

PRELIMINARY OFFICIAL STATEMENT DATED SEPTEMBER 8, 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, THE BONDS ARE VALID OBLIGATIONS OF THE DISTRICT (AS DEFINED HEREIN), AND INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR PURPOSES OF FEDERAL INCOME TAXATION UNDER STATUTES, REGULATIONS, PUBLISHED RULINGS AND COURT DECISIONS EXISTING ON THE DATE OF SUCH OPINION. SEE "LEGAL MATTERS" HEREIN FOR A DESCRIPTION OF THE OPINION OF BOND COUNSEL, INCLUDING A DISCUSSION OF ALTERNATIVE MINIMUM TAX CONSEQUENCES FOR CORPORATIONS.

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

NEW ISSUE-BOOK ENTRY ONLY

Rating: Moody's "A3"
See "MUNICIPAL BOND RATING AND MUNICIPAL INSURANCE" herein.

\$3,025,000

NORTHWEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 32
(A political subdivision of the State of Texas located within Harris County)

UNLIMITED TAX BONDS
SERIES 2016A

Interest accrues from: November 1, 2016

Due: October 1, as shown below

The bonds described above (the "Bonds") are obligations solely of Northwest Harris County Municipal Utility District No. 32 (the "District"), and are not obligations of the State of Texas, Harris County, the City of Houston or any entity other than the District.

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. in Dallas, Texas (the "Paying Agent/Registrar"). Interest on the Bonds accrues from November 1, 2016, and is payable on each April 1 and October 1, commencing April 1, 2017 (five months' interest), until maturity or prior redemption. The Bonds will be issued only in fully registered form. The Bonds will be issued in denominations of \$5,000 each or integral multiples thereof. The Bonds mature and are subject to redemption prior to their maturity as shown below.

The Bonds will be registered and delivered only 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 (as defined herein under "BOOK-ENTRY-ONLY-SYSTEM") of the Bonds will not receive physical certificates representing the Bonds, but will receive a credit balance on the books of the DTC participants. 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, as herein defined, 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

Principal Amount (a)	Maturity (October 1)	CUSIP Number (c)	Interest Rate	Initial Reoffering Yield(d)	Principal Amount (a)	Maturity (October 1)	CUSIP Number (c)	Interest Rate	Initial Reoffering Yield(d)
\$ 40,000	2017		%	%	\$ 40,000	2029 (b)		%	%
40,000	2018				40,000	2030 (b)			
40,000	2019				40,000	2031 (b)			
40,000	2020				40,000	2032 (b)			
40,000	2021				40,000	2033 (b)			
40,000	2022				335,000	2034 (b)			
40,000	2023				335,000	2035 (b)			
40,000	2024 (b)				335,000	2036 (b)			
40,000	2025 (b)				335,000	2037 (b)			
40,000	2026 (b)				335,000	2038 (b)			
40,000	2027 (b)				335,000	2039 (b)			
40,000	2028 (b)				335,000	2040 (b)			

- (a) The Underwriter (defined herein) may designate one or more maturities as term bonds. See accompanying "OFFICIAL NOTICE OF SALE" and "OFFICIAL BID FORM."
- (b) Bonds maturing on and 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 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 Global Services, managed by S&P Global Market Intelligence, on behalf of the American Bankers Association, and are included solely for the convenience of the 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 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, 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 upon all taxable property within the District, as further described herein. The Bonds are obligations solely of the District and are not obligations of the State of Texas, Harris County, the City of Houston, or any entity other than the District. Investment in the Bonds is subject to special investment considerations described herein. See "INVESTMENT CONSIDERATIONS."

The Bonds are offered when, as and if issued by the District, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Schwartz, Page & Harding, L.L.P., Houston, Texas, Bond Counsel. Certain legal matters will be passed on for the District by McCall, Parkhurst & Horton L.L.P., Dallas, Texas, as Disclosure Counsel. See "LEGAL MATTERS." Delivery of the Bonds in book-entry form through DTC is expected on or about November 15, 2016.

Bids Due: Thursday, October 13, 2016, at 2:00 P.M., Central Daylight Saving Time in Houston, Texas
Bid Award: Thursday, October 13, 2016, at 4:30 P.M., Central Daylight Saving Time in Spring, 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

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 Schwartz, Page & Harding, L.L.P., Bond Counsel, 1300 Post Oak Boulevard, Suite 1400, Houston, Texas, 77056, 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") paying the interest rates shown on the cover page hereof, at a price of _____% of the principal amount thereof plus accrued interest to the date of delivery which resulted in a net effective interest rate of _____% as calculated pursuant to Chapter 1204, 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 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 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 United States Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein 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

- Description...* Northwest Harris County Municipal Utility District No. 32 (the “District”), is a political subdivision of the State of Texas, created by order of the Texas Water Commission, a predecessor to the Texas Commission on Environmental Quality (the “TCEQ”) on August 13, 1986, and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. At the time of creation, the District contained approximately 282 acres of land. The District subsequently annexed approximately 307 acres of land bringing the total District acreage to approximately 589 acres. See “THE DISTRICT.”
- Location...* The District is located approximately 26 miles northwest of the central downtown business district of the City of Houston and lies wholly within the exclusive extraterritorial jurisdiction of the City of Houston and within the boundaries of the Klein Independent School District. The District is located west of the intersection of Kuykendahl Road and Farm-to-Market 2920. See “AERIAL LOCATION MAP.”
- The Developer...* The current developer of The Lakes at Avalon Village, Section Two (approximately 15 acres) is Lennar Homes of Texas Land and Construction, Ltd., a Texas limited partnership (“Lennar” or the “Developer”) d/b/a Friendswood Development Company (“FDC”), which is wholly owned by Lennar Corporation. Lennar Corporation is a publicly traded corporation whose stock is listed on the New York Stock Exchange. Lennar Corporation’s activities include homebuilding, real estate investments, residential and commercial developments and financial services operations throughout the United States.
- Status of Development...* Approximately 375 acres within the District have been developed as Windrose West, which is a part of the Windrose development, which includes approximately 730 acres adjacent to the District within the boundaries of Northwest Harris County Municipal Utility District No. 30 and approximately 94 acres have been developed as Lakes at Avalon Village within the District. As of August 1, 2016, underground utilities were complete for 962 single-family residential lots in Windrose West, Sections One through Fifteen and 338 residential lots in Lakes at Avalon Village, Sections One and Two, 1,287 homes were complete (1,282 occupied) and 13 homes were under construction or continue to be owned by a builder in the Lakes at Avalon Village. Homes in Windrose West range in price from \$150,000 to \$978,000 and homes in Lakes at Avalon Village have an average value of \$250,000. See “THE DEVELOPER” and “INVESTMENT CONSIDERATIONS—Future Debt.”
- The remainder of the District is comprised of approximately 13 acres where Klein Independent School District has constructed an elementary school, 9 acres owned by a church, approximately 24 acres developed as commercial sites, where a 35,000 square foot Memorial Hermann health care facility is under construction on approximately 9 acres. Acreage and improvements owned by Klein Independent School District and acreage and improvements owned by the church are not taxable. In addition, approximately 3 acres of developable land is undeveloped and 71 acres are not developable (drainage and pipeline easements, right-of-way related to the future Grand Parkway street right-of-way and utility easements). See “THE DISTRICT—Land Use—Status of Development.”
- Lennar Homes is currently the sole homebuilder in the District, in The Lakes at Avalon Village.
- Payment Record...* The District has previously issued \$33,105,000 principal amount of unlimited tax bonds in seven series and \$21,700,000 principal amount of unlimited tax refunding bonds in three series (collectively, the “Previously Issued Bonds”). There is currently \$26,300,000 in principal amount of bonds outstanding (the “Outstanding Bonds”). The District has never defaulted on principal and interest payments for the Previously Issued Bonds. See “USE AND DISTRIBUTION OF BOND PROCEEDS” and “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds.”

