the Registered Owner of each Bond to be redeemed in whole or in part at the address shown on the Register. Such notices shall state the redemption date, the redemption price, the place at which the Bonds are to be surrendered for payment and, if less than all the Bonds outstanding are to be redeemed, the portions thereof to be redeemed. Any notice given shall be conclusively presumed to have been duly given, whether or not the Registered Owner receives such notice. By the date fixed for redemption, due provision shall be made with the Paying Agent/Registrar for payment of the redemption price of the Bonds or portions thereof to be redeemed, plus accrued interest to the date fixed for redemption. When Bonds have been called for redemption in whole or in part and due provision has been made to redeem the same as herein provided, the Bonds or portions thereof so redeemed shall no longer be regarded as outstanding except for the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the registered owners to collect interest which would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

When Bonds have been called for redemption in whole or in part and due provision has been made to redeem the same as herein provided, the Bonds or portions thereof so redeemed shall no longer be regarded as outstanding except for the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the Registered Owners to collect interest which would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

## **Authority for Issuance**

At a bond election held within the District on November 2, 2004, the voters of the District authorized the issuance of \$44,000,000 principal amount of unlimited tax bonds for the purpose of purchasing and/or constructing water, wastewater and storm drainage facilities. The Bonds constitute the fifth issuance of bonds pursuant to such authorization.

The TCEQ has approved the sale of the Bonds subject to certain restrictions, including the use of Bond proceeds as summarized in "USE AND DISTRIBUTION OF BOND PROCEEDS."

The Bonds are issued by the District pursuant to the terms and conditions of the Bond Order, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, an election held within the District, a Utility Agreement (hereinafter defined) between the District and the City, and general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas. See "UTILITY AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF LEAGUE CITY."

Before the Bonds can be issued, the Attorney General of Texas must pass upon the legality of certain related matters. The Attorney General of Texas does not guarantee or pass upon the safety of the Bonds as an investment or upon the adequacy of the information contained in this OFFICIAL STATEMENT.

## **Registration and Transfer**

So long as any Bonds remain outstanding, the Paying Agent/Registrar shall keep the Register at its principal payment office and, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar shall provide for the registration and transfer of Bonds in accordance with the terms of the Bond Order.

In the event the Book-Entry-Only System should be discontinued, each Bond shall be transferable only upon the presentation and surrender of such Bond at the principal payment office of the Paying Agent/Registrar, duly endorsed for transfer, or accompanied by an assignment duly executed by the Registered Owner or his authorized representative in form satisfactory to the Paying Agent/Registrar. Upon due presentation of any Bond in proper form for transfer, the Paying Agent/Registrar has been directed by the District to authenticate and deliver in exchange therefor, within three (3) business days after such presentation, a new Bond or Bonds, registered in the name of the transferee or transferees, in authorized denominations and of the same maturity and aggregate principal amount and paying interest at the same rate as the Bond or Bonds so presented.

All Bonds shall be exchangeable upon presentation and surrender thereof at the principal payment office of the Paying Agent/Registrar for a Bond or Bonds of the same maturity and interest rate and in any authorized denomination in an aggregate amount equal to the unpaid principal amount of the Bond or Bonds presented for exchange. The Paying Agent/Registrar is authorized to authenticate and deliver exchange Bonds. Each Bond delivered shall be entitled to the benefits and security of the Bond Order to the same extent as the Bond or Bonds in lieu of which such Bond is delivered.

Neither the District nor the Paying Agent/Registrar shall be required to transfer or to exchange any Bond during the period beginning on a Record Date and ending the next succeeding Interest Payment Date or to transfer or exchange any Bond called for redemption during the thirty (30) day period prior to the date fixed for redemption of such Bond.

The District or the Paying Agent/Registrar may require the Registered Owner of any Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the transfer or exchange of such Bond. Any fee or charge of the Paying Agent/Registrar for such transfer or exchange shall be paid by the District.

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

In the event the Book-Entry-Only System should be discontinued, upon the presentation and surrender to the Paying Agent/Registrar of a mutilated Bond, the Paying Agent/Registrar shall authenticate and deliver in exchange therefor a replacement Bond of like maturity, interest rate and principal amount, bearing a number not contemporaneously outstanding. If any Bond is lost, apparently destroyed, or wrongfully taken, the District, pursuant to the applicable laws of the State of Texas and in the absence of notice or knowledge that such Bond has been acquired by a bona fide purchaser, shall, upon receipt of certain documentation from the Registered Owner and an indemnity bond, execute and the Paying Agent/Registrar shall authenticate and deliver a replacement Bond of like maturity, interest rate and principal amount bearing a number not contemporaneously outstanding.

Registered owners of lost, stolen or destroyed bonds will be required to pay the District's costs to replace such bond. In addition, the District or the Paying Agent/Registrar may require the Registered Owner to pay a sum sufficient to cover any tax or other governmental charge that may be imposed.

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

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

## **Issuance of Additional Debt**

The District's voters have authorized the issuance of \$44,000,000 principal amount of unlimited tax bonds for the purpose of purchasing and/or constructing water, wastewater and storm drainage facilities. The District has also authorized \$44,000,000 principal amount of unlimited tax refunding bonds to refund or redeem its outstanding debt and \$2,800,000 principal amount of unlimited tax bonds to finance park and recreational facilities. The District currently has \$43,626,510 principal amount of unlimited tax bonds for refunding purposes authorized but unissued, and all of the bonds authorized for parks and recreational facilities authorized but unissued. After the issuance of the Bonds, \$25,090,000 principal amount of unlimited tax bonds for the purpose of purchasing and/or constructing water, wastewater or storm drainage facilities will remain authorized but unissued. The District expects to issue additional bonds in order to reimburse the Developer for the cost of water, sanitary wastewater and storm drainage facilities and park and recreational facilities constructed within the District.

Pursuant to Chapter 54 of the Water Code, a municipal utility district may petition the TCEQ for the power to issue bonds supported by property taxes to finance roads. Before the District could issue such bonds, the District would be required to receive a grant of such power from the TCEQ, authorization from the District's voters to issue such bonds, enter into amendments to the existing Utility Agreement with the City specifying the purposes for which the District may issue bonds, and obtain approval of the bonds by the Attorney General of Texas. The District has not considered filing an application to the TCEQ for "road powers" nor calling such an election at this time.

The Bond Order imposes no limitation on the amount of additional parity bonds which may be authorized for issuance by the District's voters or the amount ultimately issued by the District. Issuance of additional bonds could dilute the investment security for the Bonds.

### **Financing Recreational Facilities**

Pursuant to provisions of the Texas Constitution, as amended in 2003, conservation and reclamation districts in certain counties are authorized to develop and finance with property taxes certain recreational facilities after a district election has been successfully held to approve the issuance of bonds payable from taxes and/or a maintenance tax to support recreational facilities.

Pursuant to the provisions of related statutory amendments, the District is authorized to issue bonds payable from an ad valorem tax to pay for the development and maintenance of recreational facilities if (i) the District duly adopts a plan for the facilities; (ii) the bonds are authorized at an election; (iii) the bonds payable from any source do not exceed 1% of the value of the taxable property in the District at the time of issuance of the bonds, or an amount greater than the estimated cost of the plan, whichever amount is smaller; (iv) the District obtains any necessary governmental consents allowing the issuance of such bonds; (v) the issuance of the bonds is approved by the TCEQ in accordance with its rules with respect to same; and (vi) the bonds are approved by the Attorney General of Texas. The District may issue bonds for such purposes payable solely from net operating revenues without an election. The District is also authorized to levy an operation and maintenance tax to support recreational facilities at a rate not to exceed \$1.50 per \$100 of taxable assessed valuation of taxable property in the District, after such tax is approved at an election. Such maintenance tax is in addition to any other maintenance tax authorized to be levied by the District. At an election held within the District on February 5, 2005, voters of the District authorized a total of \$2,800,000 principal amount of unlimited tax bonds for financing and constructing recreational facilities and authorized a maintenance tax not to exceed \$1.50 per \$100 of taxable assessed valuation for maintenance of recreational facilities.

Current law may be changed in a manner to increase the amount of bonds which may be issued as related to a percentage of the value of taxable property or to allow a higher or lower maintenance tax rate for such purposes. The levy of taxes for such purposes may dilute the security for the Bonds.

### **Consolidation**

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

### **Dissolution by the City of League City**

Under existing Texas law, because the District lies wholly within the corporate limits of the City, the District must conform to a City ordinance consenting to the creation of the District. In addition, the District may be dissolved by the City without the District's consent. If the District is dissolved, the City will assume the District's assets and obligations (including the Bonds). Dissolution of the District by the City is a policy matter within the discretion of the Mayor and City Council of the City, and therefore, the District makes no representation that dissolution will or will not occur and makes no representation of the City's financial capability to pay debt service on the Bonds if such dissolution were to occur.

### **Remedies in Event of Default**

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

suits for money damages, so that in the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Order may not be reduced to a judgment for money damages. If such a judgment against the District were obtained, it could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or 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. See "INVESTMENT CONSIDERATIONS—Registered Owners' Remedies and Bankruptcy Limitations."

### **Additional Covenants**

The District covenants in the Bond Order, among other things:

1. To keep proper books and records and to engage an independent certified public accountant of recognized integrity and ability to audit the financial statements of the District at the close of each fiscal year. The fiscal year of the District is from September 1 through August 31 or such other year as the Board of Directors shall designate. Upon request, a copy of the audited financial statements shall be delivered to the owners of at least twenty-five percent (25%) in the aggregate principal amount of the Bonds then outstanding, and copies of the audited financial statements shall be filed as required by law and maintained in the office of the District open to inspection by any interested person during normal office hours.
2. To see that all funds of the District are secured in the manner and to the fullest extent provided by law for the security of public funds.
3. To take no action and omit to take no action with respect to the proceeds of the Bonds or any other funds of the District which, if taken or omitted, respectively, would result in any of the Bonds being constituted "arbitrage bonds" within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended.

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

The Bond Order may be amended, without consent of or notice to any Registered Owners, in any manner not detrimental to the interest of the Registered Owners, including the curing of any ambiguity, inconsistency or formal defect or omission therein. In addition, the District may, with the written consent of the owners of a majority in principal amount of the Bonds then outstanding affected thereby, amend, add to or rescind any of the provisions of the Bond Order; provided that without the consent of the owners of all of the Bonds affected, no such amendment, addition or rescision may (1) change the stated time or times of payment of the principal of and interest on the Bonds, reduce the principal amount thereof, the redemption price therefor, or the rate of interest thereon, change the place or places on the coin payable or currency in which the Bonds are payable, or in any other way modify the terms of payment of the principal of or interest on the Bonds, (2) give any preference to any Bond over any other Bond or (3) reduce the aggregate principal amount of Bonds required for consent to any such amendment, addition or rescision in the manner described above for notice of redemption of Bonds. In addition, a state, consistent with federal law, may in the exercise of its police power make such modifications in the terms and conditions of contractual covenants relating to the payment of indebtedness of a political subdivision as are reasonable and necessary for attainment of an important public purpose.

### **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 issued by a district shall be legal and authorized investments for all banks, trust companies, building and loan associations, savings and loan associations, insurance companies of all kinds and types, fiduciaries, and trustees, and for all interest and sinking funds and other public funds of the state, and all agencies, subdivisions, and instrumentalities of the state, including all counties, cities, towns, villages, school districts, and all other kinds and types of districts, public agencies, and bodies politic.”

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

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

No representation is made that the Bonds will be suitable for or acceptable to financial or public entities for investment or collateral purposes. No representation is made concerning other laws, rules, regulations, or investment criteria which might apply to or which might be utilized by any of such persons or entities to limit the acceptability or suitability of the Bonds for any of the foregoing purposes. Prospective purchasers are urged to carefully evaluate the investment quality of the Bonds as to the suitability or acceptability of the Bonds for investment or collateral purposes.

## **Defeasance**

The Bond Order provides that the District may discharge its obligations to the Registered Owners of any or all of the Bonds to pay principal, interest and redemption price thereon in any manner permitted by law. Under current Texas law, such discharge may be accomplished either (i) by depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of, premium, if any, and all interest to accrue on the Bonds to maturity or redemption or (ii) by depositing with any place of payment (paying agent) of the Bonds or other obligations of the District payable from revenues or from ad valorem taxes or both, amounts sufficient to provide for the payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested only in (a) direct noncallable obligations of the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to the investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and which mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds.

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

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

## **BOOK-ENTRY-ONLY SYSTEM**

The information in this section concerning DTC and DTC's book-entry-only system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy or completeness thereof. The District cannot and does not give any assurances that DTC, DTC Direct Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) Bonds representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) prepayment or other notices sent to DTC or Cede & Co., its nominee, as the Registered Owner of the Bonds, or that they will do so on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will 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 "Procedure" of DTC to be followed in dealing with DTC Direct Participants is on file with DTC.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest 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 affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

Principal, premium, if any, interest payments and redemption proceeds on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, interest payments and redemption proceeds 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, 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. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

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

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

## USE AND DISTRIBUTION OF BOND PROCEEDS

The construction costs below were compiled by Dannenbaum Engineering Corp., the District’s engineer (the “Engineer”), and were submitted to the TCEQ in the District’s Bond Application. Non-construction costs are based upon either contract amounts or estimates of various costs by the Engineer and FirstSouthwest, a Division of Hilltop Securities Inc. (the “Financial Advisor”). The actual amounts to be reimbursed by the District and the non-construction costs will be finalized after the sale of the Bonds and completion of certain agreed upon procedures by the District’s auditor. The surplus funds may be expended for any lawful purpose for which surplus construction funds may be used, if approved by the TCEQ, where required.

### CONSTRUCTION COSTS

• Water, Sewer, and Drainage to Serve:	
Enclave at Bay Colony West, Section 1, Phase I.....	\$ 559,855
Enclave at Bay Colony West, Section 1, Phase II.....	206,526
Enclave at Bay Colony West, Section 1, Phase III.....	176,810
Bay Colony Pointe West, Section 4.....	544,328
Bay Colony Pointe West, Section 5.....	143,235
Bay Colony Pointe West, Section 6.....	17,430
• Calder Road Extension to FM 517 - Water and Drainage.....	166,026
• Bay Colony Meadows, Section 3, Phase I - Offsite Water Line.....	26,710
• Stormwater Pollution Prevention Plans.....	75,652
• Engineering, Surveying, Materials Testing, Geotechnical and Site Inspections.....	346,784
• Water and Wastewater Impact Fees.....	<u>1,225,702</u>
<b>Total Construction Costs.....</b>	<b>\$3,489,058</b>

### NON-CONSTRUCTION COSTS

• Legal Fees.....	\$ 118,500
• Financial Advisory Fees.....	86,000
• Capitalized Interest (a) (Six Months).....	96,750
• Developer Interest.....	291,160
• Bond Issuance Expenses.....	24,482
• Underwriter’s Discount (Estimated at 3.0%) (a).....	129,000
• Bond Application Report.....	50,000
• TCEQ Fee (0.25%).....	10,750
• Attorney General Fee.....	<u>4,300</u>
<b>Total Non-Construction Costs.....</b>	<b>\$ 810,942</b>
<b>TOTAL BOND ISSUE REQUIREMENT.....</b>	<b>\$4,300,000</b>

(a) The TCEQ approved (1) a maximum of \$96,750 of capitalized interest, which equals six (6) months of interest at an estimated 4.50% per annum and (2) a maximum Underwriter’s Discount of 3.0%. Calculations of capitalized interest shown throughout this PRELIMINARY OFFICIAL STATEMENT are based on an estimated interest rate of 3.50%.



## **UTILITY AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF LEAGUE CITY**

All land in the District is located within the corporate limits of the City. The City and the District have entered into the Utility Agreement, effective June 24, 2003, which obligates (1) the District to acquire, construct and extend water, wastewater and storm drainage facilities (the "System") to serve land in the District and, when completed in accordance with plans and specifications approved by the City, to convey title to such utility facilities to the City and (2) the City to provide permanent water supply and wastewater treatment for the District. Pursuant to the Utility Agreement, the City operates and maintains such utility facilities, and is responsible for establishing water and sewer rates and collection charges for water and sewer service from District residents and the District purchases capacity in the City's water supply and wastewater treatment facilities by paying a water and wastewater recovery impact fees to the City. Such fees may be amended by the City from time to time and at any time, subject to certain limitations imposed by state law. The City also levies and collects ad valorem taxes on taxable property within the District just as it does with any other property located in the City.

The District has agreed to extend the System to serve future users as necessary so that ultimately all landowners in the District will be in a position to receive services from the System; however, the District's obligation to extend the System is conditioned upon continued development within the District, the City's performance under the provisions of the Utility Agreement, and satisfaction of certain determinations of economic feasibility by the Board and the TCEQ, and TCEQ approval and the ability of the District to sell bonds.

### **THE DISTRICT**

#### **General**

The District is a municipal utility district created by an order of the TCEQ, dated March 2, 2004, under Article XVI, Section 59 of the Texas Constitution, and operates under the provisions of Chapters 49 and 54 of the Texas Water Code, as amended, and other general statutes of Texas applicable to municipal utility districts. The District, which lies wholly within the corporate limits of the City, is subject to the continuing supervisory jurisdiction of the TCEQ.

The District is empowered, among other things, to finance, purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District may also provide solid waste disposal and collection services. The District is also empowered to establish, operate, and maintain fire-fighting facilities, independently or with one or more conservation and reclamation districts, after approval by the TCEQ and the voters of the District. The City provides fire protection within the District. Additionally, the District may, subject to certain limitations, develop and finance recreational facilities and roads. See "THE BONDS—Financing Recreational Facilities."

Construction and operation of the District's water, sanitary sewer, and storm water drainage system is subject to the regulatory jurisdiction of various State of Texas and local agencies. See "THE SYSTEM—Regulation."

#### **Description and Location**

The District consists of approximately 537 acres of land. The District is located in Galveston County approximately 26 miles southeast of the central downtown business district of the City of Houston and within the corporate boundaries of the City. The District is also within the boundaries of the Dickinson Independent School District. Access to the District is provided by Interstate Highway 45 to Calder Road. See "AERIAL LOCATION MAP."

**Land Use**

The following table has been provided by the Engineer and represents the current and planned land use within the District.

	Approximate	
	<u>Acres</u>	<u>Lots</u>
<u>Single Family Residential</u>		
Bay Colony Meadows West:		
Section One.....	13	39
Section Two.....	26	94
Section Three, Phase I.....	18	67
Bay Colony Pointe West:		
Section One.....	24	103
Section Two.....	21	95
Section Three, Phase I.....	39	150
Section Four.....	20	71
Section Five.....	4	20
Section Six.....	10	43
Section Seven.....	6	28
Section Eight.....	7	30
Section Nine.....	8	39
Section Ten.....	5	17
Enclave at Bay Colony West:		
Section One, Phase I.....	8	39
Section One, Phase II.....	8	40
Section One, Phase III.....	<u>6</u>	<u>41</u>
Subtotal.....	223	916
<u>Future Development</u> .....	177	---
<u>Undevelopable (a)</u> .....	<u>137</u>	<u>---</u>
Subtotal.....	314	---
Totals.....	537	916

(a) Consists of detention, easements, rights-of-way, lift station sites, and landscaping and open spaces.

**Status of Development**

Development within the District is being marketed as Bay Colony Meadows West, Bay Colony Pointe West and Enclave at Bay Colony West. Development within the District currently includes 916 completed single-family residential lots on approximately 223 acres. New houses within Bay Colony Meadows West have an average sales price of approximately \$160,000, new houses within Bay Colony Pointe West have an average sales price of approximately \$145,000, and new houses within the Enclave at Bay Colony West, Section One, Phases I through III have an average sales price of approximately \$130,000. As of August 12, 2016, approximately 903 homes were completed in the District, 10 homes were under construction, and 3 developed lots were available for home construction.

**Homebuilding**

Anglia Homes is actively building homes in Bay Colony Pointe West, Section Ten.

## **Future Development**

The District is currently planned as a primarily single-family residential development. Approximately 177 developable acres of land in the District are not yet fully served with water distribution, wastewater collection, storm drainage or, parks or roads. While the Developer and INB anticipates future development of this acreage as business conditions warrant, there can be no assurances if and when any of such undeveloped land will ultimately be developed. The District anticipates issuing additional bonds to accomplish full development of the District. The Engineer has stated that under current development plans, the remaining authorized but unissued bonds (\$27,890,000) will be sufficient to finance the construction of water, wastewater, storm drainage and park facilities to complete the water, wastewater, storm drainage and park system for full development of the District. See “THE BONDS—Issuance of Additional Debt,” “THE SYSTEM,” “INVESTMENT CONSIDERATIONS—Future Debt.”

## **THE DEVELOPER AND MAJOR PROPERTY OWNER**

### **Role of a Developer**

In general, the activities of a landowner or developer in a municipal utility district such as the District include designing the project, defining a marketing program and setting building schedules; securing necessary governmental approvals and permits for development; arranging for the construction of streets and the installation of utilities; and selling or leasing improved tracts or commercial reserves to other developers or third parties. While a developer is required by the TCEQ to pave streets in areas where utilities are to be financed by a district through a specified bond issue, a developer is under no obligation to a district to undertake development activities according to any particular plan or schedule. Furthermore, there is no restriction on a developer’s right to sell any or all of the land which the developer owns within a district. In addition, the developer is ordinarily the major taxpayer within the district during the early stages of development. The relative success or failure of a developer to perform in the above-described capacities may affect the ability of a district to collect sufficient taxes to pay debt service and retire bonds.

Prospective Bond purchasers should note that the prior real estate experience of the Developer should not be construed as an indication that further development within the District will occur, or that construction of taxable improvements upon property within the District will occur, or that marketing or leasing of taxable improvements constructed upon property within the District will be successful.

### **Bay Colony Expansion 369, Ltd.**

Bay Colony Expansion 369 Ltd. (“Bay Colony 369”), a Texas limited partnership, has developed 916 single-family residential lots on approximately 167 acres. Bay Colony 369 owns approximately 52 acres of undeveloped but developable land in the District. The general partner of Bay Colony 369 is Lennar Texas Holding Company, a Texas corporation, which is indirectly wholly owned by Lennar Corporation, a publicly-held corporation, the stock of which is traded on the New York Stock Exchange.

### **Major Property Owner**

Inter National Bank (“INB”) is a bank located in McAllen, Texas. An affiliate of INB, Solida Administradora de Portafolios, S.A. de C.V., a Mexican corporation (“Solida Mexico”), owns approximately 125 acres of undeveloped but developable property in the District. Solida USA, LLC, another INB affiliate located in McAllen, Texas, is currently managing the marketing of the 125 acres of developable land on behalf of Solida Mexico.

## MANAGEMENT OF THE DISTRICT

### Board of Directors

The District is governed by the Board, consisting of five (5) directors, which has control over and management supervision of all affairs of the District. Directors are elected to four-year staggered terms and elections are held in May in even numbered years only. None of the Board members resides within the District; however, each of the Board members owns land within the District subject to a note and deed of trust in favor of the Developer. The current members and officers of the Board along with their titles and terms, are listed as follows:

<u>Name</u>	<u>District Board Title</u>	<u>Term Expires</u>
James E. Maglothin	President	May 2018
Neill Hurley	Vice President	May 2020
Dana Dutton	Secretary	May 2020
George Parker, Jr.	Deputy Secretary	May 2018
John Wright	Director	May 2020

### District Consultants

The District does not have a general manager or other full-time employees, but contracts for certain necessary services as described below.

Bond Counsel/Attorney: The District has engaged Paul A. Philbin & Assoc., P.C. as general counsel to the District and as Bond Counsel in connection with the issuance of the District's debt obligations. The fees of the attorneys in their capacity as Bond Counsel are contingent upon the sale and delivery of the Bonds. Compensation to the attorneys for other services to the District is based on time charges actually incurred.

Financial Advisor: FirstSouthwest, a Division of Hilltop Securities Inc. serves as the District's Financial Advisor. The fee for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds.

Independent Auditor: The District's financial statements for the year ended August 31, 2015, were audited by BKD, LLP, Certified Public Accountants. See "APPENDIX A" for a copy of the District's August 31, 2015, financial statements. The District has engaged BKD, LLP to audit its financial statements for the year ended August 31, 2016. The District did not request BKD, LLP to perform any updating procedures subsequent to the date of its audit report on the August 31, 2015, financial statements.

Engineer: The District's consulting engineer is Dannenbaum Engineering Corp. (the "Engineer")

Bookkeeper: The District has contracted with Municipal Accounts & Consulting, L.P. for bookkeeping services (the "Bookkeeper").

Tax Appraisal: The Galveston Central Appraisal District has the responsibility of appraising all property within the District. See "TAXING PROCEDURES."

Tax Assessor/Collector: The District has appointed an independent tax assessor/collector to perform the tax collection function. Mr. Thomas Lee of Assessments of the Southwest, Inc. (the "Tax Assessor/Collector") has been employed by the District to serve in this capacity.

## THE SYSTEM

### **Regulation**

Construction and operation of the water, sanitary sewer and storm drainage system serving the District (the "System") as it now exists or as it may be expanded from time to time is subject to regulatory jurisdiction of federal, state and local authorities. The TCEQ exercises continuing, supervisory authority over the District. Construction of water, sanitary sewer and storm drainage facilities is subject to the regulatory authority of the District, the City and Galveston County. The TCEQ also exercises regulatory jurisdiction over portions of the System.

### **Water Supply and Wastewater Treatment**

Permanent water supply and wastewater treatment for the District is provided by the City pursuant to the Utility Agreement. The water supplied by the City is purchased from the Galveston County Water Authority, which obtains surface water from the City of Houston through a long-term contract and delivers it to the City via a 39-inch transmission line to a location along Interstate Highway 45. See "UTILITY AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF LEAGUE CITY."

Pursuant to the Utility Agreement, the District has been allocated 1,858 equivalent single-family connections in the City's water supply and wastewater treatment facilities. A system of internal water distribution, wastewater collection and storm drainage lines has been constructed to serve 916 single-family residential lots. See "THE DISTRICT—Land Use."

Water supply and wastewater treatment for the District is provided by the City and all revenues from the collection of charges for water and sewer services are paid directly to the City.

### **Ownership and Operations**

The District (or the Developer on behalf of the District) finances and constructs the System, and thereafter conveys the components of the System to the City upon completion, subject to the District's capacity rights and the Developer's reimbursement rights pursuant to the Utility Agreement. The System is owned, maintained, and operated by the City. The City charges and collects the fees associated with the System. The District receives no revenues from the operation of the System; funds for the administration of the District are available from maintenance tax revenue. See "TAX DATA—Historical Tax Rate."

### **Flood Protection**

Approximately 7 undeveloped acres within the District planned for future residential development were shown within the 100-year flood plain as depicted by the Federal Emergency Management Agency ("FEMA") flood insurance rate map and an additional approximately 11 acres are located within the 500-year flood plain. A letter of Map Revision has been submitted to FEMA to remove 7 acres from the 100-year flood plain designation and such Map Revision was approved by FEMA on March 31, 2006. The remainder of the District is outside any flood plain designation. See "INVESTMENT CONSIDERATIONS—Hurricane Risk."

**FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)**

2016 Taxable Assessed Valuation.....	\$152,882,160	(a)
Estimated Taxable Assessed Valuation as of July 15, 2016.....	\$161,770,335	(b)
Gross Direct Debt Outstanding .....	\$17,720,000	(c)
Estimated Overlapping Debt .....	<u>17,084,471</u>	(d)
Gross Direct Debt and Estimated Overlapping Debt.....	\$34,804,471	
Ratios of Gross Direct Debt to:		
2016 Taxable Assessed Valuation.....	11.59%	
Estimated Taxable Assessed Valuation as of July 15, 2016.....	10.95%	
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:		
2016 Taxable Assessed Valuation.....	22.77%	
Estimated Taxable Assessed Valuation as of July 15, 2016.....	21.51%	
Funds Available for Debt Service:		
Debt Service Fund Balance as of August 24, 2016.....	\$1,873,634	
Capitalized Interest from proceeds of the Bonds (Six (6) Months).....	<u>75,250</u>	(e)
Total Funds Available for Debt Service.....	\$1,948,884	
Operating Funds Available as of August 24, 2016.....	\$186,355	(f)
Capital Projects Funds Balance as of August 24, 2016.....	\$489,339	

- (a) The 2016 Taxable Assessed Valuation shown herein includes \$151,640,125 of certified value and \$1,242,035 of uncertified value. The uncertified value represents Galveston Central Appraisal District’s (the “Appraisal District”) opinion of the value; however, such value is subject to change and downward revision prior to certification. No tax will be levied on said uncertified value until it is certified by the Appraisal District. See “TAXING PROCEDURES.”
- (b) Provided by the Appraisal District for informational purposes only. Such amounts reflect an estimate of the taxable assessed valuation within the District on July 15, 2016. Increases in value that occur between January 1, 2016 and July 15, 2016, will be assessed for purposes of taxation on January 1, 2017. No tax will be levied on such amount until it is certified in the summer of 2016. See “TAXING PROCEDURES.”
- (c) Includes the Bonds and the Outstanding Bonds. See “Outstanding Bonds” herein.
- (d) See “Estimated Overlapping Debt” herein.
- (e) The District will capitalize six (6) months of interest on the Bonds. The amount above is estimated using 3.50%. See “USE AND DISTRIBUTION OF BOND PROCEEDS.”
- (f) Approximately \$50,000 of the Bond proceeds will be deposited to the operating fund to reimburse such fund for engineering fees for preparing the bond application for submittal to the TCEQ.

**Investments of the District**

The District has adopted an Investment Policy as required by the Public Funds Investment Act, Chapter 2256, Texas Government Code. The District’s goal is to preserve principal and maintain liquidity while securing a competitive yield on its portfolio. Funds of the District will be invested in short term U.S. Treasuries, certificates of deposit insured by the Federal Deposit Insurance Corporation (“FDIC”) or secured by collateral evidenced by perfected safekeeping receipts held by a third party bank, and public funds investment pools rated in the highest rating category by a nationally recognized rating service. The District does not currently own, nor does it anticipate, the inclusion of long term securities or derivative products in the District’s investment portfolio.

**Outstanding Bonds**

The District has previously issued four series of unlimited tax bonds for funding water, sanitary, sewer, and drainage facilities and one series of unlimited tax refunding bonds. The following table lists the original principal amount of such bonds by series and the principal amount of such bonds that will remain outstanding (the “Outstanding Bonds”) as the date hereof.

Series	Original Principal Amount	Outstanding Bonds
2007	\$ 2,560,000	\$ 85,000
2008	3,065,000	-
2011	4,185,000	3,720,000
2015 (a)	4,815,000	4,815,000
2015A	4,800,000	4,800,000
Total		<u>\$ 13,420,000</u>

- (a) Unlimited tax refunding bonds.

**Debt Service Requirements**

The following sets forth the debt service on the Outstanding Bonds and the estimated debt service on the Bonds at an estimated interest rate per annum of 3.50%. This schedule does not reflect the fact that an amount equal to six (6) months of interest will be capitalized from Bond proceeds. See "USE AND DISTRIBUTION OF BOND PROCEEDS."

Year	Outstanding Bonds Debt Service Requirements	Debt Service on the Bonds			Total Debt Service Requirements
		Principal	Interest	Total	
2016	\$ 923,846.88 (a)	\$ -	\$ -	\$ -	\$ 923,846.88
2017	1,077,767.50	200,000	150,500.00	350,500.00	1,428,267.50
2018	1,072,707.50	200,000	143,500.00	343,500.00	1,416,207.50
2019	1,067,107.50	200,000	136,500.00	336,500.00	1,403,607.50
2020	1,065,787.50	200,000	129,500.00	329,500.00	1,395,287.50
2021	1,071,007.50	200,000	122,500.00	322,500.00	1,393,507.50
2022	1,064,977.50	200,000	115,500.00	315,500.00	1,380,477.50
2023	1,058,147.50	200,000	108,500.00	308,500.00	1,366,647.50
2024	1,050,097.50	200,000	101,500.00	301,500.00	1,351,597.50
2025	1,050,835.00	200,000	94,500.00	294,500.00	1,345,335.00
2026	1,036,735.00	200,000	87,500.00	287,500.00	1,324,235.00
2027	1,036,866.25	200,000	80,500.00	280,500.00	1,317,366.25
2028	1,028,816.25	200,000	73,500.00	273,500.00	1,302,316.25
2029	1,019,556.25	200,000	66,500.00	266,500.00	1,286,056.25
2030	1,008,456.25	200,000	59,500.00	259,500.00	1,267,956.25
2031	1,001,112.50	200,000	52,500.00	252,500.00	1,253,612.50
2032	797,325.00	250,000	45,500.00	295,500.00	1,092,825.00
2033	254,531.25	250,000	36,750.00	286,750.00	541,281.25
2034	247,218.75	250,000	28,000.00	278,000.00	525,218.75
2035	239,906.25	275,000	19,250.00	294,250.00	534,156.25
2036	232,593.75	275,000	9,625.00	284,625.00	517,218.75
Total	\$18,405,399.38	\$ 4,300,000	\$1,661,625.00	\$5,961,625.00	\$24,367,024.38

(a) Excludes the District's April 1, 2016 debt service payment in the amount of \$228,503.

Maximum Annual Debt Service Requirement (2017).....	\$1,428,268
Average Annual Debt Service Requirements (2017-2036) .....	\$1,172,159

**District Operations**

The System is owned and operated by the City and no water and sewer revenue is received by the District nor is the District responsible for operation, repair or maintenance of the System.