THE BONDS

<i>Description...</i>	\$3,025,000 Unlimited Tax Bonds, Series 2016A (the “Bonds”) are being issued as fully registered bonds pursuant to an order (the “Bond Order”) authorizing the issuance of the Bonds adopted by the District's Board of Directors (the “Board”). The Bonds are scheduled to mature in the years and in the principal amounts shown on the cover page hereof. The Bonds will be issued in book-entry form only in denominations of \$5,000 or integral multiples of \$5,000. Interest on the Bonds accrues from November 1, 2016, and is payable on April 1, 2017 (five months’ interest), and on each October 1 and April 1 thereafter until the earlier of maturity or redemption. See “THE BONDS.”
<i>Book-Entry-Only System...</i>	The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds and will be deposited with DTC or its designee. See “BOOK-ENTRY-ONLY SYSTEM.”
<i>Redemption...</i>	Bonds maturing on and 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 plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. See “THE BONDS—Redemption Provisions.”
<i>Use of Proceeds...</i>	Proceeds of the Bonds will be used to pay for the items as listed herein under “USE AND DISTRIBUTION OF BOND PROCEEDS.” In addition, Bond proceeds will be used to pay interest on funds advanced by Avalon on behalf of the District; and pay bond issuance costs and certain other costs and engineering fees related to the issuance of the Bonds. See “USE AND DISTRIBUTION OF BOND PROCEEDS” and “THE SYSTEM.”
<i>Authority for Issuance...</i>	The Bonds are the eighth series of bonds issued out of an aggregate of \$39,000,000 principal amount of unlimited tax bonds authorized by the District’s voters for the purpose of acquiring or constructing water, sewer and storm drainage facilities. The Bonds are issued by the District pursuant to the terms and provisions of an order of the TCEQ dated August 30, 2016, Article XVI, Section 59 of the Texas Constitution, including without limitation, Chapters 49 and 54 of the Texas Water Code, as amended, the elections held within the District described hereinabove, and the Bond Order. See “THE BONDS—Authority for Issuance.”
<i>Source of Payment...</i>	Principal of and interest on the Bonds are payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District. The Bonds are obligations of the District, and are not obligations of the City of Houston, Harris County, the State of Texas or any entity other than the District. See “THE BONDS—Source and Security for Payment.”
<i>Municipal Bond Rating and Municipal Bond Insurance...</i>	<p>Moody’s Investors Service (“Moody’s”) has assigned a credit rating of “A3” 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 Underwriters. See “MUNICIPAL BOND RATING AND MUNICIPAL BOND INSURANCE.”</p> <p>Application has also been made for municipal bond insurance. If qualified, the purchase of municipal bond insurance is optional and at the expense of the Underwriter. See “INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance.”</p>
<i>Qualified Tax-Exempt Obligations...</i>	The District has designated the Bonds as “qualified tax-exempt obligations” pursuant to Section 265(b) of the Internal Revenue Code of 1986, as amended. See “LEGAL MATTERS—Qualified Tax-Exempt Obligations.”
<i>Bond Counsel...</i>	Schwartz, Page & Harding, L.L.P., Houston, Texas. See “MANAGEMENT OF THE DISTRICT—District Consultants” and “LEGAL MATTERS.”
<i>Disclosure Counsel...</i>	McCall, Parkhurst & Horton L.L.P., Dallas, Texas.

Financial Advisor... FirstSouthwest, a Division of Hilltop Securities Inc., Houston, Texas.

Paying Agent/Registrar... 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 risk factors 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.”

FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)

2016 Taxable Assessed Valuation.....	\$383,812,257	(a)
Estimated Taxable Assessed Valuation as of July 1, 2016.....	\$389,625,863	(b)
Gross Direct Debt Outstanding (the Bonds and the Outstanding Bonds).....	\$29,325,000	(c)
Estimated Overlapping Debt	<u>24,660,133</u>	(d)
Gross Direct Debt and Estimated Overlapping Debt.....	\$53,985,133	
Ratios of Gross Direct Debt to:		
2016 Taxable Assessed Valuation.....	7.64%	
Estimated Taxable Assessed Valuation as of July 1, 2016.....	7.53%	
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:		
2016 Taxable Assessed Valuation.....	14.07%	
Estimated Taxable Assessed Valuation as of July 1, 2016.....	13.86%	
Funds Available for Debt Service as of September 8, 2016.....	\$4,381,621	(e)
Funds Available for Operations and Maintenance as of September 8, 2016.....	\$2,806,372	
Funds Available for Capital Projects as of September 8, 2016	\$305,215	
2016 Anticipated Debt Service Tax Rate	\$0.56	
2016 Anticipated Maintenance Tax Rate	\$0.14	
2016 Anticipated Total Tax Rate	\$0.70	(f)
Average Annual Debt Service Requirement (2017-2040).....	\$1,582,323	(g)
Maximum Annual Debt Service Requirement (2029).....	\$2,309,820	(g)
Tax Rates Required to Pay Average Annual Debt Service (2017-2040) at a 95% Collection Rate:		
Based upon 2016 Taxable Assessed Valuation	\$0.44	(h)
Based upon Estimated Taxable Assessed Valuation as of July 1, 2016	\$0.43	(h)
Tax Rates Required to Pay Maximum Annual Debt Service (2029) at a 95% Collection Rate:		
Based upon 2016 Taxable Assessed Valuation	\$0.64	(h)
Based upon Estimated Taxable Assessed Valuation as of July 1, 2016	\$0.63	(h)
Status of Development as of August 1, 2016 (i):		
Total Developed Lots	1,300	
Completed Homes	1,287	
Occupied Homes	1,282	
Homes Under Construction (or owned by a builder).....	13	
Estimated Population.....	4,487	(j)

- (a) The 2016 Taxable Assessed Valuation shown herein includes \$366,500,953 of certified value and \$17,311,304 of uncertified value. The uncertified value represents the owners' opinion of the value; however, such value is subject to review and downward revision prior to certification. No tax will be levied on said uncertified value until it is certified by the Harris County Appraisal District (the "Appraisal District"). See "TAXING PROCEDURES."
- (b) As provided by the Appraisal District. Such amount is only an estimate of the assessed value on July 1, 2016, and may be revised upward or downward once certified by the Appraisal District. No tax will be levied on such amount until it is certified by the Appraisal District. Increases in value occurring between January 1, 2016 and July 1, 2016 will be certified as of January 1, 2017, and provided for purposes of taxation in the fall of 2017.
- (c) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds."
- (d) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt."
- (e) Includes funds for the October 1, 2016 debt service payment in the amount of \$1,637,134. Neither Texas law nor the Bond Order requires that the District maintain any particular balance in its Bond Fund. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements."
- (f) The District has authorized the publication of a 2016 total tax rate of \$0.70 and expects to adopt such tax rate in October 2016 with \$0.56 allocated to debt service and \$0.14 allocated to maintenance and operations.
- (g) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements."
- (h) See "TAX DATA—Tax Adequacy for Debt Service" and "INVESTMENT CONSIDERATIONS—Possible Impact on District Tax Rates."
- (i) See "THE DISTRICT—Land Use—Status of Development."
- (j) Based upon 3.5 persons per occupied single-family residences.

PRELIMINARY OFFICIAL STATEMENT

\$3,025,000

NORTHWEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 32 *(A political subdivision of the State of Texas located within Harris County)*

UNLIMITED TAX BONDS SERIES 2016A

This OFFICIAL STATEMENT provides certain information in connection with the issuance by Northwest Harris County Municipal Utility District No. 32 (the "District") of its \$3,025,000 Unlimited Tax Bonds, Series 2016A (the "Bonds").