**General Operating Fund**

The Outstanding Bonds and the Bonds are payable solely from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District. Net revenue from operation of the District, if any, is available for any legal purpose, including, upon Board action, the payment of debt service on the Bonds and the Outstanding Bonds. It is anticipated that no significant operation revenues will be used for debt service on the Bonds or the Outstanding Bonds in the foreseeable future.

The following statement sets forth in condensed form the General Operating Fund as shown in the District’s audited financial statements for the fiscal years ended August 31, 2012 through August 31, 2015 and an unaudited summary for the period ended July 31, 2016, prepared by the District’s Bookkeeper. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Reference is made to “APPENDIX A” for further and complete information.

	9/1/2015 to 7/31/2016	(a)	Fiscal Year End August 31			
			2015	2014	2013	2012
<b>Revenues:</b>						
Property Taxes	\$ 148,954		\$ 126,264	\$ 163,108	\$ 87,412	\$ 168,476
Investment Revenue	734		223	283	424	478
Total Revenue	\$ 149,688		\$ 126,487	\$ 163,391	\$ 87,836	\$ 168,954
<b>Expenditures:</b>						
Professional Fees	\$ 96,154		\$ 84,373	\$ 86,588	\$ 88,594	\$ 81,019
Contracted Services	20,782		14,228	14,458	13,185	8,166
Repairs and Maintenance	11,359		12,349	12,349	14,159	10,485
Other	26,624		16,120	14,707	17,047	11,560
Capital Outlay	50,626		40,506	45,570	-	1,800
Total Expenditures	\$ 205,544		\$ 167,576	\$ 173,672	\$ 132,985	\$ 113,030
<b>NET REVENUES</b>	<b>\$ (55,856)</b>		<b>\$ (41,089)</b>	<b>\$ (10,281)</b>	<b>\$ (45,149)</b>	<b>\$ 55,924</b>
Other Financing Sources	\$ 86,077		\$ -	\$ -	\$ -	\$ -
General Operating Fund Balance (Beginning of Year)	\$ 158,438		\$ 199,527	\$ 209,808	\$ 254,957	\$ 199,033
General Operating Fund Balance (End of Year)	\$ 188,659 (b)		\$ 158,438	\$ 199,527	\$ 209,808	\$ 254,957

(a) Unaudited. Provided by the District’s Bookkeeper.

(b) Approximately \$50,000 of the Bond proceeds will be deposited to the operating fund to reimburse such fund for engineering fees for preparing the bond application for submittal to the TCEQ.



**Estimated Overlapping Debt**

The following table indicates the outstanding debt payable from ad valorem taxes, of governmental entities within which the District is located and the estimated percentages and amounts of such indebtedness attributable to property within the District. Debt figures equated herein to outstanding obligations payable from ad valorem taxes are based upon data obtained from individual jurisdictions or Texas Municipal Reports compiled and published by the Municipal Advisory Council of Texas. Furthermore, certain entities listed below may have issued additional obligations since the date listed and may have plans to incur significant amounts of additional debt. Political subdivisions overlapping the District are authorized by Texas law to levy and collect ad valorem taxes for the purposes of operation, maintenance and/or general revenue purposes in addition to taxes for the payment of debt service and the tax burden for operation, maintenance and/or general revenue purposes is not included in these figures. The District has no control over the issuance of debt or tax levies of any such entities.

<u>Taxing Jurisdiction</u>	<u>Outstanding Bonds</u>	<u>As of</u>	<u>Overlapping Percent</u>	<u>Amount</u>
Galveston County .....	\$238,628,434	07/31/16	0.56%	\$ 1,336,319
City of League City .....	203,445,000	07/31/16	2.06%	4,190,967
Dickinson Independent School District.....	258,550,000	07/31/16	4.47%	<u>11,557,185</u>
Total Estimated Overlapping Debt .....				\$17,084,471
The District's Gross Direct Debt (a) .....				<u>17,720,000</u>
Total Gross Direct Debt and Estimated Overlapping Debt .....				<u>\$34,804,471</u>

Gross Direct Debt and Estimated Overlapping Debt as a Percentage of:

2016 Taxable Assessed Valuation of \$152,882,160.....	22.77%
Estimated Taxable Assessed Valuation as of July 15, 2016 of \$161,770,335 .....	21.51%

(a) Includes the Outstanding Bonds and the Bonds.

**Overlapping Taxes**

Property within the District is subject to taxation by several taxing authorities in addition to the District. On January 1 of each year a tax lien attaches to property to secure the payment of all taxes, penalties and interest imposed on such property. The lien exists in favor of each taxing unit, including the District, having the power to tax the property. The District's tax lien is on a parity with tax liens of taxing authorities shown below. In addition to ad valorem taxes required to pay debt service on bonded debt of the District and other taxing authorities (see Estimated Overlapping Debt" above), certain taxing jurisdictions, including the District, are also authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administrative and/or general revenue purposes.

Set forth below are all of the taxes levied for the 2015 tax year by all taxing jurisdictions and the anticipated 2016 tax rate of the District. No recognition is given to local assessments for civic association dues, fire department contributions, solid waste disposal charges or any other levy of entities other than political subdivisions.

	<u>Tax Rate per \$100 Taxable Assessed Valuation</u>
Galveston County (including Road and Flood).....	\$ 0.567000
Dickinson Independent School District.....	1.540000
City of League City.....	<u>0.573500</u>
Total Overlapping Tax Rate.....	\$ 2.680500
District Tax Rate.....	<u>1.000000</u> (a)
Total Tax Rate.....	\$ 3.680500

(a) On August 24, 2016, the District authorized the publication of a notice of its intent to adopt a total 2016 tax rate in the amount of \$1.00 per \$100 of taxable assessed valuation. In September 2016, the District expects to adopt such rate, of which \$0.86 per \$100 of taxable assessed valuation will be allocated to debt service and \$0.14 per \$100 of taxable assessed valuation will be allocated to maintenance. See "TAX DATA—Historical Tax Rate Distribution."

## TAX DATA

### Debt Service Tax

The Board covenants in the Bond Order to levy and assess, for each year that all or any part of the Bonds or the Outstanding Bonds remain outstanding and unpaid, a tax adequate to provide funds to pay the principal of and interest on the Bonds and the Outstanding Bonds. See “Historical Tax Rate Distribution” and “Tax Roll Information” below, “TAXING PROCEDURES” and “INVESTMENT CONSIDERATIONS—Factors Affecting Taxable Values and Tax Payments.”

### Maintenance Tax

The Board has the statutory authority to levy and collect an annual ad valorem tax for the operation and maintenance of the District, if such a maintenance tax is authorized by the District's voters. A maintenance tax election was conducted November 2, 2004, and voters of the District authorized, among other things, the Board to levy a maintenance tax at a rate not to exceed \$1.50 per \$100 of taxable assessed valuation. A maintenance tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds and the Outstanding Bonds. See “Debt Service Tax” above. Since the District does not receive water and sewer revenues from its residents, the maintenance tax is the District's primary source of operating revenues.

### Tax Exemptions

The District has not adopted any tax exemptions for property located within the District.

### Historical Tax Rate Distribution

	Anticipated				
	2016 (a)	2015	2014	2013	2012
Debt Service Tax	\$ 0.86	\$ 0.885	\$ 0.880	\$ 0.830	\$ 0.900
Maintenance Tax	0.14	0.115	0.120	0.170	0.100
Total	\$ 1.00	\$ 1.000	\$ 1.000	\$ 1.000	\$ 1.000

- (a) On August 24, 2016, the District authorized the publication of a notice of its intent to adopt a total 2016 tax rate in the amount of \$1.00 per \$100 of taxable assessed valuation. In September 2016, the District expects to adopt such rate, of which \$0.86 per \$100 of taxable assessed valuation will be allocated to debt service and \$0.14 per \$100 of taxable assessed valuation will be allocated to maintenance.

### Historical Tax Collections

The following statement of tax collections sets forth in condensed form a portion of the historical tax experience of the District. Such table has been prepared for inclusion herein, based upon information obtained from the District's Tax Assessor/Collector. Reference is made to such statements and records for further and complete information. See “Tax Roll Information” below.

	Net Certified			Total Collections	
	Taxable	Tax	Total	As of 7/31/2016 (c)	
	Valuation (a)	Rate	Tax Levy (b)	Amount	Percent
2011	\$ 79,874,201	\$ 1.00	\$ 798,742	\$ 797,484	99.84%
2012	86,745,703	1.00	867,457	866,199	99.85%
2013	96,184,515	1.00	961,845	959,437	99.75%
2014	106,322,245	1.00	1,063,222	1,057,698	99.48%
2015	130,460,824	1.00	1,304,608	1,294,335	99.21%
2016	152,882,160	1.00	1,528,822	(d)	(d)

- (a) Net valuation represents final gross appraised value as certified by the Appraisal District less any exemptions granted. See “Tax Roll Information” below for gross appraised value and exemptions granted by the District.
- (b) Represents actual tax levy, including any adjustments by the Appraisal District, as of the date hereof.
- (c) Represents unaudited collections as of July 31, 2016.
- (d) On August 24, 2016, the District authorized the publication of a notice of its intent to adopt a total 2016 tax rate in the amount of \$1.00 per \$100 of taxable assessed valuation. In September 2016, the District expects to adopt such rate, of which \$0.86 per \$100 of taxable assessed valuation will be allocated to debt service and \$0.14 per \$100 of taxable assessed valuation will be allocated to maintenance. Taxes for the 2016 tax year are due by January 31, 2017.

**Tax Roll Information**

The District’s assessed value as of January 1 of each year is used by the District in establishing its tax rate. See “TAXING PROCEDURES—Valuation of Property for Taxation.” The following represents the composition of property comprising the 2012 through 2016 Taxable Assessed Valuations. No tax will be levied on such amount. Taxes are levied on taxable value certified by the Appraisal District as of January 1 of each year. Breakdowns of the uncertified portion (\$1,242,035) of the 2016 Taxable Assessed Valuation of \$152,882,160 and the Estimated Taxable Assessed Valuation as of July 15, 2016, of \$161,770,335 are subject to revision and are not included herein.

	2012 Taxable Assessed Valuation	2013 Taxable Assessed Valuation	2014 Taxable Assessed Valuation	2015 Taxable Assessed Valuation	2016 Taxable Assessed Valuation
Land	\$ 23,872,410	\$ 25,902,530	\$ 27,792,240	\$ 29,796,730	\$ 32,048,090
Improvements	63,594,140	71,107,110	79,440,900	107,618,953	124,661,030
Personal Property	214,673	290,374	344,439	595,162	320,718
Exemptions	(935,520)	(1,115,499)	(1,255,334)	(7,550,021)	(5,389,713)
Uncertified	-	-	-	-	1,242,035
Total	\$ 86,745,703	\$ 96,184,515	\$ 106,322,245	\$ 130,460,824	\$ 152,882,160

**Principal Taxpayers**

The following table represents the ten principal taxpayers, the taxable assessed valuation of such property, and such property’s taxable assessed valuation as a percentage of the certified portion (\$151,640,125) of the 2016 Taxable Assessed Valuation of \$152,882,160, which represents ownership as of January 1, 2016. Principal taxpayer lists related to the uncertified portion (\$1,242,035) of the 2016 Taxable Assessed Valuation and the Estimated Taxable Assessed Valuation as of July 15, 2016, of \$161,770,335, are not currently available.

<u>Taxpayer</u>	2016 Certified Taxable Assessed Valuation	% of the 2016 Certified Taxable Assessed Valuation
Inter National Bank (a)	\$2,379,390	1.57%
Bay Colony Expansion 369 Ltd. (a)	1,168,230	0.77%
AMH 2014-3 Borrower LLC	780,340	0.51%
Anglia Homes LP	565,290	0.37%
Individual	485,000	0.32%
Individual	265,780	0.18%
Individual	253,390	0.17%
Individual	248,880	0.16%
Individual	248,780	0.16%
Individual	248,130	0.16%
	<u>\$6,643,210</u>	<u>4.37%</u>

(a) See “THE DEVELOPER AND MAJOR PROPERTY OWNER.”

**Tax Adequacy for Debt Service**

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 of taxable assessed valuation which would be required to meet average annual and maximum debt service requirements if no growth in the District’s tax base occurred beyond the 2016 Taxable Assessed Valuation of \$152,882,160 (\$151,640,125 of certified value plus \$1,242,035 of uncertified value) or the Estimated Taxable Assessed Valuation as of July 15, 2016 of \$161,770,335. The calculations contained in the following table merely represent the tax rates required to pay principal of and interest on the Bonds and the Outstanding Bonds, when due, assuming no further increase or any decrease in taxable values in the District, collection of ninety-five percent (95%) of taxes levied, the sale of no additional bonds, and no other funds available for the payment of debt service. See “FINANCIAL INFORMATION CONCERNING THE DISTRICT—Debt Service Requirements” and “INVESTMENT CONSIDERATIONS—Possible Impact on District Tax Rates.”

Average Annual Debt Service Requirement (2017-2036) .....	\$1,172,159
\$0.81 Tax Rate on 2016 Taxable Assessed Valuation .....	\$1,176,428
\$0.77 Tax Rate on Estimated Taxable Assessed Valuation as of July 15, 2016 .....	\$1,183,350
Maximum Annual Debt Service Requirement (2017).....	\$1,428,268
\$0.99 Tax Rate on 2016 Taxable Assessed Valuation .....	\$1,437,857
\$0.93 Tax Rate on Estimated Taxable Assessed Valuation as of July 15, 2016 .....	\$1,429,241

No representation or suggestion is made that the uncertified portion of the 2016 Taxable Assessed Valuation will not be adjusted downward or the estimated value of land and improvements provided by the Appraisal District as of July 15, 2016, for the District will be certified as taxable value by the Appraisal District, and no person should rely upon such amount or its inclusion herein as assurance of their attainment. See “TAXING PROCEDURES.”

**TAXING PROCEDURES**

**Authority to Levy Taxes**

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in an amount sufficient to pay the principal of and interest on the Bonds, the 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 Payment.” Under Texas law, the Board may also levy and collect an annual ad valorem tax for the operation and maintenance of the District and for the payment of certain contractual obligations. See “TAX DATA—Debt Service Tax” and “—Maintenance Tax.”

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

The Texas Property Tax Code (the “Property Tax Code”) specifies the taxing procedures of all political subdivisions of the State of Texas, including the District. Provisions of the Property Tax Code are complex and are not fully summarized here.

The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas an appraisal district with the responsibility for recording and appraising property for all taxing units within a county and an appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. The Galveston Central Appraisal District (the “Appraisal District”) has the responsibility for appraising property for all taxing units within Galveston County, including the District. Such appraisal values are subject to review and change by the Galveston Central Appraisal Review Board (the “Appraisal Review Board”).

**Property Subject to Taxation by the District**

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; certain goods, wares and merchandise in transit; farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years of age or older and of certain disabled persons to the extent deemed advisable by the Board. The District may be required to call such an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the previous election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District’s obligation to pay tax supported debt incurred prior to adoption of the exemption by the District. Furthermore, the District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between \$3,000 and \$12,000 of taxable valuation depending upon the disability rating of the veteran claiming the exemption, and qualifying surviving spouses of persons 65 years of age or older

will be entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse. A veteran who receives a disability rating of 100% is entitled to an exemption for the full amount of the veteran's residential homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. Also, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead spouse. See "TAX DATA."

**Residential Homestead Exemptions:** The Property Tax Code authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) of the appraised value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of a homestead exemption may be considered each year, but must be adopted by April 30. See "TAX DATA."

**Freeport Goods and Goods-in-Transit Exemptions:** A "Freeport Exemption" applies to goods, wares, ores, and merchandise other than oil, gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining petroleum or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A "Goods-in-Transit" Exemption 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 includes 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. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit personal property. A taxing unit must exercise its option to tax goods-in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law. The District has taken official action to allow taxation of all such goods-in-transit personal property for all prior and subsequent years.

### **Tax Abatement**

Galveston County or the City may designate all or part of the area within the District as a reinvestment zone. Thereafter, Galveston County, the City and the District, at the option and discretion of each entity, may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the District, for a period of up to ten (10) years, all or any part of any increase in the appraised valuation of property covered by the agreement over its appraised 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 the terms of the tax abatement agreement. Each taxing jurisdiction has discretion to determine terms for its tax abatement agreements without regard to the terms approved by the other taxing jurisdictions.

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

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Property Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Property Tax Code.

Nevertheless, certain land may be appraised at less than market value under the Property Tax Code. In November 1997, Texas voters approved a constitutional amendment to limit increases in the appraised value of residence homesteads to ten percent (10%) annually regardless of the market value of the property. The Property Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its fair market value. The Property Tax Code permits under certain circumstances that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Provisions of the Property Tax Code are complex and are not fully summarized here. Landowners wishing to avail themselves of the agricultural use, open space or timberland designation or residential real property inventory designation must apply for the designation and the appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions while claiming it as to another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous three (3) years for agricultural use and taxes for the previous five (5) years for open space land and timberland.