The Bonds are issued by the District pursuant to an order of the Texas Commission on Environmental Quality (the "TCEQ"), the general laws of the State of Texas, including, without limitation, Chapters 49 and 54 of the Texas Water Code, as amended, elections held within the District, and an order authorizing the issuance of the Bonds (the "Bond Order") adopted by the Board of Directors of the District (the "Board").

This OFFICIAL STATEMENT includes descriptions, among others, of the Bonds and the Bond Order, and certain other information about the District and the Developer. 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 Schwartz, Page & Harding, L.L.P., Bond Counsel, 1300 Post Oak Boulevard, Suite 1400, Houston, Texas 77056.

THE BONDS

General

The following is a description of some of the terms and conditions of the Bonds, which description is qualified in its entirety by reference to the Bond Order, a copy of which is available from Bond Counsel upon payment of the costs of duplication therefor. The Bond Order authorizes the issuance and sale of the Bonds and prescribes the terms, conditions and provisions for the payment of the principal of and interest on the Bonds by the District.

Description

The Bonds will be dated November 1, 2016, with interest payable on April 1, 2017, and on each October 1 and April 1 thereafter (each an "Interest Payment Date") until the earlier of maturity or redemption. Interest on the Bonds initially accrues from November 1, 2016, and thereafter from the most recent Interest Payment Date. The Bonds mature on October 1 of the years and in the amounts shown under "MATURITY SCHEDULE" on the cover page hereof. The Bonds are issued in fully registered form only in denominations of \$5,000 or any integral multiple of \$5,000 for any one maturity. The Bonds will be registered and delivered only to The Depository Trust Company, New York, New York ("DTC"), in its nominee name of Cede & Co., pursuant to the book-entry system described herein ("Registered Owners"). No physical delivery of the Bonds will be made to the purchasers thereof. See "BOOK-ENTRY-ONLY SYSTEM." Interest calculations are based upon a three hundred sixty (360) day year comprised of twelve (12) thirty (30) day months.

Authority for Issuance

At elections held within the District on January 20, 2001, and May 7, 2005, voters of the District authorized a total of \$39,000,000 in principal amount of bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities and \$29,000,000 in principal amount of bonds for the purposes of refunding outstanding bonds of the District. The Bonds constitute the eleventh issuance of bonds from such authorizations. There is currently \$26,300,000 in principal amount of bonds outstanding (the "Outstanding Bonds"). After the issuance of the Bonds, a total of \$2,870,000 in principal amount of unlimited tax bonds for water, sanitary sewer and drainage facilities will remain authorized but unissued. The Bonds are issued by the District pursuant to the terms and provisions of an order of the TCEQ dated August 30, 2016, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended and the Bond Order.

Source and Security for Payment

The Bonds, together with the Outstanding Bonds and any additional bonds payable from ad valorem taxes, are secured by and payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property located within the District. See "TAXING PROCEDURES". Investment in the Bonds involves certain elements of risk, and all prospective purchasers are urged to examine carefully this OFFICIAL STATEMENT with respect to the investment security of the Bonds. See "INVESTMENT CONSIDERATIONS." The Bonds are obligations solely of the District and are not obligations of the City of Houston, Harris County, the State of Texas, or any political subdivision or entity other than the District.

Funds

The Bond Order confirms the establishment of the District's Construction Fund (the "Construction Fund") and the District's Bond Fund (the "Bond Fund") created and established pursuant to the orders of the District authorizing the issuance of the Outstanding Bonds. Accrued interest on the Bonds will be deposited from proceeds from sale of the Bonds into the Bond Fund. All remaining proceeds of the Bonds will be deposited in the Construction Fund. The Bond Fund, which constitutes a trust fund for the benefit of the owners of the Outstanding Bonds, the Bonds and any additional tax bonds issued by the District, is to be kept separate from all other funds of the District, and is to be used for payment of debt service on the Outstanding Bonds, the Bonds and any of the District's duly authorized additional bonds payable in whole or part from taxes. Amounts on deposit in the Bond Fund may also be used to pay the fees and expenses of the Paying Agent/Registrar (hereinafter defined), to defray the expenses of assessing and collecting taxes levied for payment of interest on and principal of the Outstanding Bonds, the Bonds and any additional bonds payable in whole or in part from taxes, and to pay any tax anticipation notes issued, together with interest thereon, as such tax anticipation notes become due.

Record Date

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

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 from time to time in part, in integral multiples of \$5,000, on October 1, 2023, or any date thereafter, at a price equal to the principal amount thereof plus unpaid accrued interest thereon to the date fixed for redemption. If fewer than all of the Bonds are to be redeemed, the particular maturity or maturities and the amounts thereof to be redeemed shall be determined by the District. If fewer than all of the Bonds of the same maturity are to be redeemed, the particular Bonds shall be selected by DTC in accordance with its procedures. See "BOOK-ENTRY-ONLY SYSTEM." Notice of each exercise of the reserved right of optional redemption shall be given by the Paying Agent/Registrar at least thirty (30) calendar days prior to the redemption date, in the manner specified in the Bond Order.

By the redemption date, due provision shall be made with the Paying Agent/Registrar for payment of the principal of the Bonds or portions thereof to be redeemed, plus accrued interest to the redemption date. 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.

Method of Payment of Principal and Interest

The Board has appointed The Bank of New York Mellon Trust Company, N.A., having its principal corporate trust office and its principal payment office in Dallas, Texas, as the initial paying agent/registrar (the "Paying Agent/Registrar") for the Bonds. The principal of and interest on the Bonds shall be paid to DTC, which will make distribution of the amounts so paid. See "BOOK-ENTRY-ONLY SYSTEM."

Registration

Section 149(a) of the Internal Revenue Code of 1986, as amended, requires that all tax exempt obligations (with certain exceptions that do not include the Bonds) be in registered form in order for the interest payable on such obligations to be excludable from a Beneficial Owner's income for federal income tax purposes. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. pursuant to the Book-Entry-Only System described herein. One fully-registered Bond will be issued for each maturity of the Bonds and will be deposited with DTC. See "BOOK-ENTRY-ONLY SYSTEM." So long as any Bonds remain outstanding, the District will maintain at least one paying agent/registrar in the State of Texas for the purpose of maintaining the Register on behalf of the District.

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 be required to accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any paying agent/registrar selected by the District shall be a duly qualified and competent trust or banking corporation or organization organized and doing business under the laws of the United States of America or of any State thereof, with a combined capital and surplus of at least \$25,000,000, which is subject to supervision of or examination by federal or state banking authorities, and which is a transfer agent duly registered with the United States Securities and Exchange Commission.

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 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.

Issuance of Additional Debt

The District's voters have authorized the issuance of a total of \$39,000,000 unlimited tax bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities and could authorize additional amounts. Following the issuance of the Bonds, the District will have \$2,870,000 of unlimited tax bonds authorized but unissued for said improvements and facilities. The District's voters have also authorized a total of \$29,000,000 unlimited tax refunding bonds for the purpose of refunding outstanding bonds of the District and could authorize additional amounts. The District currently has \$28,087,730 of unlimited tax refunding bonds authorized but unissued.

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.

The District also is authorized by statute to engage in fire-fighting activities, including the issuing of bonds payable from taxes for such purpose. Before the District could issue fire-fighting bonds payable from taxes, the following actions would be required: (a) authorization of a detailed master plan and bonds for such purpose by the qualified voters in the District; (b) approval of the master plan and issuance of bonds by the TCEQ; and (c) approval of bonds by the Attorney General of Texas. The District does not provide fire protection service, and the Board has not considered calling such an election at this time. Issuance of bonds for fire-fighting activities could dilute the investment security for the Bonds.