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

### **District and Taxpayer Remedies**

Under certain circumstances taxpayers and taxing units (such as the District) may appeal the orders of the Appraisal Review Board by filing a timely petition for review in State district court. In such event, the value of the property in question will be determined by the court or by a jury if requested by any party. Additionally, taxing units may bring suit against the Appraisal District to compel compliance with the Property Tax Code.

The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the District and provides for taxpayer referenda which could result in the repeal of certain tax increases. The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

### **Levy and Collection of Taxes**

The District is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. The rate of taxation is set by the Board of Directors, after the legally required notice has been given to owners of property within the District, based upon: a) the valuation of property within the District as of the preceding January 1, and b) the amount required to be raised for debt service, maintenance purposes and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent if not paid before February 1 of the year following the year in which imposed. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. A delinquent tax on personal property incurs an additional penalty, in an amount established by the District and a delinquent tax attorney, 60 days after the date the taxes become delinquent. For those taxes billed at a later date and that become delinquent on or after June 1, they will also incur an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. The delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, may be rejected. The District's tax collector is required to enter into an installment payment agreement with any person who is delinquent on the payment of tax on a residence homestead, if the person requests an installment agreement and has not entered into an installment agreement with the collector in the preceding 24 months. The installment agreement must provide for payments to be made in equal monthly installments and must extend for a period of at least 12 months and no more than 36 months. Additionally, the owner of a residential homestead property who is a person sixty-five (65) years of age or older or disabled is entitled by law to pay current taxes on a residential homestead in installments or to defer the payment of taxes without penalty during the time of ownership.

### **Rollback of Operation and Maintenance Tax Rate**

The qualified voters of the District have the right to petition for a rollback of the District's operation and maintenance tax rate only if the total tax bill on the average residence homestead increases by more than eight percent. If a rollback election is called and passes, the rollback tax rate is the current year's debt service and contract tax rates plus 1.08 times the previous year's operation and maintenance tax rate. Thus, debt service and contract tax rates cannot be changed by a rollback election.

## **District's Rights in the Event of Tax Delinquencies**

Taxes levied by the District are a personal obligation of the owner of the property as of 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 INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Overlapping Taxes." 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 subject to the restrictions on residential homesteads described above under "Levy and Collection of Taxes." 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 or by bankruptcy proceedings which restrict the collection of taxpayer debts. A taxpayer may redeem property within six (6) months for commercial property and two (2) years for residential and all other types of property after the purchaser's deed issued at the foreclosure sale is filed in the county records. See "INVESTMENT CONSIDERATIONS—General" and "—Tax Collection Limitations and Foreclosure Remedies."

## **The Effect of FIRREA on Tax Collections of the District**

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") 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, interest, 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.

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 or may affect the valuation of such property.

## **INVESTMENT CONSIDERATIONS**

### **General**

The Bonds are obligations solely of the District and are not obligations of the City, Galveston County, the State of Texas, or any entity other than the District. Payment of the principal of and interest on the Bonds depends upon the ability of the District to collect taxes levied on taxable property within the District in an amount sufficient to service the District's bonded debt or in the event of foreclosure, on the value of the taxable property in the District and the taxes levied by the District and other taxing authorities upon the property within the District. See "THE BONDS—Source of Payment." 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 taxable property within the District will accumulate or maintain taxable values sufficient to justify continued payment of taxes by property owners or that there will be a market for the property or that owners of the property will have the ability to pay taxes. See "Registered Owners' Remedies" below.

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

A substantial percentage of the taxable value of the District results from the current market value of single-family residences and developed lots which are currently being marketed by the Developer for sale to either home purchasers or homebuilders for the construction of primary residences. The market value of such homes and lots is related to general economic conditions affecting the demand for residences. Demand for lots of this type and the construction of residential dwellings thereon can be significantly affected by factors such as interest rates, unemployment rate, credit availability, construction costs, energy availability and the prosperity and demographic characteristics of the urban center toward which the marketing of lots is directed. Decreased levels of construction activity would tend to restrict the growth of property values in the District or could adversely impact such values. An economic slowdown generally, or any downturn in economic conditions, on a national or local basis, could restrain the growth of or even erode the District's tax base.

## **Credit Markets and Liquidity in the Financial Markets**

Interest rates and the availability of mortgage and development funding have a direct impact on the construction activity, particularly short-term interest rates at which developers are able to obtain financing for development costs. Interest rate levels may affect the ability of a landowner with undeveloped property to undertake and complete construction activities within the District. Because of the numerous and changing factors affecting the availability of funds, the District is unable to assess the future availability of such funds for continued construction within the District. In addition, since the District is located approximately 26 miles from the central downtown business district of the City of Houston, the success of development within the District and growth of District taxable property values are, to a great extent, a function of the Houston metropolitan and regional economies and the national financial and credit markets.

## **Competition**

The demand for and construction of single-family homes in the District could be affected by competition from other residential developments in the City and the City of Houston. In addition to competition for new home sales from other developments, there are numerous previously-owned homes in more established neighborhoods that are for sale. Such homes could represent additional competition for new homes proposed to be sold within the District.

The competitive position of the Developer in the sale developed lots and of prospective builders in the construction of single-family residential houses within the District is affected by most of the factors discussed in this section. Such a competitive position is directly related to the growth and maintenance of taxable values in the District and tax revenues to be received by the District. The District can give no assurance that additional building and marketing programs in the District by the Developer will be implemented or, if implemented, will be successful.

## **Hurricanes**

The District is located approximately eight and one-half mile west of Galveston Bay. Land located in this area could be susceptible to storm surge caused by a hurricane. Hurricanes can cause increased flooding, particularly in coastal areas such as the area where the District is located. Hurricanes can also cause windstorm and other damage, and hurricane induced flooding can submerge roadways connecting coastal areas such as the District with inland areas, thus preventing evacuations of persons or property. If a hurricane (or any other natural disaster) destroyed all or part of the improvements within the District, the assessed value of property within the District could be substantially reduced, with a corresponding decrease in tax revenues or increase in the tax rate. Further, there can be no assurance that a casualty loss will be covered by insurance (certain casualties, including flood, are usually excepted unless specific insurance is purchased), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild or repair any damaged improvements within the District. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the District would be adversely affected. The Gulf Coast region in which the District is located is subject to occasional destructive weather. There can be no assurance the District will not endure damage from future meteorological events.

## **Undeveloped Acreage**

There are approximately 177 developable acres of land within the District that have not been fully provided with water, wastewater, storm drainage, and detention facilities. The District makes no representation as to when or if development of this acreage will occur. See "THE DISTRICT—Land Use."

## **Possible Impact on District Tax Rates**

Assuming no further development, the value of the land and improvements currently existing within the District will be the major determinant of the ability or willingness of owners of property within the District to pay their taxes. The 2016 Taxable Assessed Valuation is \$152,882,160. After issuance of the Bonds, the maximum debt service requirement will be \$1,428,268 (2017), and the average annual debt service requirement will be \$1,172,159 (2017-2036, inclusive). Assuming no increase or decrease from the 2016 Taxable Assessed Valuation, the issuance of no additional debt, and no other funds available for the payment of debt service, tax rates of \$0.99 and \$0.81 per \$100 of taxable assessed valuation, respectively, at a ninety-five percent (95%) collection rate would be necessary to pay both the maximum debt service requirement and the average annual debt service requirement, respectively. The Estimated Taxable Assessed Valuation as of July 15, 2016 is \$161,770,335, which reduces the tax rate calculations above to \$0.93 and \$0.77 per \$100 of taxable assessed valuation, respectively. The District is plans to levy a debt service tax rate of \$0.86 per \$100 of taxable assessed valuation for 2016. See "TAX DATA—Tax Rate Distribution."

While the District anticipates future increases in taxable values, it makes no representations that over the term of the Bonds the property within the District will maintain a value sufficient to justify continued payment of taxes by property owners. Property within the District also is subject to taxes levied by other political subdivisions. See "TAX DATA—Tax Adequacy for Debt Service."



## **Tax Collections Limitations and Foreclosure Remedies**

The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other local taxing authorities on the property against which taxes are levied, and such lien may be enforced by judicial foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time-consuming and expensive collection procedures, (b) a bankruptcy court's stay of tax collection procedures against a taxpayer, or (c) market conditions affecting the marketability of taxable property within the District and limiting the proceeds from a foreclosure sale of such property. Moreover, the proceeds of any sale of property within the District available to pay debt service on the Bonds may be limited by the existence of other tax liens on the property (see "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Overlapping Taxes"), by the current aggregate tax rate being levied against the property, and by other factors (including the taxpayers' right to redeem property within two years of foreclosure for residential and agricultural use property and six months for other property). Finally, any bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes assessed against such taxpayer. In addition to the automatic stay against collection of delinquent taxes afforded a taxpayer during the pendency of a bankruptcy, a bankruptcy could affect payment of taxes in two other ways: first, a debtor's confirmation plan may allow a debtor to make installment payments on delinquent taxes for up to six years; and, second, a debtor may challenge, and a bankruptcy court may reduce, the amount of any taxes assessed against the debtor, including taxes that have already been paid.

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

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Order, the Registered Owners have the statutory right of a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Order. Except for mandamus, the Bond Order does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners. Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages, so that in the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Order may not be reduced to a judgment for money damages. If such a judgment against the District were obtained, it could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the District.

Subject to the requirements of Texas law discussed below, a political subdivision such as the District may voluntarily file a petition for relief from creditors under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. Sections 901-946. The filing of such petition would automatically stay the enforcement of Registered Owner's remedies, including mandamus. The automatic stay would remain in effect until the federal bankruptcy judge hearing the case dismisses the petition, enters an order granting relief from the stay or otherwise allows creditors to proceed against the petitioning political subdivision. A political subdivision such as the District may qualify as a debtor eligible to proceed in a Chapter 9 case only if it is (1) authorized to file for federal bankruptcy protection by applicable state law, (2) is insolvent or unable to meet its debts as they mature, (3) desires to effect a plan to adjust such debts, and (4) has either obtained the agreement of or negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiation is impracticable. Special districts such as the District must obtain the approval of the Commission as a condition to seeking relief under the Federal Bankruptcy Code. The Commission is required to investigate the financial condition of a financially troubled district and authorize such district to proceed under federal bankruptcy law only if such district has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

Notwithstanding noncompliance by a district with Texas law requirements, the District could file a voluntary bankruptcy petition under Chapter 9, thereby invoking the protection of the automatic stay until the bankruptcy court, after a hearing, dismisses the petition. A federal bankruptcy court is a court of equity and federal bankruptcy judges have considerable discretion in the conduct of bankruptcy proceedings and in making the decision of whether to grant the petitioning District relief from its creditors. While such a decision might be appealable, the concomitant delay and loss of remedies to the Registered Owner could potentially and adversely impair the value of the Registered Owner's claim.

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 the collateral or security arrangements, substituting (in whole or in part) other Bonds, and otherwise compromising and modifying the rights and remedies of the Registered Owners' claims against a district.

A district may not be forced into bankruptcy involuntarily.

### **Future Debt**

The District has the right to issue obligations other than the Bonds, including tax anticipation notes and bond anticipation notes, and to borrow for any valid corporate purpose. After reimbursement from Bond proceeds, the District will continue to owe the Developer and INB approximately \$3,500,000 plus interest for water, sewer and drainage facilities and water and wastewater capacity for the portion of the District developed to date. The District expects to issue additional bonds in order to reimburse the Developer and INB for its outstanding obligations and the cost of additional water, sewer and drainage, including water and wastewater capacity and parks constructed within or for the undeveloped portion of the District.

The District's voters have authorized the issuance of \$44,000,000 principal amount of unlimited tax bonds for the purpose of purchasing and/or constructing water, wastewater and storm drainage facilities and could authorize additional amounts. The District has also authorized \$44,000,000 principal amount of unlimited tax refunding bonds to refund or redeem its outstanding debt and \$2,800,000 principal amount of unlimited tax bonds to finance park and recreational facilities. The District currently has \$43,626,510 principal amount of unlimited tax bonds for refunding purposes authorized but unissued, and all of the bonds authorized for parks and recreational facilities authorized but unissued. After the issuance of the Bonds, \$25,090,000 principal amount of unlimited tax bonds for the purpose of purchasing and/or constructing water, wastewater and storm drainage facilities will remain authorized but unissued. In addition, voters may authorize the issuance of additional bonds secured by ad valorem taxes. The issuance of additional obligations may increase the District's tax rate and adversely affect the security for, and the investment quality and value of, the Bonds.

The District does not employ any formula with respect to appraised valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue. However, the principal amount of bonds issued to finance parks may not exceed 1% of the District's certified value. The issuance of additional bonds for water, sewer and drainage purposes and parks is subject to approval by the TCEQ pursuant to its rules regarding issuance and feasibility of bonds. In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District. See "THE BONDS—Issuance of Additional Debt."

### **Environmental and Air Quality Regulations**

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

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

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

*Air Quality/Greenhouse Gas Issues.* Air quality control measures required by the United States Environmental Protection Agency (the "EPA") and the Texas Commission on Environmental Quality (the "TCEQ") may impact new industrial, commercial and residential development in the Houston area. Under the Clean Air Act ("CAA") Amendments of 1990, the eight-county Houston Galveston area ("HGB area")—Harris, Galveston, Brazoria, Chambers, Fort Bend, Waller, Montgomery and Liberty counties—was designated by the EPA in 2007 as a severe ozone nonattainment area. Such areas are required to demonstrate progress in reducing ozone concentrations each year until the EPA "8-hour" ozone standards are met. The EPA granted the governor's request to voluntarily reclassify the HGB ozone nonattainment area from a moderate to a severe nonattainment area for the 1997 eight-hour ozone standard, effective October 31, 2008. The HGB area's new attainment deadline for the 1997 eight-hour ozone standard must be attained as expeditiously as practicable, but no later than June 15, 2019. If the HGB area fails to demonstrate progress in reducing ozone concentration or fails to meet the EPA's standards, the EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects, as well as severe emissions offset requirements on new major sources of air emissions for which construction has not already commenced.

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

*Discharge Issues.* Discharge regulations that municipal utility districts, including the District, may be required to comply with involve: (1) storm water discharges, and (2) wetlands dredge and fill activities. Each of these is addressed below:

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

Texas Pollutant Discharge Elimination System (“TPDES”) permits set limits on the type and quantity of discharge, in accordance with state and federal laws and regulations. The TCEQ reissued the TPDES Construction General Permit (TXR150000) on February 19, 2013. The TPDES Construction General Permit became effective on March 5, 2013, and is a general permit authorizing the discharge of stormwater runoff associated with small and large construction sites and certain nonstormwater discharges into surface water in the state. It has a 5-year permit term, and is then subject to renewal. The District is subject to the TCEQ’s General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the “MS4 Permit”), which was renewed by the TCEQ on December 11, 2013. The MS4 Permit authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems. The renewed MS4 Permit contains more stringent requirements than the standards contained in the previous MS4 Permit. In order to maintain MS4 Permit compliance, the District is partnering with the City of League City (the “City”), to participate in the City’s program to develop and implement the required plan (the “MS4 Permit Plan”) as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff. While the District does not have its own independent MS4 Permit Plan, the District has taken all necessary steps required by the City to be included in the City’s MS4 Permit Plan in order to obtain MS4 Permit compliance with the TCEQ. If at any time in the future the District were required to maintain independent coverage under the MS4 Permit, it is anticipated that the District could incur substantial additional costs to develop and implement its own program necessary to comply with the MS4 Permit.

### **Risk Factors Related to the Purchase of Municipal Bond Insurance**

The District has applied for a bond insurance policy (the “Policy”) to guarantee the scheduled payment of principal and interest on the Bonds. If the Policy is issued, investors should be aware of the following investment considerations:

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

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

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

### **Marketability of the Bonds**

The District has no understanding with the Underwriter 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 of 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**

Failure of the District to comply with certain covenants contained in the Bond Order on a continuing basis prior to the maturity of the Bonds could result in interest on the Bonds becoming taxable retroactive to the date of original issuance. See "LEGAL MATTERS."

### **Changes in Tax Legislation**

Certain tax legislation, whether currently proposed or proposed in the future, may directly or indirectly reduce or eliminate the benefit of the exclusion of interest on the Bonds from gross income for federal tax purposes. Any proposed legislation, whether or not enacted, may also affect the value and liquidity of the Bonds. Prospective purchasers should consult with their own tax advisors with respect to any proposed, pending or future legislation.

## **MUNICIPAL BOND RATING AND MUNICIPAL BOND INSURANCE**

Moody's Investors Service ("Moody's") has assigned a credit rating of "Baa1" to the Bonds. An explanation of the rating may be obtained from Moody's, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007. The rating fees of Moody's will be paid by the District; however, the fees associated with any other rating will be the responsibility of the Underwriter.

Applications have also been made for the qualification of the Bonds for municipal bond insurance. If qualified, such insurance will be available at the option and expense of the Underwriter. The rating fees of Moody's will be paid by the District; any other rating fees associated with the insurance will be the responsibility of the Underwriter. See "INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance."

There is no assurance that such rating will continue for any given period of time or that it will not be revised or withdrawn entirely by Moody's, if in its judgment, circumstances so warrant. Any such revisions or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

## **LEGAL MATTERS**

### **Legal Opinion**

The District will furnish the Underwriter a transcript of certain certified proceedings incident to the issuance and authorization of the Bonds, including a certified copy of the approving opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Attorney General has examined a transcript of proceedings authorizing the issuance of the Initial Bonds, and that based upon such examination, the Initial Bonds are valid and binding obligations of the District. The District will also furnish the approving legal opinion of Paul A. Philbin & Assoc., P.C., Houston, Texas, Bond Counsel, ("Bond Counsel") to the effect that, based upon an examination of such transcript, the Bonds are valid and binding obligations of the District under the Constitution and laws of the State of Texas, except to the extent that enforcement of the rights and remedies of the Registered Owners of the Bonds 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 and to the effect that interest on the Bonds is excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date of such opinion assuming compliance by the District with certain covenants relating to the use and investment of the proceeds of the Bonds. The legal opinion of Bond Counsel will further state that the Bonds are payable, both as to principal and interest, from the levy of ad valorem taxes, without limitation as to rate or amount, against taxable property within the District.

In addition to serving as Bond Counsel, Paul A. Philbin & Assoc., P.C., also serves as counsel to the District on matters not related to the issuance of bonds. The legal fees to be paid to 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.

## **Legal Review**

In its capacity as Bond Counsel, Paul A. Philbin & Assoc., P.C. has reviewed the information appearing in this OFFICIAL STATEMENT under the captions "THE BONDS," "THE DISTRICT—General," "UTILITY AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF LEAGUE CITY," "TAXING PROCEDURES," "LEGAL MATTERS" and "CONTINUING DISCLOSURE OF INFORMATION" solely to determine whether such information fairly summarizes the procedures and documents referred to therein and is in accordance with applicable state and federal law with regard to the sale of the Bonds. Such firm has not independently verified factual information contained in this OFFICIAL STATEMENT, nor has such firm conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this OFFICIAL STATEMENT. No person is entitled to rely upon such firm's limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the other information contained herein.

## **No Material Adverse Change**

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

## **No-Litigation Certificate**

The District will furnish the Underwriter a certificate, executed by both the President and Secretary of the Board, and dated as of the date of delivery of the Bonds, to the effect that there is not pending, and to their knowledge, there is not threatened, any litigation affecting the validity of the Bonds, or the levy and/or collection of taxes for the payment thereof, or the organization or boundaries of the District, or the title of the officers thereof to their respective offices, and that no additional bonds or other indebtedness have been issued since the date of the statement of indebtedness or nonencumbrance certificate submitted to the Attorney General of Texas in connection with approval of the Bonds.

## **Tax Exemption**

The delivery of the Bonds is subject to the opinion of Bond Counsel to the effect that interest on the Bonds is excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date of such opinion.

The Internal Revenue Code of 1986, as amended (the "Code") imposes a number of requirements that must be satisfied in order for interest on state or local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds and the source of repayment of bonds, limitations on the investment of bond proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of bond proceeds be paid periodically to the United States and a requirement that the District file an information report with the Internal Revenue Service. The District has covenanted in the Bond Order that it will comply with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants of the Bond Order pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Bonds for federal income tax purposes and, in addition, will rely on representations by the District with respect to matters solely within the knowledge of the District, which Bond Counsel has not independently verified. If the District should fail to comply with the covenants in the Bond Order, or if the foregoing representations should be determined to be inaccurate or incomplete, interest on the Bonds could become taxable from the date of delivery of the Bonds, regardless of the date on which the event causing such taxability occurs.

The Code also imposes a 20% alternative minimum tax on the "alternative minimum taxable income" of a corporation (other than an "S" corporation, a regulated investment company, owners of interests in a FASIT, a REIT or a REMIC), if the amount of such alternative minimum tax is greater than the amount of the corporation's regular income tax. Because interest on tax-exempt obligations, such as the Bonds, is included in a corporation's "adjusted current earnings," ownership of the Bonds could subject a corporation to alternative minimum tax consequences.

Bond Counsel's opinion will state that the Bonds are not "private activity bonds" under the Code. Therefore, except as described above in the discussion regarding the book-income item for corporations, interest on the Bonds will not be subject to the alternative minimum tax on individuals and corporations.

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt of interest on or disposition of the Bonds.

The law upon which Bond Counsel has based their opinion is subject to change by the Congress, administrative interpretation by the Department of the Treasury and subsequent judicial interpretation. There can be no assurance that such law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of ownership of the Bonds.

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, property and casualty insurance companies, certain "S" Corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to a "branch profit tax" on their effectively-connected earnings and profits, including tax-exempt interest, such as interest on the Bonds. These categories of prospective purchasers should consult their tax advisors as to the applicability of these consequences.

### **Federal Income Tax Accounting Treatment of Original Discount Bonds**

The initial public offering price to be paid for one or more maturities of the Bonds may be less than the principal amount thereof, or one or more periods for the payment of interest on the bonds may not be equal to the accrual period or be in excess of one year (the "Original Issue Discount Bonds"). In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under existing law, any owner who has purchased such Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income.

Under existing law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of the treatment of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

### **Federal Income Tax Accounting Treatment of Premium Bonds**

The initial public offering price of certain Bonds (the "Premium Bonds") may be 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. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon the sale or other taxable disposition of a Premium Bond. 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 with respect to the Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning Premium Bonds.

## **Collateral Federal Income Tax Consequences**

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with accumulated earnings and profits and excess passive investment income, taxpayers qualifying for the health-insurance premium assistance credit, foreign corporations subject to the branch profits tax and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

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

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

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

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

## **State, Local and Foreign Taxes**

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

## **Qualified Tax-Exempt Obligations**

Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a “financial institution,” on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer's taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a “financial institution” allocable to tax-exempt obligations, other than “private activity bonds,” that are designated by a “qualified small issuer” as “qualified tax-exempt obligations.” A “qualified small issuer” is any governmental issuer (together with any “on-behalf of” and “subordinate” issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term “financial institution” as any “bank” described in Section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to “qualified tax-exempt obligations” provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a “bank,” as defined in Section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase “qualified tax-exempt obligations” shall be reduced by twenty-percent (20%) as a “financial institution preference item.”

The District expects to designate the Bonds as “qualified tax-exempt obligations” within the meaning of section 265(b) of the Code. In furtherance of that designation, the District will covenant to take such action that would assure, or to refrain from such action that would adversely affect the treatment of the Bonds as “qualified tax-exempt obligations.”

## PREPARATION OF OFFICIAL STATEMENT

### Sources and Compilation of Information

The financial data and other information contained in this OFFICIAL STATEMENT has been obtained primarily from the District's records, the Developer, the Engineer, the Tax Assessor/Collector, the Appraisal District and information from other sources. All of these sources are believed to be reliable, but no guarantee is made by the District as to the accuracy or completeness of the information derived from such sources, and its inclusion herein is not to be construed as a representation on the part of the District except as described below under "Certification of Official Statement." Furthermore, there is no guarantee that any of the assumptions or estimates contained herein will be realized. The summaries of the agreements, reports, statutes, resolutions, engineering and other related information set forth in this OFFICIAL STATEMENT are included herein subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents for further information.

### Financial Advisor

FirstSouthwest, a Division of Hilltop Securities Inc. is employed as the Financial Advisor to the District to render certain professional services, including advising the District on a plan of financing and preparing the OFFICIAL STATEMENT, including the OFFICIAL NOTICE OF SALE and the OFFICIAL BID FORM for the sale of the Bonds. In its capacity as Financial Advisor, First Southwest Company has compiled and edited this OFFICIAL STATEMENT. The Financial Advisor has reviewed the information in this OFFICIAL STATEMENT in accordance with, and as a part of, its responsibilities to the District and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

### Consultants

In approving this OFFICIAL STATEMENT the District has relied upon the following consultants.

*Tax Assessor/Collector:* The information contained in this OFFICIAL STATEMENT relating to the breakdown of the District's historical assessed value and principal taxpayers, including particularly such information contained in the section entitled "TAX DATA" has been provided by Mr. Thomas Lee of Assessments of the Southwest, Inc. and is included herein in reliance upon the authority of such individual as an expert in assessing property values and collecting taxes.

*Engineer:* The information contained in this OFFICIAL STATEMENT relating to engineering 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 Dannenbaum Engineering Corp. and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

*Independent Auditor:* The District's financial statements for the year ended August 31, 2015, were audited by BKD, LLP, Certified Public Accountants. See "APPENDIX A" for a copy of the District's August 31, 2015, financial statements. The District did not request BKD, LLP to perform any updating procedures subsequent to the date of its audit report on the August 31, 2015, financial statements.

*Bookkeeper:* The information related to the "unaudited" summary of the District's General Operating Fund as it appears in "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—General Operating Fund" has been provided by Municipal Accounts & Consulting, L.P., and is included herein in reliance upon the authority of such firm as experts in the tracking and managing the various funds of municipal utility districts.

### Updating the Official Statement

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 the Underwriter to so amend or supplement the OFFICIAL STATEMENT will terminate when the District delivers the Bonds to the Underwriter, unless the Underwriter notifies the District on or before such date that less than all of the bonds have been sold to ultimate customers, in which case the District's obligations hereunder will extend for an additional period of time as required by law (but not more than 90 days after the date the District delivers the Bonds).



## **Certification of Official Statement**

The District, acting through its Board in its official capacity, hereby certifies, as of the date hereof, that the information, statements, and descriptions or any addenda, supplement and amendment thereto pertaining to the District and its affairs contained herein, to the best of its knowledge and belief, contain no untrue statement of a material fact and do not omit to state any material fact necessary to make the statements herein, in the light of the circumstances under which they are made, not misleading. With respect to information included in this OFFICIAL STATEMENT other than that relating to the District, the District has no reason to believe that such information contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements herein, in the light of the circumstances under which they are made, not misleading; however, the Board has made no independent investigation as to the accuracy or completeness of the information derived from sources other than the District. In rendering such certificate, the official executing this certificate may state that he has relied in part on his examination of records of the District relating to matters within his own area of responsibility, and his discussions with, or certificates or correspondence signed by, certain other officials, employees, consultants and representatives of the District.

## **CONTINUING DISCLOSURE OF INFORMATION**

In the Bond Order, the District has made the following agreement for the benefit of the registered and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (the "MSRB").

### **Annual Reports**

The District will provide annually to the MSRB certain updated financial information and operating data. The information to be updated with respect to the District includes all quantitative financial information and operating data of the general type included in this OFFICIAL STATEMENT under the headings "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED) (except for "Estimated Overlapping Debt"), "TAX DATA," and in "APPENDIX A." The District will update and provide this information within six (6) months after the end of each fiscal year ending in or after 2016.

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

The District's current fiscal year end is August 31. Accordingly, it must provide updated information by February 28 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

### **Specified Event Notices**

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other events affecting the tax-exempt status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of CFR § 240.15c2-12 (the "Rule"); (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material to a decision to purchase or sell Bonds. The term "material" when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Order makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under "Annual Reports."

**Availability of Information from the MSRB**

The District has agreed to provide the foregoing information only to the MSRB. The MSRB makes the information available to the public without charge through its Electronic Municipal Market Access (“EMMA”) internet portal at www.emma.msrb.org.

**Limitations and Amendments**

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

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

**Compliance With Prior Undertakings**

During the last five years, the District has complied in all material respects with its continuing disclosure requirements.

**MISCELLANEOUS**

All estimates, statements and assumptions in this OFFICIAL STATEMENT and the APPENDICES hereto have been made on the basis of the best information available and are believed to be reliable and accurate. Any statements in this OFFICIAL STATEMENT involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact, and no representation is made that any such statements will be realized.

/s/ \_\_\_\_\_  
President, Board of Directors

ATTEST:

/s/ \_\_\_\_\_  
Secretary, Board of Directors

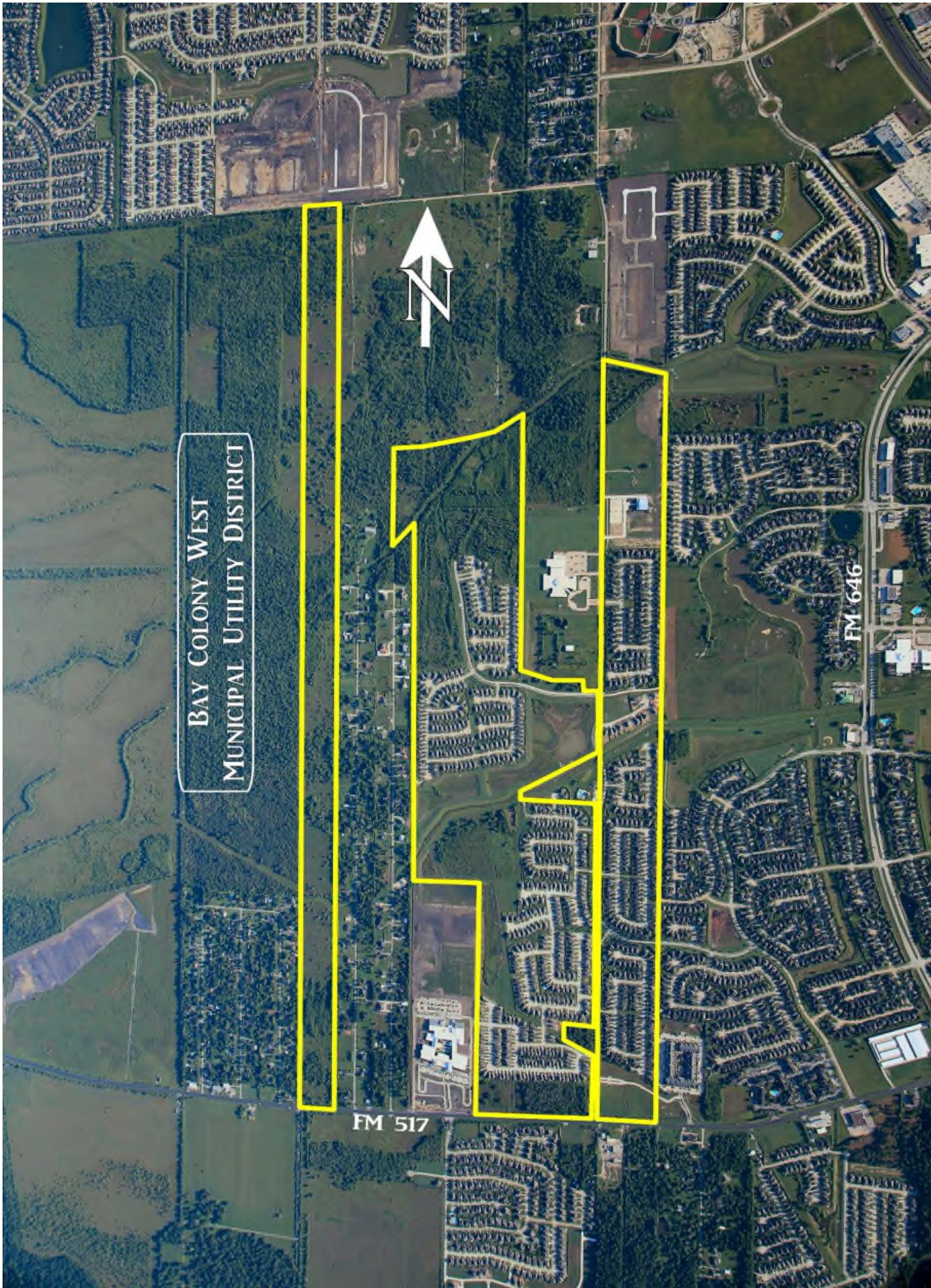
**AERIAL LOCATION MAP**  
**(Approximate Boundaries as of July 2016)**

BAY COLONY WEST  
MUNICIPAL UTILITY DISTRICT



FM 517

FM 646



**PHOTOGRAPHS OF THE DISTRICT**  
(Taken July 2016)















## **APPENDIX A**

The information contained in this appendix includes the Auditor's Report and Financial Statements of Bay Colony West Municipal Utility District and certain supplemental information for the fiscal year ended August 31, 2015.