Financing Road Facilities

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, and 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. Issuance of bonds for roads could dilute the investment security for the Bonds.

Financing Recreational Facilities

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 a maintenance tax to support recreational facilities and/or the issuance of bonds payable from taxes.

The District is authorized to levy an operation and maintenance tax to support recreational facilities at a rate not to exceed 10 cents per \$100 of assessed valuation of taxable property in the District, after such tax is approved at an election. Said maintenance tax is in addition to any other maintenance tax authorized to be levied by the District. In addition, 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 has not considered calling an election for such purposes but could consider doing so in the future. Issuance of bonds for recreational facilities could dilute the investment security for the Bonds.

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 right to seek 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. Certain traditional legal remedies may also not be available. See “INVESTMENT CONSIDERATIONS—Registered Owners' Remedies” and “—Bankruptcy Limitation to Registered Owners' Rights.”

Annexation

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston, the District may be annexed for full purposes by the City of Houston without the District's consent, subject to compliance by the City of Houston with various requirements of Chapter 43 of the Texas Local Government Code, as amended. If the District is annexed for full purposes, the City of Houston must assume the District's assets and obligations (including the Bonds and the Outstanding Bonds) and abolish the District within ninety (90) days of the date of annexation. Annexation of territory by the City of Houston is a policy-making matter within the discretion of the Mayor and City Council of the City of Houston, and therefore, the District makes no representation that the City of Houston will ever annex the District for full purposes and assume its debt. Moreover, no representation is made concerning the ability of the City of Houston to make debt service payments should annexation occur. Under the terms of the SPA (as hereinafter defined) between the District and the City of Houston, however, the City has agreed not to annex the District for full purposes (a traditional municipal annexation) for at least thirty (30) years from the effective date of the SPA. See “THE DISTRICT—Strategic Partnership Agreement.”

Consolidation

The District has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its water and wastewater systems with the water and wastewater systems of the district or districts with which it is consolidating, subject to voter approval. In their consolidation agreement, the consolidating districts may agree to assume each other's bonds, notes and other obligations. If each district assumes the other's bonds, notes and other obligations, taxes may be levied uniformly on all taxable property within the consolidated district in payment of same. If the districts do not assume each other's bonds, notes and other obligations, each district's taxes are levied on property in each of the original districts to pay said debts created by the respective original district as if no consolidation had taken place. No representation is made concerning whether the District will consolidate with any other district, but the District currently has no plans to do so.

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) for obligations of the District payable from revenues or from ad valorem taxes or both, or a commercial bank or trust company designated in the proceedings authorizing such discharge amounts sufficient to provide for the payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested only in (a) direct noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent; and (c) 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 investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The foregoing obligations may be in book entry form and shall mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds. If any of such Bonds are to be redeemed prior to their respective dates of maturity, provision must have been made for giving notice of redemption as provided in the Bond Order.

Upon such deposit as described above, such Bonds shall no longer be regarded to be 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 a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Bond Order does not contractually limit such investments, Registered Owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under Texas law.

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company, New York, New York, ("DTC") while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this OFFICIAL STATEMENT. The District and the Financial Advisor believe the source of such information to be reliable, but neither of the District or the Financial Advisor take any responsibility for the accuracy or completeness thereof.

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

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

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

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

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

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

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

All payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Bonds held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but neither the District nor the Underwriters take any responsibility for the accuracy thereof.

USE AND DISTRIBUTION OF BOND PROCEEDS

The construction costs described below were compiled by Jacobs Engineering Group Inc., the District's engineer (the "Engineer"), based on the estimated cost of facilities, 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 the District's financial advisor, FirstSouthwest, a Division of Hilltop Securities Inc. (the "Financial Advisor"), at the time the District's bond application was filed with the TCEQ. A portion of the proceeds from the sale of the Bonds will be used to pay certain non-construction costs associated with the issuance of the Bonds and accrued developer interest. See "THE SYSTEM." Surplus funds, if any, may be expended for any lawful purpose for which surplus construction funds may be used. Certain uses of surplus funds require TCEQ approval.

CONSTRUCTION COSTS

Clearing and Grubbing for Lakes at Avalon Village Section 2.....	\$ 49,758
Lakes at Avalon Village Section 2-Water, Wastewater, Drainage & Detention.....	1,115,610
Water Plant Expansion.....	579,015
Engineering	337,060
Materials Testing	59,210
Land Acquisition Costs:	
Detention Pond 3 Site for Lakes at Avalon Village Section 2.....	234,281
Detention Pond 4 Site for Lakes at Avalon Village Section 2.....	115,584
Lift Station No. 2 Site (Restricted Reserve C).....	16,936
Total Construction Costs.....	\$2,507,454

NON-CONSTRUCTION COSTS

Legal Fees	\$ 85,625
Financial Advisory Fees.....	60,375
Developer Interest.....	183,812
Underwriter's Discount (a)	90,750
Bond Issuance Expenses	48,396
Bond Application Report	38,000
Attorney General of Texas (0.10%).....	3,025
TCEQ Fee (0.25%)	7,563
Total Non-Construction Costs	\$517,546
TOTAL BOND ISSUE REQUIREMENT	\$3,025,000

(a) The TCEQ approved a maximum Underwriter's discount of 3.0%.

THE DISTRICT

General

The District is a municipal utility district created by an order of the Texas Water Commission, a predecessor to the TCEQ, dated August 13, 1986, 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 extraterritorial jurisdiction of the City of Houston (except as described below under “Strategic Partnership Agreement”), 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, municipalities or other political subdivisions, after approval by the TCEQ and the voters of the District. Additionally, the District may, subject to certain limitations, develop and finance recreational facilities and may also, subject to the granting of road powers by the TCEQ and certain limitations, develop and finance roads. See “THE BONDS—Issuance of Additional Debt,” “—Financing Recreational Facilities,” and “—Financing Road Facilities.”

The District is required to observe certain requirements of the City of Houston which limit the purposes for which the District may sell bonds to finance the acquisition, construction, and improvement of waterworks, wastewater, drainage, recreational, road and fire-fighting facilities, and the refunding of outstanding debt obligations; limit the net effective interest rate on such bonds and other terms of such bonds; require approval by the City of Houston of District construction plans; and permit connections only to lots and reserves described in plats which have been approved by the City of Houston and recorded in the real property records of Harris County, Texas. The District is also required to obtain certain TCEQ approvals prior to acquiring, constructing and financing road and fire-fighting facilities, as well as voter approval of the issuance of bonds for said purposes and/or for the purpose of financing recreational facilities. Construction and operation of the District’s drainage system is subject to the regulatory jurisdiction of additional State of Texas and local agencies. See “THE SYSTEM.”

Description and Location

The District currently consists of approximately 589 acres of land in northwest Harris County. The District is located approximately 26 miles northwest of the central downtown business district of the City of Houston and lies wholly within the extraterritorial jurisdiction of the City of Houston and within the boundaries of the Klein Independent School District. The District is located west of the intersection of Kuykendahl Road and Farm-to-Market 2920. See “AERIAL LOCATION MAP.”

Land Use

The District currently includes approximately 469 developed acres of single-family residential development (1,300 lots), approximately 71 undevelopable acres (drainage and pipeline easements, street rights-of-way and utility sites), approximately 3 developable acres that have not been developed, approximately 13 acres where Klein Independent School District has constructed an elementary school, approximately 9 acres where a church has been constructed and approximately 24 acres of commercial sites. The table below represents a detailed breakdown of the current acreage and development in the District.