# **Bay Colony West Municipal Utility District**

Galveston County, Texas

Independent Auditor's Report and Financial Statements

August 31, 2015



# Bay Colony West Municipal Utility District

## August 31, 2015

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## Independent Auditor's Report

Board of Directors  
Bay Colony West Municipal Utility District  
Galveston County, Texas

We have audited the accompanying financial statements of the governmental activities of Bay Colony West Municipal Utility District (the District), which are comprised of a statement of net position as of August 31, 2015, and a statement of activities for the year then ended; as well as the accompanying financial statements of each major fund, which for governmental funds are comprised of a balance sheet as of August 31, 2015, and a statement of revenues, expenditures and changes in fund balances for the year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements listed in the table of contents.

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

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

### *Auditor's Responsibility*

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

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

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

***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 August 31, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the basic financial statements as a whole. The accompanying supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

***BKD, LLP***

Houston, Texas  
February 19, 2016



# **Bay Colony West Municipal Utility District**

## **Management's Discussion and Analysis**

### **August 31, 2015**

#### **Overview of the Financial Statements**

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

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

#### **Government-wide Financial Statements**

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

The difference between the District's assets, liabilities, and deferred inflows and outflows of resources is labeled as net position and this difference is similar to the total stockholders' equity presented by a commercial enterprise.

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

**Bay Colony West Municipal Utility District**  
**Management's Discussion and Analysis (Continued)**  
**August 31, 2015**

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

**Fund Financial Statements**

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

**Governmental Funds**

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

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

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

**Notes to Financial Statements**

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

**Bay Colony West Municipal Utility District**  
**Management's Discussion and Analysis (Continued)**  
**August 31, 2015**

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

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

**Summary of Net Position**

	<b><u>2015</u></b>	<b><u>2014</u></b>
Current and other assets	\$ 1,745,848	\$ 1,604,762
Capital assets	<u>3,370,062</u>	<u>3,370,062</u>
Total assets	<u>5,115,910</u>	<u>4,974,824</u>
Deferred outflows of resources	<u>352,608</u>	<u>0</u>
Total assets and deferred outflows of resources	<u>\$ 5,468,518</u>	<u>\$ 4,974,824</u>
Long-term liabilities	\$ 17,662,065	\$ 16,829,179
Other liabilities	<u>167,370</u>	<u>227,537</u>
Total liabilities	<u>17,829,435</u>	<u>17,056,716</u>
Net position:		
Restricted	1,234,560	1,033,761
Unrestricted	<u>(13,595,477)</u>	<u>(13,115,653)</u>
Total net position	<u>\$ (12,360,917)</u>	<u>\$ (12,081,892)</u>

The total net position of the District decreased by \$279,025, or about 2 percent. The majority of the decrease in net position is related to conveyance of capital assets to another governmental entity.

At August 31, 2015, unrestricted net position was \$(13,595,477). This amount was negative because the District has an obligation to sell bonds to finance the construction or acquisition of capital assets, which have been conveyed to the City of League City (League City) pursuant to a utility agreement between the District and League City. Accordingly, these capital assets are not recorded in the financial statements of the District.

**Bay Colony West Municipal Utility District**  
**Management's Discussion and Analysis (Continued)**  
**August 31, 2015**

**Summary of Changes in Net Position**

	<b>2015</b>	<b>2014</b>
Revenues:		
Property taxes	\$ 1,063,331	\$ 961,845
Other revenues	7,278	5,566
Total revenues	1,070,609	967,411
Expenses:		
Services	149,168	150,339
Conveyance of capital assets	564,550	596,927
Debt service	635,916	513,607
Total expenses	1,349,634	1,260,873
Change in net position	(279,025)	(293,462)
Net position, beginning of year	(12,081,892)	(11,788,430)
Net position, end of year	\$ (12,360,917)	\$ (12,081,892)

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

The District's combined fund balances as of the end of the fiscal year ended August 31, 2015, were \$1,613,050, an increase of \$84,575 from the prior year.

The general fund's fund balance decreased by \$41,089 due to professional fees incurred in connection with preparation of the District's Series 2015 bond application.

The debt service fund's fund balance increased by \$125,913 because contracted services and other expenditures were greater than investment income.

The capital projects fund's fund balance decreased by \$249. This net decrease was due to capital outlay expenditures exceeding investment income.

**Bay Colony West Municipal Utility District**  
**Management's Discussion and Analysis (Continued)**  
**August 31, 2015**

**General Fund Budgetary Highlights**

There were several differences between the final budgetary amounts and actual amounts. The major differences between budget and actual were due to professional fees being higher than anticipated, as well as repairs and maintenance and other expenditures being lower than anticipated. In addition, capital outlay expenditures were not included in the current year budget and an interfund transfer that was budgeted for was not received. The fund balance as of August 31, 2015, was expected to be \$243,092 and the actual end-of-year fund balance was \$158,438.

**Capital Assets and Related Debt**

Capital Assets

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

	<b><u>Capital Assets</u></b>	
	<b><u>2015</u></b>	<b><u>2014</u></b>
Land and improvements	\$ 3,370,062	\$ 3,370,062

There were no additions to capital assets during the current year.

Debt

The changes in the debt position of the District during the fiscal year ended August 31, 2015, are summarized as follows:

Long-term debt payable, beginning of year	\$ 16,829,179
Increases in long-term debt	5,565,951
Decreases in long-term debt	(4,733,065)
Long-term debt payable, end of year	\$ 17,662,065

Developers within the District have constructed water, sewer and drainage facilities on behalf of the District under the terms of contracts with the District. The District has agreed to purchase these facilities from the proceeds of future bond issues subject to the approval of the Commission. As of August 31, 2015, a liability for developer-constructed capital assets of \$8,665,600 was recorded in the government-wide financial statements.

At August 31, 2015, the District had \$34,190,000 of unlimited tax bonds authorized, but unissued, for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems and \$2,800,000 for financing and constructing recreational facilities within the District.

**Bay Colony West Municipal Utility District**  
**Management's Discussion and Analysis (Continued)**  
**August 31, 2015**

During the year ended August 31, 2015, the District issued \$4,815,000 in unlimited tax refunding bonds to advance-refund \$1,950,000 of outstanding Series 2007 bonds and \$2,640,000 of outstanding Series 2008 bonds. The District refunded the bonds to reduce total debt service payments over future years by \$1,042,556 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$773,469.

The District's Series 2007 and 2011 bonds carry an underlying rating of "BBB-" by Standard & Poor's and the Series 2007 bonds carry a "AA" rating by virtue of bond insurance issued by Assured Guaranty Corp. The Series 2015 refunding bonds carry an underlying rating of "Baa1" by Moody's Investors Service and carry an "A2" rating by virtue of bond insurance issued by Assured Guaranty Municipal Corp.

**Other Relevant Factors**

Utility Agreement Between the District and the City of League City

All land within the District is located within the city limits of League City. On June 24, 2003, the District's developer, on behalf of the District, approved a Utility Agreement with League City (the Utility Agreement). The Utility Agreement obligates the District to acquire, construct and extend water, sanitary sewer and drainage facilities to serve land in the District and, when completed in accordance with approved plans and specifications, the District is to convey title to such utility facilities to League City. League City then operates and maintains such facilities, and is responsible for establishing water and sewer rates and collection charges for water and sewer service from District residents. League City also levies and collects ad valorem taxes on taxable property within the District.

Subsequent Event

On October 21, 2015, the District awarded the sale of its Series 2015A Unlimited Tax Bonds in the amount of \$4,800,000 at a net effective interest rate of 3.1093 percent. The bonds were sold to finance construction projects within the District and reimburse developers for completed projects.

**Bay Colony West Municipal Utility District**  
**Statement of Net Position and Governmental Funds Balance Sheet**  
**August 31, 2015**

	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Capital Projects Fund</b>	<b>Total</b>	<b>Adjustments</b>	<b>Statement of Net Position</b>
<b>Assets</b>						
Cash	\$ 122,194	\$ 681,318	\$ -	\$ 803,512	\$ -	\$ 803,512
Short-term investments	63,347	658,846	106,903	829,096	-	829,096
Property tax receivable	2,900	18,017	-	20,917	-	20,917
Accrued penalty and interest	-	-	-	-	6,247	6,247
Interfund receivable	1,093	14,539	-	15,632	(15,632)	-
Prepaid expenses	-	-	-	-	86,076	86,076
Current assets:						
Land and improvements	-	-	-	-	3,370,062	3,370,062
	<u>189,534</u>	<u>1,372,720</u>	<u>106,903</u>	<u>1,669,157</u>	<u>3,446,753</u>	<u>5,115,910</u>
<b>Deferred Outflows of Resources</b>						
Deferred amount on debt refundings	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>352,608</u>	<u>352,608</u>
Total assets and deferred outflows of resources	<u>\$ 189,534</u>	<u>\$ 1,372,720</u>	<u>\$ 106,903</u>	<u>\$ 1,669,157</u>	<u>\$ 3,799,361</u>	<u>\$ 5,468,518</u>

**Bay Colony West Municipal Utility District**  
**Statement of Net Position and Governmental Funds Balance Sheet (Continued)**  
**August 31, 2015**

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
<b>Liabilities</b>						
Accounts payable	\$ 13,657	\$ 120	\$ -	\$ 13,777	\$ -	\$ 13,777
Accrued interest payable	-	5,781	-	5,781	147,812	153,593
Interfund payable	14,539	1,093	-	15,632	(15,632)	-
Long-term liabilities:						
Due within one year	-	-	-	-	300,000	300,000
Due after one year	-	-	-	-	17,362,065	17,362,065
<b>Total liabilities</b>	<b>28,196</b>	<b>6,994</b>	<b>0</b>	<b>35,190</b>	<b>17,794,245</b>	<b>17,829,435</b>
<b>Deferred Inflows of Resources</b>						
Deferred property tax revenues	2,900	18,017	0	20,917	(20,917)	0
<b>Fund Balances/Net Position</b>						
Fund balances:						
Restricted:						
Unlimited tax bonds	-	1,347,709	-	1,347,709	(1,347,709)	-
Water, sewer and drainage	-	-	106,903	106,903	(106,903)	-
Unassigned	158,438	-	-	158,438	(158,438)	-
<b>Total fund balances</b>	<b>158,438</b>	<b>1,347,709</b>	<b>106,903</b>	<b>1,613,050</b>	<b>(1,613,050)</b>	<b>0</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 189,534</b>	<b>\$ 1,372,720</b>	<b>\$ 106,903</b>	<b>\$ 1,669,157</b>		
Net position:						
Restricted for debt service					1,224,161	1,224,161
Restricted for capital projects					10,399	10,399
Unrestricted					(13,595,477)	(13,595,477)
<b>Total net position</b>					<b>\$ (12,360,917)</b>	<b>\$ (12,360,917)</b>



**Bay Colony West Municipal Utility District**  
**Statement of Activities and Governmental Funds Revenues,**  
**Expenditures and Changes in Fund Balances**  
**Year Ended August 31, 2015**

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
<b>Revenues</b>						
Property taxes	\$ 126,264	\$ 925,932	\$ -	\$ 1,052,196	\$ 11,135	\$ 1,063,331
Penalty and interest	-	2,455	-	2,455	3,289	5,744
Investment income	223	1,260	51	1,534	-	1,534
Total revenues	<u>126,487</u>	<u>929,647</u>	<u>51</u>	<u>1,056,185</u>	<u>14,424</u>	<u>1,070,609</u>
<b>Expenditures/Expenses</b>						
Service operations:						
Professional fees	84,373	410	-	84,783	-	84,783
Contracted services	14,228	19,579	-	33,807	300	34,107
Repairs and maintenance	12,349	-	-	12,349	-	12,349
Other expenditures	16,120	1,809	-	17,929	-	17,929
Capital outlay	40,506	-	300	40,806	(40,806)	-
Conveyance of capital assets	-	-	-	-	564,550	564,550
Debt service:						
Principal retirement	-	285,000	-	285,000	(285,000)	-
Interest and fees	-	498,060	-	498,060	(53,762)	444,298
Debt issuance costs	-	191,618	-	191,618	-	191,618
Debt defeasance	-	8,000	-	8,000	(8,000)	-
Total expenditures/expenses	<u>167,576</u>	<u>1,004,476</u>	<u>300</u>	<u>1,172,352</u>	<u>177,282</u>	<u>1,349,634</u>
<b>Deficiency of Revenues Over Expenditures</b>						
	<u>(41,089)</u>	<u>(74,829)</u>	<u>(249)</u>	<u>(116,167)</u>	<u>116,167</u>	
<b>Other Financing Sources (Uses)</b>						
General obligation bonds issued	-	4,815,000	-	4,815,000	(4,815,000)	
Premium on debt issued	-	186,401	-	186,401	(186,401)	
Deposit with escrow agent	-	(4,800,659)	-	(4,800,659)	4,800,659	
Total other financing sources	<u>0</u>	<u>200,742</u>	<u>0</u>	<u>200,742</u>	<u>(200,742)</u>	
<b>Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>						
	(41,089)	125,913	(249)	84,575	(84,575)	
<b>Change in Net Position</b>						
					(279,025)	(279,025)
<b>Fund Balances/Net Position</b>						
Beginning of year	199,527	1,221,796	107,152	1,528,475	-	(12,081,892)
End of year	<u>\$ 158,438</u>	<u>\$ 1,347,709</u>	<u>\$ 106,903</u>	<u>\$ 1,613,050</u>	<u>\$ 0</u>	<u>\$ (12,360,917)</u>

# **Bay Colony West Municipal Utility District**

## **Notes to Financial Statements**

### **August 31, 2015**

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

Bay Colony West Municipal Utility District (the District) was created by an order of the Texas Commission on Environmental Quality (the Commission), effective March 2, 2004, in accordance with the Texas Water Code, Chapter 54. The District operates in accordance with Chapters 49 and 54 of the Texas Water Code and is subject to the continuing supervision of the Commission. The principal functions of the District are to finance and construct waterworks, wastewater and drainage facilities and to provide such facilities and services to the customers of the District. All services are provided by the City of League City (League City).

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

#### ***Reporting Entity***

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

#### ***Government-wide and Fund Financial Statements***

In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program, such as the provision of water, wastewater, drainage and other related services. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented with a column for adjustments to convert to the government-wide financial statements.

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

# Bay Colony West Municipal Utility District

## Notes to Financial Statements

### August 31, 2015

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

The District presents the following major governmental funds:

*General Fund* – The general fund is the primary operating fund of the District which accounts for all financial resources not accounted for in another fund. Revenues are derived primarily from property taxes, charges for services and interest income.

*Debt Service Fund* – The debt service fund is used to account for financial resources that are restricted, committed or assigned to expenditures for principal and interest related costs, as well as the financial resources being accumulated for future debt service.

*Capital Projects Fund* – The capital projects fund is used to account for financial resources that are restricted, committed or assigned to expenditures for capital outlays.

#### **Fund Balances – Governmental Funds**

The fund balances for the District's governmental funds can be displayed in up to five components:

*Nonspendable* – Amounts that are not in a spendable form or are required to be maintained intact.

*Restricted* – Amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.

*Committed* – Amounts that can be used only for the specific purposes determined by resolution of the Board. Commitments may be changed or lifted only by issuance of a resolution by the District's Board.

*Assigned* – Amounts intended to be used by the District for specific purposes as determined by management. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

*Unassigned* – The residual classification for the general fund and includes all amounts not contained in the other classifications.

The District considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. The District applies committed amounts first, followed by assigned amounts, and then unassigned amounts when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

# Bay Colony West Municipal Utility District

## Notes to Financial Statements

### August 31, 2015

#### ***Measurement Focus and Basis of Accounting***

##### **Government-wide Financial Statements**

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

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

##### **Fund Financial Statements**

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

#### ***Deferred Outflows and Inflows of Resources***

A deferred outflow of resources is a consumption of net position that is applicable to a future reporting period and a deferred inflow of resources is an acquisition of net position that is applicable to a future reporting period.

# **Bay Colony West Municipal Utility District**

## **Notes to Financial Statements**

### **August 31, 2015**

#### ***Interfund Transactions***

Transfers from one fund to another fund are reported as interfund receivables and payables if there is intent to repay the amount and if there is the ability to repay the advance on a timely basis.

Operating transfers represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

#### ***Pension Costs***

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

#### ***Use of Estimates***

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

#### ***Investments and Investment Income***

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

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

#### ***Property Taxes***

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

# **Bay Colony West Municipal Utility District**

## **Notes to Financial Statements**

### **August 31, 2015**

In the governmental funds, property taxes are initially recorded as receivables and deferred inflows of resources at the time the tax levy is billed. Revenues recognized during the fiscal year ended August 31, 2015, include collections during the current period or within 60 days of year-end related to the 2014 and prior years' tax levies.

In the government-wide statement of net position, property taxes are considered earned in the budget year for which they are levied. For the District's fiscal year ended August 31, 2015, the 2014 tax levy is considered earned during the current fiscal year. In addition to property taxes levied, any delinquent taxes are recorded net of amounts considered uncollectible.

#### ***Capital Assets***

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

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

The District conveys the majority of its capital assets to League City upon completion pursuant to an agreement originated in 2003.