	<u>Approximate Acres</u>	<u>Lots</u>
<i><u>Single-Family Residential</u></i>		
Windrose West:		
Section One	20	49
Section Two.....	20	65
Section Three.....	23	84
Section Four	14	35
Section Five.....	29	85
Section Six.....	25	46
Section Seven	25	59
Section Eight	27	74
Section Nine	45	121
Section Ten.....	22	46
Section Eleven.....	18	26
Section Twelve	25	41
Section Thirteen	19	61
Section Fourteen.....	28	80
Section Fifteen.....	35	90
The Lakes of Avalon Village:		
Section One	79	259
Section Two.....	15	<u>79</u>
Subtotal.....	469	1,300
<u>Commercial Sites</u>	24	---
<u>School Site</u>	13	---
<u>Church Site</u>	9	---
<u>Future Development</u>	3	---
<u>Non-Developable (a)</u>	71	---
Totals	589	1,300

(a) Drainage and pipeline easements, right-of-way related to the future Grand Parkway, street rights-of-way and utility sites.

Status of Development

Residential: Approximately 375 acres within the District has been developed as Windrose West, and approximately 94 acres is being developed as Lakes at Avalon Village. As of August 2016, underground utilities were complete for 962 single-family residential lots in Windrose West, Sections One through Fifteen and 338 residential lots in Lakes at Avalon Village, Sections One and Two, 1,287 homes were complete (1,282 occupied) and 13 homes were under construction or continue to be owned by a builder, primarily in Lakes at Avalon Village and no vacant lots remained for home construction. Homes in Windrose West typically range in price from \$150,000 to \$978,000 and homes in Lakes at Avalon Village have an average value of \$250,000. The estimated population in the District is 4,487 based upon 3.5 persons per occupied single-family residence.

Lennar Homes is the sole homebuilder in the District in the Lakes at Avalon Village.

Commercial/Institutional: In addition to residential development, approximately 13 acres are owned by Klein Independent School District where an elementary school has been constructed, approximately 9 acres are owned by a church and approximately 24 acres are developed as commercial sites where a 35,000 square foot Memorial Hermann health care facility is under construction on approximately 9 acres. The property owned by Klein Independent School District and the church are not taxable.

Strategic Partnership Agreement

The District and the City of Houston (the "City") have entered into a Strategic Partnership Agreement dated effective November 16, 2012 (the "SPA") pursuant to Chapter 43 of the Texas Local Government Code. The SPA provides for a "limited purpose annexation" for that portion of the District which is developed for retail and commercial purposes in order to apply certain City health, safety, planning and zoning ordinances within the District. Areas of residential development within the District are not subject to the limited purpose annexation. The SPA also provides that the City will not annex the District for "full purposes" for at least thirty (30) years from the effective date of the SPA. Also, as a condition to full purpose annexation, any unpaid reimbursement obligations due to a developer by the District for water, wastewater and drainage facilities must be assumed by the City to the maximum extent permitted by TCEQ rules.

As of the effective date of the SPA, the City was authorized to impose the one percent (1%) City sales and use tax within the portion of the District included in the limited purpose annexation. As of this date, such portion includes approximately 24 acres of commercial tracts in the District and 3 acres of undeveloped property within the District expected to be developed for retail and commercial purposes. The City pays to the District an amount equal to one half (1/2) of all sales and use tax revenue generated within such area of the District and received by the City from the Comptroller of Public Accounts of the State of Texas (the "Sales Tax Revenue"). Pursuant to State law, the District is authorized to use Sales Tax Revenue generated under the SPA for any lawful purpose. None of the anticipated Sales Tax Revenue is pledged toward the payment of principal and interest on the Bonds or the Outstanding Bonds.

THE DEVELOPER

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. 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.

Investors in the Bonds 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. The District cautions that the development experience of the Developer was gained in different markets and under different circumstances than those that exist in the District and the prior success, if any, is no indication or guarantee that the Developer will be successful in the development of land within the District.

The Developer is not responsible for, liable for, and has not made any commitment for, payment of the Bonds or other obligations of the District. The Developer has no legal commitment to the District or owners of the Bonds to continue development of land within the District and may sell or otherwise dispose of its property within the District, or any other assets, at any time.

Lennar Homes of Texas Land and Construction, Ltd.

The current developer of The Lakes at Avalon Village, Section Two (approximately 15 acres) is Lennar Homes of Texas Land and Construction, Ltd., a Texas limited partnership ("Lennar" or the "Developer"), d/b/a Friendswood Development Company ("FDC"), which is wholly owned by Lennar Corporation. Lennar Corporation is a publicly traded corporation whose stock is listed on the New York Stock Exchange. Lennar Corporation's activities include homebuilding, real estate investments, residential and commercial developments and financial services operations throughout the United States. The Developer does not own any additional land within the District.

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 of even numbered years. All of the Board members reside within the District. The current members and officers of the Board, along with their titles and terms, are listed as follows:

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Steven C. Grychka	President	May 2020
Joseph J. Palumbo	Vice President	May 2018
Gregg A. Edmonds	Secretary	May 2020
Lex J. Lacaze	Assistant Secretary	May 2020
Deborah Gower	Assistant Secretary	May 2018

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 and General Counsel: Schwartz, Page & Harding, L.L.P. (“Bond Counsel”) serves as bond counsel to the District. The fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. In addition, Schwartz, Page & Harding, L.L.P. serves as general counsel to the District on matters other than the issuance of bonds.

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 based on a percentage of the Bonds actually issued, sold and delivered and, therefore, such fee is contingent upon the sale and delivery of the Bonds.

Disclosure Counsel: The District has engaged McCall, Parkhurst & Horton L.L.P. as disclosure counsel (“Disclosure Counsel”). The fees paid to Disclosure Counsel in connection with the issuance of the Bonds are contingent upon the sale and delivery of the Bonds.

Auditor: As required by the Texas Water Code, the District retains an independent auditor to audit the District’s financial statements annually, which annual audit is filed with the TCEQ. The District’s financial statements for the fiscal year ended October 31, 2015 have been audited by BKD, LLP. See “APPENDIX A” for a copy of the District’s October 31, 2015 audited financial statements.

Engineer: The District's consulting engineer is Jacobs Engineering Group Inc. (“the Engineer”).

Bookkeeper: The District has contracted with Myrtle Cruz, Inc. (the “Bookkeeper”) for bookkeeping services.

Utility System Operator: The operator of the District's internal water and wastewater system is Environmental Development Partners, LLC.

Tax Appraisal: The Harris County 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. Wheeler & Associates, Inc. (the “Tax Assessor/Collector”) serves in this capacity.

THE SYSTEM

Regulation

Construction and operation of the District's water, wastewater and storm drainage 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. Discharge of treated sewage into Texas waters is also subject to the regulatory authority of the TCEQ and the United States Environmental Protection Agency. Withdrawal of ground water and the issuance of water well permits is subject to the regulatory authority of the Harris-Galveston Coastal Subsidence District where applicable. Construction of drainage facilities is subject to the regulatory authority of the Harris County Flood Control District. Harris County, the City of Houston, and the Texas Department of Health also exercise regulatory jurisdiction over the District's water, wastewater and storm drainage system.

Water Supply

Water Supply Facilities: The District’s water supply facilities include one water plant. The plant includes a 1,500 gallon per minute (“gpm”) well, two 500,000 gallon ground storage tanks, 30,000 gallons of hydropneumatic tank capacity, booster pump capacity totaling 3,500 gpm, auxiliary power supply and various other appurtenances. According to the District’s Engineer, the plant is sufficient to serve approximately 1,750 single family equivalent connections, based upon current regulatory criteria. As of August 2016, the District was serving approximately 1,300 active residential connections (including 17 builder connections). In addition, the District has emergency interconnect agreements with Northwest Harris County Municipal Utility District No. 30 (“NW30”), Bridgestone Municipal Utility District, and Harris County Municipal Utility District No. 530.

Surface Water: The District is within the boundaries of the Harris-Galveston Subsidence District (the “Subsidence District”) which regulates groundwater withdrawal. The District’s authority to pump groundwater is subject to an annual permit issued by the Subsidence District. The Subsidence District has adopted regulations requiring reduction of groundwater withdrawals through conversion to alternate source water (e.g., surface water) in areas within the Subsidence District’s jurisdiction. In 2001, the Texas legislature created the North Harris County Regional Water Authority (the “Authority”) to, among other things, reduce groundwater usage in, and to provide surface water to, the western portion of Harris County (including the District). The Authority developed a groundwater reduction plan (“GRP”) and obtained Subsidence District approval of its GRP. The Authority’s GRP sets forth the Authority’s plan to comply with Subsidence District regulations, construct surface water facilities, and convert users from groundwater to alternate source water (e.g., surface water). In connection with its GRP, the Authority entered into a water supply contract with the City of Houston, Texas (“City”) to obtain treated surface water from the City of Houston. The District is included within the Authority’s GRP.

The Authority has the power to issue debt supported by the revenues pledged for the payment of its obligations and may establish fees, rates, and charges as necessary to accomplish its purposes. As of April 1, 2016, the Authority will charge the District, as owner of the water wells, and other major groundwater users, a fee of \$2.40 per 1,000 gallons of groundwater pumped and \$2.85 per 1,000 gallons of surface water received. The Authority has issued \$537,110,000 principal amount of revenue bonds to fund, among other things, certain Authority surface water project costs. It is expected that the Authority will issue substantially more bonds by the year 2035 to finance the Authority’s project costs.

Under the Subsidence District regulations and the GRP, the Authority is required: (i) through the year 2024, to limit groundwater withdrawals to no more than 70% of the total annual water demand within the Authority’s GRP; (ii) beginning in the year 2025, to limit groundwater withdrawals to no more than 40% of the total annual water demand within the Authority’s GRP; and (iii) beginning in the year 2035, to limit groundwater withdrawals to no more than 20% of the total annual water demand within the Authority’s GRP. If the Authority fails to comply with the above Subsidence District regulations or its GRP, the Authority is subject to a disincentive fee penalty (“Disincentive Fees”), imposed by the Subsidence District for any groundwater withdrawn in excess of 20% of the total annual water demand within the Authority’s GRP. The Disincentive Fee is currently \$7.00 per 1,000 gallons of water, but is subject to increase at the discretion of the Subsidence District. In the event of such Authority’s failure to comply and imposition of a disincentive fee penalty by the Subsidence District, the Authority may also seek to collect Disincentive Fees from the District. If the District failed to comply with surface water conversion requirements mandated by the Authority, the Authority would likely seek monetary or other penalties against the District.

The District cannot predict the amount or level of fees and charges which may be due the Authority in the future, but anticipates the need to pass such fees through to the Participants under the Master Contract who will in turn pass said fees through to customers: (i) through higher water rates and/or (ii) with portions of maintenance tax proceeds, if any. In addition, further conversion to surface water could necessitate improvements to the system of the District, which could require the issuance of additional bonds by the Participants. No representation is made, however, that the Authority: (i) will build said lines or any of the necessary facilities to meet the requirements of the Subsidence District for conversion to surface water; (ii) will comply with the Subsidence District’s surface water conversion requirements, or (iii) will comply with its GRP.

Wastewater Collection

Wastewater treatment capacity for the District is provided by a wastewater treatment plant owned jointly by the District and NW30. The plant contains 683,000 gallons per day (“gpd”) capacity. Pursuant to an agreement between the District and NW30, the District owns 388,250 gpd of the capacity in the plant, which will serve up to 1,726 connections. This capacity will serve all of the current and proposed future development in the District. As of August 1, 2016, the district was serving 1,300 active residential connections (including 17 builder connections). The plant is currently being expanded to address increased capacity needs of NW30.

Water Distribution, Wastewater Collection and Storm Drainage Facilities

Water distribution, wastewater collection and storm drainage facilities have been constructed to serve 1,300 single-family residential lots in the District, approximately 22 acres of church and school sites, and approximately 24 acres of commercial sites. See “THE DISTRICT—Land Use.”

Flood Protection

According to the Engineer, and based upon the Flood Insurance Rate Map of Harris County, Texas, none of the developed land or undeveloped but developable land in the District is within the 100 year flood plain.

Waterworks and Sewer System Operating Statement

The Bonds are payable solely from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District. Net revenues, if any, derived from the operation of the District's water and sewer operations are not pledged to the payment of the Bonds but are available for any lawful purpose including payment of debt service on the Bonds, at the discretion and upon action of the Board. It is not anticipated that significant revenues, if any, will be available for the payment of debt service on the Bonds. The following statement sets forth in condensed form the General Operating Fund as shown in the District's audited financial statements for the years ended October 31, 2012 through 2015, and an unaudited summary as of August 31, 2016 prepared by the 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 on the audited financial statements.

	11/1/2015 to 8/31/2016 UNAUDITED	Fiscal Year Ended			
		10/31/2015	10/31/2014	10/31/2013	10/31/2012
Revenues:					
Property taxes	\$ 423,339	\$ 329,218	\$ 273,121	\$ 179,640	\$ 281,585
Water Service	345,849	317,933	309,620	333,969	336,459
Sewer Service	412,435	510,137	495,219	470,441	430,276
Regional water fee	305,994	371,399	341,924	359,927	343,431
Penalty and interest	15,171	19,457	19,758	17,547	14,670
Tap connection & inspection fees	105,795	78,360	35,745	82,345	2,570
Interest on deposits	3,839	2,885	2,796	3,685	3,747
Other	6,625	7,260	2,427	1,759	-
Total Revenues	\$ 1,619,047	\$ 1,636,649	\$ 1,480,610	\$ 1,449,313	\$ 1,412,738
Expenditures:					
Purchased services	\$ 214,989	\$ 243,323	\$ 119,403	\$ 132,840	\$ 133,613
Regional water fee	303,522	405,448	368,983	365,382	367,199
Professional fees	176,136	178,160	160,382	150,230	241,543
Contracted services	278,145	358,492	337,116	316,163	290,890
Utilities	53,695	67,017	52,499	58,195	56,151
Repairs and maintenance	79,917	143,174	96,686	131,176	193,806
Other Expenditures	84,628	48,160	58,886	53,715	63,259
Tap Connections	61,672	32,590	11,450	27,750	3,200
Capital Outlay	-	168,524	325,688	86,727	16,401
Total Expenditures	\$ 1,252,704	\$ 1,644,888	\$ 1,531,093	\$ 1,322,178	\$ 1,366,062
Net Revenues (Expenditures)	\$ 366,343	\$ (8,239)	\$ (50,483)	\$ 127,135	\$ 46,676
Interfund Transfers	504,375 (a)	-	-	(622)	48,858
Fund Balance, Beginning of Period	\$ 1,991,300	\$ 1,999,539	\$ 2,050,022	\$ 1,923,509	\$ 1,827,975
Fund Balance, End of Period	\$ 2,862,018	\$ 1,991,300	\$ 1,999,539	\$ 2,050,022	\$ 1,923,509

(a) Release of Surplus Funds

FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)

2016 Taxable Assessed Valuation.....	\$383,812,257	(a)
Estimated Taxable Assessed Valuation as of July 1, 2016.....	\$389,625,863	(b)
Gross Direct Debt Outstanding (the Bonds and the Outstanding Bonds).....	\$29,325,000	(c)
Estimated Overlapping Debt	<u>24,660,133</u>	(d)
Gross Direct Debt and Estimated Overlapping Debt.....	\$53,985,133	

Ratios of Gross Direct Debt to:

2016 Taxable Assessed Valuation.....	7.64%
Estimated Taxable Assessed Valuation as of July 1, 2016.....	7.53%

Ratios of Gross Direct Debt and Estimated Overlapping Debt to:

2016 Taxable Assessed Valuation.....	14.07%
Estimated Taxable Assessed Valuation as of July 1, 2016.....	13.86%

Funds Available for Debt Service as of September 8, 2016.....	\$4,381,621	(e)
Funds Available for Operations and Maintenance as of September 8, 2016.....	\$2,806,372	
Funds Available for Capital Projects as of September 8, 2016	\$305,215	

- (a) The 2016 Taxable Assessed Valuation shown herein includes \$366,500,953 of certified value and \$17,311,304 of uncertified value. The uncertified value represents the owners' opinion of the value; however, such value is subject to review and downward revision prior to certification. No tax will be levied on said uncertified value until it is certified by the Harris County Appraisal District (the "Appraisal District"). See "TAXING PROCEDURES."
- (b) As provided by the Appraisal District. Such amount is only an estimate of the assessed value on July 1, 2016, and may be revised upward or downward once certified by the Appraisal District. No tax will be levied on such amount until it is certified by the Appraisal District. Increases in value occurring between January 1, 2016 and July 1, 2016 will be certified as of January 1, 2017, and provided for purposes of taxation in the fall of 2017.
- (c) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds."
- (d) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt."
- (e) Includes funds for the October 1, 2016 debt service payment in the amount of \$1,637,134. Neither Texas law nor the Bond Order requires that the District maintain any particular balance in its Bond Fund.

Investments of the District

The District has adopted an Investment Policy as required by the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended. 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 portfolio.

Outstanding Bonds

The District has previously issued \$33,105,000 of unlimited tax bonds in seven series and \$21,700,000 unlimited tax refunding bonds in three series, of which \$26,300,000 principal amount is collectively outstanding. The following table lists the original principal amount of the Outstanding Bonds and the current outstanding principal amount of the Outstanding Bonds as of the date hereof.

Series	Original Principal Amount	Outstanding Bonds
2003	\$ 4,500,000	\$ -
2004	4,825,000	-
2005	7,000,000	255,000
2006	5,700,000	-
2007	5,200,000	60,000
2010	4,020,000	3,060,000
2012	1,860,000	1,705,000
2013 (a)	7,550,000	7,125,000
2014 (a)	9,535,000	9,480,000
2016 (a)	4,615,000	4,615,000
	<u>\$ 54,805,000</u>	<u>\$ 26,300,000</u>

(a) Unlimited Tax Refunding Bonds

Debt Service Requirements

The following sets forth the actual debt service requirements on the Outstanding Bonds (see “Outstanding Bonds” in this section) and the estimated debt service on the Bonds at an estimated interest rate of 3.25%. See “USE AND DISTRIBUTION OF BOND PROCEEDS.”

Year	Outstanding Bonds Debt Service	Plus: Debt Service on the Bonds			Debt Service Requirements
	Requirements	Principal	Interest	Total	
2016	\$ 1,637,133.75 (a)	\$ -	\$ -	\$ -	\$ 1,637,133.75
2017	2,093,747.50	40,000	90,119.79	130,119.79	2,223,867.29
2018	2,103,840.00	40,000	97,012.50	137,012.50	2,240,852.50
2019	2,109,195.00	40,000	95,712.50	135,712.50	2,244,907.50
2020	2,113,280.00	40,000	94,412.50	134,412.50	2,247,692.50
2021	2,125,635.00	40,000	93,112.50	133,112.50	2,258,747.50
2022	2,136,377.50	40,000	91,812.50	131,812.50	2,268,190.00
2023	2,144,765.00	40,000	90,512.50	130,512.50	2,275,277.50
2024	2,153,940.00	40,000	89,212.50	129,212.50	2,283,152.50
2025	2,156,217.50	40,000	87,912.50	127,912.50	2,284,130.00
2026	2,165,907.50	40,000	86,612.50	126,612.50	2,292,520.00
2027	2,173,467.50	40,000	85,312.50	125,312.50	2,298,780.00
2028	2,178,930.00	40,000	84,012.50	124,012.50	2,302,942.50
2029	2,187,107.50	40,000	82,712.50	122,712.50	2,309,820.00
2030	1,383,012.50	40,000	81,412.50	121,412.50	1,504,425.00
2031	1,374,675.00	40,000	80,112.50	120,112.50	1,494,787.50
2032	1,299,500.00	40,000	78,812.50	118,812.50	1,418,312.50
2033	1,259,975.00	40,000	77,512.50	117,512.50	1,377,487.50
2034	-	335,000	76,212.50	411,212.50	411,212.50
2035	-	335,000	65,325.00	400,325.00	400,325.00
2036	-	335,000	54,437.50	389,437.50	389,437.50
2037	-	335,000	43,550.00	378,550.00	378,550.00
2038	-	335,000	32,662.50	367,662.50	367,662.50
2039	-	335,000	21,775.00	356,775.00	356,775.00
2040	-	335,000	10,887.50	345,887.50	345,887.50
Total	\$ 34,796,706.25	\$ 3,025,000	\$ 1,791,169.79	\$ 4,816,169.79	\$ 39,612,876.04

(a) Excludes the District’s April 1, 2016 debt service payment in the amount of \$464,760.

Average Annual Debt Service Requirements (2017-2040) \$1,582,323
 Maximum Annual Debt Service Requirement (2029)..... \$2,309,820

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</u>	
			<u>Percent</u>	<u>Amount</u>
Harris County	\$1,897,713,330	02/28/16	0.10%	\$1,897,713
Harris County Flood Control District.....	83,075,000	02/28/16	0.10%	83,075
Port of Houston Authority	674,269,397	12/31/15	0.10%	674,269
Harris County Dept. of Education	7,000,000	08/31/16	0.10%	7,000
Klein Independent School District	921,585,000	08/31/16	2.25%	20,735,663
Lone Star College System	548,875,000	08/31/16	0.23%	<u>1,262,413</u>
Total Estimated Overlapping Debt.....				\$24,660,133
The District's Total Direct Debt (a).....				<u>29,325,000</u>
Total Direct and Estimated Overlapping Debt				\$53,985,133
Direct and Estimated Overlapping Debt as a Percentage of:				
2016 Taxable Assessed Valuation of \$383,812,257.....				14.07%
Estimated Taxable Assessed Valuation as of July 1, 2016 of \$389,625,863.....				13.86%

(a) The Bonds and the Outstanding 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, 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 overlapping the District and the District's 2016 expected tax rate. 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 Assessed Valuation</u>
Harris County (including Harris County Flood Control District, Harris County Hospital District, Harris County Department of Education and the Port of Houston Authority)	\$0.636402
Klein Independent School District	1.410000
Lone Star College System District	0.107900
Harris County Emergency Service District No. 11	0.041850
Harris County Emergency Service District No. 16	<u>0.050000</u>
Total Overlapping Tax Rate	2.245152
2016 District Tax Rate	<u>0.700000</u> (a)
Total Tax Rate.....	\$2.965152

(a) The District has authorized the publication of a 2016 total tax rate of \$0.70 and expects to adopt such tax rate in October 2016 with \$0.56 allocated to debt service and \$0.14 allocated to maintenance and operations. See "TAX RATE—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 remain outstanding and unpaid, a tax adequate to provide funds to pay the principal of and interest on the Bonds. See "Tax Rate Distribution" and "Tax Roll Information" below, and "TAXING PROCEDURES."

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 January 20, 2001, 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 appraised 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. See "Debt Service Tax" above.