#### ***Deferred Amount on Debt Refundings***

In the government-wide financial statements, the difference between the reacquisition price and the net carrying amount of the old debt in a debt refunding is deferred and amortized to interest expense using the effective interest rate method over the remaining life of the old debt or the life of the new debt, whichever is shorter. Such amounts are classified as deferred outflows or inflows of resources.

#### ***Debt Issuance Costs***

Debt issuance costs, other than prepaid insurance, do not meet the definition of an asset or deferred outflows of resources since the costs are not applicable to a future period and, therefore, are recognized as an expense/expenditure in the period incurred.

#### ***Long-term Obligations***

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Premiums and discounts on bonds are recognized as a component of long-term liabilities and amortized over the life of the related debt using the effective interest rate method. Bonds payable are reported net of the applicable bond premium or discount.

**Bay Colony West Municipal Utility District**  
**Notes to Financial Statements**  
**August 31, 2015**

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

***Net Position/Fund Balances***

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

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

The components of the unrestricted net position at August 31, 2015, are as follows:

General fund, unrestricted fund balance, including deferred taxes	\$ 161,338
Prepaid debt issuance costs	86,076
Long-term debt in excess of capital assets and unexpended bond proceeds	<u>(13,842,891)</u>
Total	<u><u>\$ (13,595,477)</u></u>

The District has financed water, sewer and drainage facilities, which have been conveyed to League City, which has caused long-term debt to be in excess of capital assets.

***Reconciliation of Government-wide and Fund Financial Statements***

Amounts reported for net position of governmental activities in the statement of net position and fund balances in the governmental funds balance sheet are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds.	\$ 3,370,062
Property tax revenue recognition and the related reduction of deferred inflows of resources are subject to availability of funds in the fund financial statements.	20,917
Penalty and interest on delinquent taxes is not receivable in the current period and is not reported in the funds.	6,247
Prepaid debt issuance costs for governmental activities are not financial resources and are not reported in the funds.	86,076

**Bay Colony West Municipal Utility District**  
**Notes to Financial Statements**  
**August 31, 2015**

Deferred amount on debt refundings for governmental activities are not financial resources and are not reported in the funds.	\$ 352,608
Accrued interest on long-term liabilities is not payable with current financial resources and is not reported in the funds.	(147,812)
Long-term debt obligations are not due and payable in the current period and are not reported in the funds.	<u>(17,662,065)</u>
Adjustment to fund balances to arrive at net position.	<u>\$ (13,973,967)</u>

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

Change in fund balances.	\$ 84,575
Governmental funds report capital outlays as expenditures. However, for government-wide financial statements, the cost of capitalized assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which conveyance of capital assets and noncapitalized costs exceeded capital outlay expenditures in the current period.	(524,044)
Governmental funds report proceeds from the sale of bonds and bond anticipation notes because they provide current financial resources to governmental funds. Principal payments on debt are recorded as expenditures. None of these transactions, however, have any effect on net position.	278,659
Governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	(186,401)
Revenues that do not provide current financial resources are not reported as revenues for the funds, but are reported as revenues in the statement of activities.	14,424
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>53,762</u>
Change in net position of governmental activities.	<u>\$ (279,025)</u>



**Bay Colony West Municipal Utility District**  
**Notes to Financial Statements**  
**August 31, 2015**

**Note 2: Deposits, Investments and Investment Income**

***Deposits***

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

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

At August 31, 2015, none of the District's bank balances were exposed to custodial credit risk.

***Investments***

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

The District's investment policy may be more restrictive than the Public Funds Investment Act.

The District invests in TexPool, an external investment pool that is not registered with the Securities and Exchange Commission. The State Comptroller of Public Accounts of the State of Texas has oversight of TexPool.

At August 31, 2015, the District had the following investments and maturities:

Type	Fair Value	Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
TexPool	\$ 829,096	\$ 829,096	\$ 0	\$ 0	\$ 0

**Bay Colony West Municipal Utility District**  
**Notes to Financial Statements**  
**August 31, 2015**

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

**Credit Risk.** Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At August 31, 2015, the District's investments in TexPool were rated "AAAm" by Standard & Poor's.

***Summary of Carrying Values***

The carrying values of deposits and investments shown previously are included in the balance sheet and statement of net position at August 31, 2015, as follows:

Carrying value:		
Deposits	\$	803,512
Investments		829,096
Total	\$	1,632,608

***Investment Income***

Investment income of \$1,534 for the year ended August 31, 2015, consisted of interest income.

**Note 3: Capital Assets**

A summary of changes in capital assets for the year ended August 31, 2015, is presented below:

<b>Governmental Activities</b>	<b>Balance, Beginning of Year</b>	<b>Additions</b>	<b>Balance, End of Year</b>
Capital assets, non-depreciable:			
Land and improvements	\$ 3,370,062	\$ 0	\$ 3,370,062

**Bay Colony West Municipal Utility District**  
**Notes to Financial Statements**  
**August 31, 2015**

**Note 4: Long-term Liabilities**

Changes in long-term liabilities for the year ended August 31, 2015, were as follows:

<b>Governmental Activities</b>	<b>Balances, Beginning of Year</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balances, End of Year</b>	<b>Amounts Due in One Year</b>
Bonds payable:					
General obligation bonds	\$ 8,980,000	\$ 4,815,000	\$ 4,875,000	\$ 8,920,000	\$ 300,000
Less discounts on bonds	251,871	-	141,935	109,936	-
Add premiums on bonds	-	186,401	-	186,401	-
	<u>8,728,129</u>	<u>5,001,401</u>	<u>4,733,065</u>	<u>8,996,465</u>	<u>300,000</u>
Due to developers	<u>8,101,050</u>	<u>564,550</u>	<u>-</u>	<u>8,665,600</u>	<u>-</u>
 Total governmental activities long-term liabilities	 <u>\$ 16,829,179</u>	 <u>\$ 5,565,951</u>	 <u>\$ 4,733,065</u>	 <u>\$ 17,662,065</u>	 <u>\$ 300,000</u>

**General Obligation Bonds**

	<b>Series 2007</b>	<b>Series 2008</b>
Amounts outstanding, August 31, 2015	\$165,000	\$95,000
Interest rates	6.625%	5.500%
Maturity dates, serially beginning/ending	October 1, 2015/2016	October 1, 2015
Interest payment dates	October 1/April 1	October 1/April 1
Callable dates*	October 1, 2016	October 1, 2015
	<b>Series 2011</b>	<b>Refunding Series 2015</b>
Amounts outstanding, August 31, 2015	\$3,845,000	\$4,815,000
Interest rates	3.625% to 5.625%	2.00% to 4.00%
Maturity dates, serially beginning/ending	October 1, 2015/2032	October 1, 2016/2032
Interest payment dates	October 1/April 1	October 1/April 1
Callable dates*	October 1, 2019	October 1, 2022

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

**Bay Colony West Municipal Utility District**  
**Notes to Financial Statements**  
**August 31, 2015**

***Annual Debt Service Requirements***

The following schedule shows the annual debt service requirements to pay principal and interest on general obligation bonds outstanding at August 31, 2015.

Year	Principal	Interest	Total
2016	\$ 300,000	\$ 361,097	\$ 661,097
2017	385,000	346,606	731,606
2018	395,000	334,362	729,362
2019	405,000	323,533	728,533
2020	415,000	312,072	727,072
2021-2025	2,340,000	1,323,448	3,663,448
2026-2030	2,850,000	784,182	3,634,182
2031-2033	1,830,000	127,759	1,957,759
	<u>1,830,000</u>	<u>127,759</u>	<u>1,957,759</u>
Total	<u>\$ 8,920,000</u>	<u>\$ 3,913,059</u>	<u>\$ 12,833,059</u>

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

**Bonds voted:**

Water, sewer and drainage facilities	\$ 44,000,000
Recreational facilities	2,800,000

**Bonds sold:**

Water, sewer and drainage facilities	9,810,000
Refunding bond voted	44,000,000
Refunding bonds authorization used	373,490

***Due to Developers***

Developers of the District have constructed underground utilities on behalf of the District. The District has conveyed the facilities to League City and has agreed to reimburse the developers for these construction costs to the extent approved by the Commission. The District's engineer estimates reimbursable costs for completed projects are \$8,665,600. The District has agreed to reimburse these amounts, plus interest, to the extent approved by the Commission from the proceeds of future bond sales.

**Bay Colony West Municipal Utility District**  
**Notes to Financial Statements**  
**August 31, 2015**

**Note 5: Significant Bond Order and Commission Requirements**

The Bond Orders require that the District levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due. During the year ended August 31, 2015, the District levied an ad valorem debt service tax at the rate of \$0.8800 per \$100 of assessed valuation, which resulted in a tax levy of \$935,731 on the taxable valuation of \$106,332,245 for the 2014 tax year. The interest and principal requirements to be paid from the tax revenues are \$728,650, of which \$244,338 has been paid and \$484,312 is due October 1, 2015.

**Note 6: Maintenance Taxes**

At an election held November 2, 2004, voters authorized a maintenance tax not to exceed \$1.50 per \$100 valuation on all property within the District subject to taxation. During the year ended August 31, 2015, the District levied an ad valorem maintenance tax at the rate of \$0.1200 per \$100 of assessed valuation, which resulted in a tax levy of \$127,600 on the taxable valuation of \$106,332,245 for the 2014 tax year. The maintenance tax is being used by the general fund to pay expenditures of operating the District.

**Note 7: Contract With the City of League City**

The District's developer approved a 40-year contract with League City on June 24, 2003, on behalf of the District. Under the terms of the contract, the District is to pay for construction of water distribution, sanitary sewer and drainage facilities to serve the District.

The District shall be the owner of the facilities until the facilities are completed and approved by League City, at which time ownership of the facilities will vest in League City; however, the District shall have a security interest therein until all bonds issued by the District pursuant to the contract are retired. League City agrees to reserve water and sewer capacity to serve persons within the District. The District has no oversight responsibilities for the operation of the facilities.

***Customer Service Revenues***

During the terms of the contract, League City is obligated to maintain and operate the facilities in good working condition and to provide services to users within the District without discrimination. League City will fix rates and charges for customers in the District equal and uniform to the rates charged to other similar users within League City and all revenue from the facilities shall belong exclusively to League City.

**Bay Colony West Municipal Utility District**  
**Notes to Financial Statements**  
**August 31, 2015**

**Note 8: Risk Management**

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

**Note 9: Refunding Bonds**

During the fiscal year ended August 31, 2015, the District issued \$4,815,000 in unlimited tax refunding bonds to advance-refund \$1,950,000 of outstanding 2007 bonds and \$2,640,000 of outstanding 2008 bonds. The net proceeds of \$4,808,659 were placed in an irrevocable trust with an escrow agent and used to purchase U.S. government securities. The escrow fund is to be used to provide for all future debt service payments on the refunded bonds until they are redeemed.

The District advanced-refunded the bonds to reduce total debt service payments over future years by approximately \$1,042,556 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new bonds) of approximately \$773,469.

**Note 10: Subsequent Event**

On October 21, 2015, the District awarded the sale of its Series 2015A Unlimited Tax Bonds in the amount of \$4,800,000 at a net effective interest rate of 3.1093 percent. The bonds were sold to finance construction projects within the District and reimburse developers for completed projects.

## **Required Supplementary Information**

**Bay Colony West Municipal Utility District**  
**Budgetary Comparison Schedule – General Fund**  
**Year Ended August 31, 2015**

	<b>Original Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Revenues</b>			
Property taxes	\$ 122,000	\$ 126,264	\$ 4,264
Investment income	250	223	(27)
Total revenues	<u>122,250</u>	<u>126,487</u>	<u>4,237</u>
<b>Expenditures</b>			
Service operations:			
Professional fees	69,500	84,373	(14,873)
Contracted services	12,000	14,228	(2,228)
Repairs and maintenance	19,820	12,349	7,471
Other expenditures	22,365	16,120	6,245
Capital outlay	<u>-</u>	<u>40,506</u>	<u>(40,506)</u>
Total expenditures	<u>123,685</u>	<u>167,576</u>	<u>(43,891)</u>
<b>Deficiency of Revenues Over Expenditures</b>	(1,435)	(41,089)	(39,654)
<b>Other Financing Sources</b>			
Interfund transfers in	<u>45,000</u>	<u>-</u>	<u>(45,000)</u>
<b>Excess (Deficiency) of Revenues and Transfers In Over Expenditures and Transfers Out</b>	43,565	(41,089)	(84,654)
<b>Fund Balance, Beginning of Year</b>	<u>199,527</u>	<u>199,527</u>	<u>-</u>
<b>Fund Balance, End of Year</b>	<u><u>\$ 243,092</u></u>	<u><u>\$ 158,438</u></u>	<u><u>\$ (84,654)</u></u>



**Bay Colony West Municipal Utility District**  
**Notes to Required Supplementary Information**  
**August 31, 2015**

***Budgets and Budgetary Accounting***

An annual operating budget is prepared for the general fund by the District's consultants. The budget reflects resources expected to be received during the year and expenditures expected to be incurred. The Board of Directors is required to adopt the budget prior to the start of its fiscal year. The budget is not a spending limitation (a legally restricted appropriation). The original budget of the general fund was not amended during fiscal 2015.

The District prepares its annual operating budget on a basis consistent with accounting principles generally accepted in the United States of America. The Budgetary Comparison Schedule - General Fund presents the original and revised budget amounts, if revised, compared to the actual amounts of revenues and expenditures for the current year.

## **Supplementary Information**

**Bay Colony West Municipal Utility District**  
**Supplementary Schedules Included Within This Report**  
**August 31, 2015**

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

- [X] Notes Required by the Water District Accounting Manual  
See "Notes to Financial Statements," Pages 12-24
- [X] Schedule of Services and Rates
- [X] Schedule of General Fund Expenditures
- [X] Schedule of Temporary Investments
- [X] Analysis of Taxes Levied and Receivable
- [X] Schedule of Long-term Debt Service Requirements by Years
- [X] Changes in Long-term Bonded Debt
- [X] Comparative Schedule of Revenues and Expenditures – General Fund and Debt Service Fund –  
Five Years
- [X] Board Members, Key Personnel and Consultants

**Bay Colony West Municipal Utility District**  
**Schedule of Services and Rates**  
**Year Ended August 31, 2015**

1. Services provided by the District:

- |   |   |  |
|---|---|--|
| <input type="checkbox"/> Retail Water   | <input type="checkbox"/> Wholesale Water      | <input checked="" type="checkbox"/> Drainage |
| <input type="checkbox"/> Retail Wastewater  | <input type="checkbox"/> Wholesale Wastewater | <input type="checkbox"/> Irrigation          |
| <input checked="" type="checkbox"/> Parks/Recreation  | <input type="checkbox"/> Fire Protection      | <input type="checkbox"/> Security            |
| <input type="checkbox"/> Solid Waste/Garbage  | <input type="checkbox"/> Flood Control        | <input type="checkbox"/> Roads               |
| <input type="checkbox"/> Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect) |   |  |
| <input checked="" type="checkbox"/> Other <u>District services are provided by the City of League City.</u>                           |   |  |
-

**Bay Colony West Municipal Utility District**  
**Schedule of General Fund Expenditures**  
**Year Ended August 31, 2015**

<b>Personnel (including benefits)</b>		\$	-
<b>Professional Fees</b>			
Auditing	\$	14,206	
Legal		47,508	
Engineering		22,659	
Financial advisor		-	84,373
		<hr/>	
<b>Purchased Services for Resale</b>			
Bulk water and wastewater service purchases			-
<b>Regional Water Fee</b>			-
<b>Contracted Services</b>			
Bookkeeping		14,228	
General manager		-	
Appraisal district		-	
Tax collector		-	
Security		-	
Other contracted services		-	14,228
		<hr/>	
<b>Utilities</b>			-
<b>Repairs and Maintenance</b>			12,349
<b>Administrative Expenditures</b>			
Directors' fees		6,000	
Office supplies		914	
Insurance		3,054	
Other administrative expenditures		6,152	16,120
		<hr/>	
<b>Capital Outlay</b>			
Capitalized assets		-	
Expenditures not capitalized		40,506	40,506
		<hr/>	
<b>Tap Connection Expenditures</b>			-
<b>Solid Waste Disposal</b>			-
<b>Fire Fighting</b>			-
<b>Parks and Recreation</b>			-
<b>Other Expenditures</b>			<hr/>
			-
Total expenditures		<hr/> <hr/>	\$ 167,576

**Bay Colony West Municipal Utility District**  
**Schedule of Temporary Investments**  
**August 31, 2015**

	<b>Interest Rate</b>	<b>Maturity Date</b>	<b>Face Amount</b>	<b>Accrued Interest Receivable</b>
<b>General Fund</b>				
TexPool	0.07%	Demand	\$ 63,347	\$ -
<b>Debt Service Fund</b>				
TexPool	0.07%	Demand	658,846	-
<b>Capital Projects Fund</b>				
TexPool	0.07%	Demand	<u>106,903</u>	<u>-</u>
Totals			<u>\$ 829,096</u>	<u>\$ 0</u>

**Bay Colony West Municipal Utility District**  
**Analysis of Taxes Levied and Receivable**  
**Year Ended August 31, 2015**

	<b>Maintenance Taxes</b>	<b>Debt Service Taxes</b>
	<u>                    </u>	<u>                    </u>
<b>Receivable, Beginning of Year</b>	\$ 1,563	\$ 8,219
Additions and corrections to prior years' taxes	<u>1</u>	<u>(1)</u>
Adjusted receivable, beginning of year	<u>1,564</u>	<u>8,218</u>
 <b>2014 Original Tax Levy</b>	 126,959	 931,031
Additions and corrections	<u>641</u>	<u>4,700</u>
Adjusted tax levy	<u>127,600</u>	<u>935,731</u>
Total to be accounted for	129,164	943,949
Current year tax collections	<u>(126,264)</u>	<u>(925,932)</u>
Receivable, end of year	<u>\$ 2,900</u>	<u>\$ 18,017</u>
 <b>Receivable, by Years</b>		
2014	\$ 1,336	\$ 9,799
2013	748	3,650
2012	287	2,580
2011	265	994
2010	<u>264</u>	<u>994</u>
Receivable, end of year	<u>\$ 2,900</u>	<u>\$ 18,017</u>

**Bay Colony West Municipal Utility District**  
**Analysis of Taxes Levied and Receivable (Continued)**  
**Year Ended August 31, 2015**

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
<b>Property Valuations</b>				
Land	\$ 27,792,240	\$ 25,723,570	\$ 23,509,980	\$ 23,185,200
Improvements	79,444,048	70,516,080	63,594,140	57,408,380
Personal property	341,291	269,742	214,673	214,070
Exemptions	<u>(1,245,334)</u>	<u>(324,877)</u>	<u>(573,090)</u>	<u>(933,449)</u>
Total property valuations	<u>\$ 106,332,245</u>	<u>\$ 96,184,515</u>	<u>\$ 86,745,703</u>	<u>\$ 79,874,201</u>
<b>Tax Rates per \$100 Valuation</b>				
Debt service tax rates	\$ 0.8800	\$ 0.8300	\$ 0.9000	\$ 0.7900
Maintenance tax rates*	<u>0.1200</u>	<u>0.1700</u>	<u>0.1000</u>	<u>0.2100</u>
Total tax rates per \$100 valuation	<u>\$ 1.0000</u>	<u>\$ 1.0000</u>	<u>\$ 1.0000</u>	<u>\$ 1.0000</u>
<b>Tax Levy</b>	<u>\$ 1,063,331</u>	<u>\$ 961,845</u>	<u>\$ 867,456</u>	<u>\$ 798,744</u>
<b>Percent of Taxes Collected to Taxes Levied**</b>				
	<u>99%</u>	<u>99%</u>	<u>99%</u>	<u>99%</u>

\*Maximum tax rate approved by voters: \$1.50 on November 2, 2004

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



**Bay Colony West Municipal Utility District**  
**Schedule of Long-term Debt Service Requirements by Years**  
**August 31, 2015**

Due During Fiscal Years Ending August 31	Series 2007		
	Principal Due October 1	Interest Due October 1, April 1	Total
2016	\$ 80,000	\$ 8,281	\$ 88,281
2017	85,000	2,816	87,816
Totals	\$ 165,000	\$ 11,097	\$ 176,097

**Bay Colony West Municipal Utility District**  
**Schedule of Long-term Debt Service Requirements by Years (Continued)**  
**August 31, 2015**

Due During Fiscal Years Ending August 31	Series 2008		
	Principal Due October 1	Interest Due October 1, April 1	Total
2016	\$ 95,000	\$ 2,613	\$ 97,613

**Bay Colony West Municipal Utility District**  
**Schedule of Long-term Debt Service Requirements by Years (Continued)**  
**August 31, 2015**

Due During Fiscal Years Ending August 31	Series 2011		
	Principal Due October 1	Interest Due October 1, April 1	Total
2016	\$ 125,000	\$ 190,103	\$ 315,103
2017	135,000	185,340	320,340
2018	140,000	180,112	320,112
2019	150,000	174,383	324,383
2020	160,000	168,022	328,022
2021	170,000	160,923	330,923
2022	180,000	153,042	333,042
2023	190,000	144,438	334,438
2024	200,000	134,972	334,972
2025	210,000	124,723	334,723
2026	220,000	113,835	333,835
2027	235,000	102,175	337,175
2028	250,000	89,404	339,404
2029	265,000	75,499	340,499
2030	280,000	60,469	340,469
2031	295,000	44,296	339,296
2032	310,000	27,282	337,282
2033	330,000	9,281	339,281
Totals	<u>\$ 3,845,000</u>	<u>\$ 2,138,299</u>	<u>\$ 5,983,299</u>

**Bay Colony West Municipal Utility District**  
**Schedule of Long-term Debt Service Requirements by Years (Continued)**  
**August 31, 2015**

Due During Fiscal Years Ending August 31	Refunding Series 2015		
	Principal Due October 1	Interest Due October 1, April 1	Total
2016	\$ -	\$ 160,100	\$ 160,100
2017	165,000	158,450	323,450
2018	255,000	154,250	409,250
2019	255,000	149,150	404,150
2020	255,000	144,050	399,050
2021	260,000	137,600	397,600
2022	275,000	129,575	404,575
2023	280,000	121,250	401,250
2024	285,000	112,775	397,775
2025	290,000	104,150	394,150
2026	305,000	93,700	398,700
2027	305,000	81,500	386,500
2028	320,000	69,000	389,000
2029	330,000	56,000	386,000
2030	340,000	42,600	382,600
2031	350,000	28,800	378,800
2032	365,000	14,500	379,500
2033	180,000	3,600	183,600
Totals	<u>\$ 4,815,000</u>	<u>\$ 1,761,050</u>	<u>\$ 6,576,050</u>

**Bay Colony West Municipal Utility District**  
**Schedule of Long-term Debt Service Requirements by Years (Continued)**  
**August 31, 2015**

Due During Fiscal Years Ending August 31	Annual Requirements For All Series		
	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2016	\$ 300,000	\$ 361,097	\$ 661,097
2017	385,000	346,606	731,606
2018	395,000	334,362	729,362
2019	405,000	323,533	728,533
2020	415,000	312,072	727,072
2021	430,000	298,523	728,523
2022	455,000	282,617	737,617
2023	470,000	265,688	735,688
2024	485,000	247,747	732,747
2025	500,000	228,873	728,873
2026	525,000	207,535	732,535
2027	540,000	183,675	723,675
2028	570,000	158,404	728,404
2029	595,000	131,499	726,499
2030	620,000	103,069	723,069
2031	645,000	73,096	718,096
2032	675,000	41,782	716,782
2033	510,000	12,881	522,881
Totals	<u>\$ 8,920,000</u>	<u>\$ 3,913,059</u>	<u>\$ 12,833,059</u>

**Bay Colony West Municipal Utility District**  
**Changes in Long-term Bonded Debt**  
**Year Ended August 31, 2015**

	<b>Bond Issues</b>				<b>Total</b>
	<b>Series 2007</b>	<b>Series 2008</b>	<b>Series 2011</b>	<b>Refunding Series 2015</b>	
Interest rates	6.625%	5.500%	3.625% to 5.625%	2.00% to 4.00%	
Dates interest payable	October 1/ April 1	October 1/ April 1	October 1/ April 1	October 1/ April 1	
Maturity dates	October 1, 2015/2016	October 1, 2015	October 1, 2015/2032	October 1, 2016/2032	
Bonds outstanding, beginning of current year	\$ 2,190,000	\$ 2,825,000	\$ 3,965,000	\$ -	\$ 8,980,000
Bonds sold during current year	-	-	-	4,815,000	4,815,000
Bonds refunded during current year	1,950,000	2,640,000	-	-	4,590,000
Retirements, principal	<u>75,000</u>	<u>90,000</u>	<u>120,000</u>	<u>-</u>	<u>285,000</u>
Bonds outstanding, end of current year	<u>\$ 165,000</u>	<u>\$ 95,000</u>	<u>\$ 3,845,000</u>	<u>\$ 4,815,000</u>	<u>\$ 8,920,000</u>
Interest paid during current year	<u>\$ 104,815</u>	<u>\$ 196,450</u>	<u>\$ 194,544</u>	<u>\$ 0</u>	<u>\$ 495,809</u>

Paying agent's name and address:

**Series 2007** - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

**Series 2008** - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

**Series 2011** - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

**Series 2015** - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

Bond authority:

	<b>Tax Bonds</b>	<b>Other Bonds</b>	<b>Refunding Bonds</b>
Amount authorized by voters	\$ 44,000,000	\$ 2,800,000	\$ 44,000,000
Amount issued	\$ 9,810,000	\$ -	\$ 373,490
Remaining to be issued	<u>\$ 34,190,000</u>	<u>\$ 2,800,000</u>	<u>\$ 43,626,510</u>

Debt service fund cash and temporary investment balances as of August 31, 2015:

\$ 1,340,164

Average annual debt service payment (principal and interest) for remaining term of all debt:

\$ 712,948

**Bay Colony West Municipal Utility District**  
**Comparative Schedule of Revenues and Expenditures – General Fund**  
**Five Years Ended August 31,**

	Amounts				
	2015	2014	2013	2012	2011
<b>General Fund</b>					
<b>Revenues</b>					
Property taxes	\$ 126,264	\$ 163,108	\$ 87,412	\$ 168,476	\$ 142,515
Investment income	223	283	424	478	794
Total revenues	<u>126,487</u>	<u>163,391</u>	<u>87,836</u>	<u>168,954</u>	<u>143,309</u>
<b>Expenditures</b>					
Service operations:					
Professional fees	84,373	86,588	88,594	81,019	88,756
Contracted services	14,228	14,458	13,185	8,166	9,698
Repairs and maintenance	12,349	12,349	14,159	10,485	8,410
Other expenditures	16,120	14,707	17,047	11,560	15,752
Capital outlay	40,506	45,570	-	1,800	27,348
Total expenditures	<u>167,576</u>	<u>173,672</u>	<u>132,985</u>	<u>113,030</u>	<u>149,964</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	(41,089)	(10,281)	(45,149)	55,924	(6,655)
<b>Fund Balance, Beginning of Year</b>	<u>199,527</u>	<u>209,808</u>	<u>254,957</u>	<u>199,033</u>	<u>205,688</u>
<b>Fund Balance, End of Year</b>	<u>\$ 158,438</u>	<u>\$ 199,527</u>	<u>\$ 209,808</u>	<u>\$ 254,957</u>	<u>\$ 199,033</u>
<b>Total Active Retail Water Connections</b>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
<b>Total Active Retail Wastewater Connections</b>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

**Percent of Fund Total Revenues**

2015	2014	2013	2012	2011
99.8 %	99.8 %	99.5 %	99.7 %	99.4 %
<u>0.2</u>	<u>0.2</u>	<u>0.5</u>	<u>0.3</u>	<u>0.6</u>
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
66.7	53.0	100.9	48.0	61.9
11.2	8.8	15.0	4.8	6.8
9.8	7.6	16.1	6.2	5.9
12.8	9.0	19.4	6.8	11.0
<u>32.0</u>	<u>27.9</u>	<u>-</u>	<u>1.1</u>	<u>19.1</u>
<u>132.5</u>	<u>106.3</u>	<u>151.4</u>	<u>66.9</u>	<u>104.7</u>
<u><u>(32.5) %</u></u>	<u><u>(6.3) %</u></u>	<u><u>(51.4) %</u></u>	<u><u>33.1 %</u></u>	<u><u>(4.7) %</u></u>



**Bay Colony West Municipal Utility District**  
**Comparative Schedule of Revenues and Expenditures – Debt Service Fund**  
**Five Years Ended August 31,**

	Amounts				
	2015	2014	2013	2012	2011
<b>Debt Service Fund</b>					
<b>Revenues</b>					
Property taxes	\$ 925,932	\$ 796,722	\$ 781,924	\$ 634,347	\$ 535,679
Penalty and interest	2,455	2,951	6,596	7,282	6,375
Investment income	1,260	1,483	2,202	3,058	2,788
Total revenues	<u>929,647</u>	<u>801,156</u>	<u>790,722</u>	<u>644,687</u>	<u>544,842</u>
<b>Expenditures</b>					
Current:					
Professional fees	410	884	1,736	2,219	2,110
Contracted services	19,579	16,896	14,847	12,914	13,586
Other expenditures	1,809	4,307	6,219	3,809	1,623
Debt service:					
Principal retirement	285,000	270,000	250,000	140,000	60,000
Interest and fees	498,060	511,684	524,181	503,949	336,163
Debt issuance costs	191,618	-	-	-	-
Debt defeasance	8,000	-	-	-	-
Total expenditures	<u>1,004,476</u>	<u>803,771</u>	<u>796,983</u>	<u>662,891</u>	<u>413,482</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(74,829)</u>	<u>(2,615)</u>	<u>(6,261)</u>	<u>(18,204)</u>	<u>131,360</u>
<b>Other Financing Sources (Uses)</b>					
General obligation bonds issued	4,815,000	-	-	-	204,694
Premium on debt issued	186,401	-	-	-	-
Deposit with escrow agent	(4,800,659)	-	-	-	-
Total other financing sources	<u>200,742</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>204,694</u>
<b>Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	125,913	(2,615)	(6,261)	(18,204)	336,054
<b>Fund Balance, Beginning of Year</b>	<u>1,221,796</u>	<u>1,224,411</u>	<u>1,230,672</u>	<u>1,248,876</u>	<u>912,822</u>
<b>Fund Balance, End of Year</b>	<u>\$ 1,347,709</u>	<u>\$ 1,221,796</u>	<u>\$ 1,224,411</u>	<u>\$ 1,230,672</u>	<u>\$ 1,248,876</u>

**Percent of Fund Total Revenues**

<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
99.6 %	99.4 %	98.9 %	98.4 %	98.3 %
0.3	0.4	0.8	1.1	1.2
0.1	0.2	0.3	0.5	0.5
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
0.0	0.1	0.2	0.3	0.4
2.1	2.1	1.9	2.0	2.5
0.2	0.5	0.8	0.6	0.3
30.7	33.7	31.6	21.7	11.0
53.6	63.9	66.3	78.2	61.7
20.6	-	-	-	-
0.8	-	-	-	-
<u>108.0</u>	<u>100.3</u>	<u>100.8</u>	<u>102.8</u>	<u>75.9</u>
<u><u>(8.0) %</u></u>	<u><u>(0.3) %</u></u>	<u><u>(0.8) %</u></u>	<u><u>(2.8) %</u></u>	<u><u>24.1 %</u></u>

**Bay Colony West Municipal Utility District**  
**Board Members, Key Personnel and Consultants**  
**Year Ended August 31, 2015**

Complete District mailing address:	Bay Colony West Municipal Utility District c/o Paul A. Philbin & Assoc., P.C. 6363 Woodway Drive, Suite 725 Houston, Texas 77057-1792
District business telephone number:	713.783.4120
Submission date of the most recent District Registration Form (TWC Sections 36.054 and 49.054):	October 30, 2015
Limit on fees of office that a director may receive during a fiscal year:	\$ 7,200

Board Members	Term of Office Elected & Expires	Fees*	Expense Reimbursements	Title at Year-end
James Maglothin	Elected 05/14- 05/18	\$ 1,800	\$ 1,489	President
Neill Hurley	Appointed 04/14- 05/16	1,800	1,249	Vice President
Dana Dutton	Elected 05/12- 05/16	1,200	248	Secretary
George Parker, Jr.	Appointed 06/15- 05/18	450	92	Deputy Secretary
John Wright	Appointed 08/15- 05/16	300	46	Director
Mark Fontenot	Elected 05/12- 06/15	0	0	Resigned
Chris Hawkinson	Elected 05/14- 06/15	450	134	Resigned

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

**Bay Colony West Municipal Utility District**  
**Board Members, Key Personnel and Consultants (Continued)**  
**Year Ended August 31, 2015**

<b>Consultants</b>	<b>Date Hired</b>	<b>Fees and Expense Reimbursements</b>	<b>Title</b>
AVANTA Services	06/22/04	\$ 15,224	Bookkeeper
BKD, LLP	08/16/06	14,206	Auditor
Dannenbaum Engineers, Inc.	06/22/04	63,238	Engineer
First Southwest Company	06/22/04	51,205	Financial Advisor
Galveston Central Appraisal District	Legislative Action	7,977	Appraiser
Thomas W. Lee, RTA	06/22/04	13,175	Tax Assessor/ Collector
Paul A. Philbin & Assoc., P.C.	06/22/04	95,863	Attorney
<hr/> <b>Investment Officer</b> <hr/>			
Pam E. Lightbody	06/22/04	N/A	Bookkeeper