Tax Exemptions

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

Tax Rate Distribution

	Anticipated					
	<u>2016</u>	(a)	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Debt Service	\$ 0.56		\$ 0.60	\$ 0.685	\$ 0.795	\$ 0.84
Maintenance	<u>0.14</u>		<u>0.12</u>	<u>0.105</u>	<u>0.100</u>	<u>0.07</u>
Total	\$ 0.70		\$ 0.72	\$ 0.790	\$ 0.895	\$ 0.91

(a) The District has authorized the publication of a 2016 total tax rate of \$0.70 and expects to adopt such tax rate in October 2016 with \$0.56 allocated to debt service and \$0.14 allocated to maintenance and operations.

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 Tax Assessor/Collector. Reference is made to such statements and records for further and complete information. See "Tax Roll Information" below.

	Certified Taxable Valuation (a)	Tax Rate	Total Tax Levy (b)	Total Collections As of 8/31/2016 (c)	
				Amount	Percent
2011	\$ 257,304,918	\$ 0.910	\$ 2,341,469	\$ 2,337,659	99.83%
2012	256,019,045	0.910	2,329,768	2,324,106	99.75%
2013	273,949,938	0.895	2,451,845	2,446,269	99.77%
2014	313,654,722	0.790	2,477,866	2,471,790	99.75%
2015	355,396,050	0.720	2,558,846	2,553,419	99.78%
2016	383,812,257	0.700	2,686,686	(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) Unaudited.

(d) The District has authorized the publication of a 2016 total tax rate of \$0.70 and expects to adopt such tax rate in October 2016 with \$0.56 allocated to debt service and \$0.14 allocated to maintenance and operations. Taxes for the 2016 tax year are due by January 31, 2017.

Tax Roll Information

The District's appraised 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 Assessed Valuations, which have been certified by the Appraisal District. Breakdowns of the uncertified portion (\$17,311,304) of the 2016 Taxable Assessed Valuation of \$383,812,257 and the Estimated Taxable Assessed Valuation as of July 1, 2016 of \$389,625,863 are not currently available.

	2016 Taxable Assessed Valuation	2015 Taxable Assessed Valuation	2014 Taxable Assessed Valuation	2013 Taxable Assessed Valuation	2012 Taxable Assessed Valuation
Land	\$ 74,406,029	\$ 75,534,673	\$ 67,442,837	\$ 56,990,402	\$ 55,038,870
Improvements	312,777,572	298,367,428	264,896,609	234,142,680	218,313,785
Personal Property	2,624,029	5,578,915	4,301,355	4,049,520	3,526,079
Total Assessed Value	\$ 389,807,630	\$ 379,481,016	\$ 336,640,801	\$ 295,182,602	\$ 276,878,734
Less Exemptions	(23,306,677)	(24,084,966)	(22,986,079)	(21,232,664)	(20,859,689)
Uncertified Value	17,311,304	-	-	-	-
Total Taxable Assessed Value	\$ 383,812,257	\$ 355,396,050	\$ 313,654,722	\$ 273,949,938	\$ 256,019,045

Principal Taxpayers

The following table represents the principal taxpayers, the taxable appraised value of such property, and such property's appraised value as a percentage of the certified portion (\$366,500,953) of the 2016 Taxable Assessed Valuation of \$383,812,257. This represents ownership as of January 1, 2016. Principal taxpayers lists related to the uncertified portion (\$17,311,304) of the 2016 Taxable Assessed Valuation and the Estimated Taxable Assessed Valuation as of July 1, 2016 of \$389,625,863 are not available.

Taxpayer	Taxable Assessed Value	% of 2016 Certified Taxable Assessed Valuation
Springstone Residential Partners Ltd	\$ 2,027,631	0.55%
Avalon Village LP	1,654,214	0.45%
Memorial Hermann Health System	1,213,795	0.33%
CVS Pharmacy Inc	1,034,988	0.28%
CenterPoint Energy Houston Electric	975,660	0.26%
Individual	960,100	0.26%
Individual	900,000	0.24%
Individual	889,364	0.24%
Individual	884,456	0.24%
Individual	875,000	0.23%
Total	\$ 11,415,208	3.08%

Tax Adequacy for Debt Service

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 appraised 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 \$383,812,257 (\$366,500,953 of certified value plus \$17,311,304 of uncertified value) and the Estimated Taxable Assessed Valuation as of July 1, 2016 of \$389,625,863. 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 (UNAUDITED)—Debt Service Requirements" and "INVESTMENT CONSIDERATIONS—Possible Impact on District Tax Rates."

Average Annual Debt Service Requirement (2017-2040)	\$1,582,323
\$0.44 Tax Rate on 2016 Taxable Assessed Valuation	\$1,604,335
\$0.43 Tax Rate on Estimated Taxable Assessed Valuation as of July 1, 2016	\$1,591,622
Maximum Annual Debt Service Requirement (2029).....	\$2,309,820
\$0.64 Tax Rate on 2016 Taxable Assessed Valuation	\$2,333,579
\$0.63 Tax Rate on Estimated Taxable Assessed Valuation as of July 1, 2016	\$2,331,911

No representation or suggestion is made that the uncertified portion of the 2016 Taxable Assessed Valuation will not be adjusted downward or that estimated values of land and improvements provided by the Appraisal District as of July 1, 2016 for the District will be certified as taxable value by the Appraisal District, and no person should rely upon such amounts or their inclusion herein as assurance of their attainment. See "TAXING PROCEDURES."

TAXING PROCEDURES

Property Tax Code and County-Wide Appraisal District

The Texas Tax Code (the "Property Tax Code") requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas a single appraisal district with the responsibility for recording and appraising property for all taxing units within a county and a single appraisal review board with the responsibility for reviewing and equalizing the values established by the appraisal district. The Harris County Appraisal District (the "Appraisal District") has the responsibility for appraising property for all taxing units wholly within Harris County, including the District. Such appraisal values are subject to review and change by the Harris County Appraisal Review Board (the "Appraisal Review Board"). Under certain circumstances, taxpayers and taxing units (such as the District) may appeal the orders of the Appraisal Review Board by filing a petition for review in State district court. In such event, the value of the property in question will be determined by the court or by a jury if requested by any party. Absent any such appeal, the appraisal roll, as prepared by the Appraisal District and approved by the Appraisal Review Board, must be used by each taxing jurisdiction in establishing its tax roll and tax rate. The District is eligible, along with all other conservation and reclamation districts within Harris County, to participate in the nomination of and vote for a member of the Board of Directors of the Appraisal District.

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property and tangible personal property in the District is subject to taxation by the District; however, it is expected that no effort will be made by the District to collect taxes on personal property other than on personal property rendered for taxation, business inventories and the property of privately owned utilities. Principal categories of exempt property include: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; farm products owned by the producer; all oil, gas and mineral interests owned by an institution of higher education; certain property owned by exclusively charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; solar and wind-powered energy devices; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years or older or under a disability for purposes of payment of disability insurance benefits under the Federal Old-Age Survivors and Disability Insurance Act to the extent deemed advisable by the Board. The District would be required to call an election on such residential homestead exemption upon petition by at least twenty percent (20%) of the number of qualified voters who voted in the District's preceding election and would be required to offer such an exemption if a majority of voters approve it at such election. For the 2016 tax year, the District has not granted any such exemptions. The District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between \$5,000 and \$12,000 of assessed valuation depending upon the disability rating of the veteran, if such rating is less than 100%. A veteran who receives a disability rating of 100% is entitled to an exemption for the full value of the veteran's residence homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. Also, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead and, subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

A “Freeport Exemption” applies to goods, wares, merchandise, other tangible personal property and ores, other than oil, natural gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining oil 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 certain tangible personal property, as defined by the Property Tax Code acquired in or imported into Texas for storage purposes and which 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. The exemption excludes oil, natural gas, petroleum products, aircraft and certain special inventory including dealer’s motor vehicles, dealer’s vessel and outboard motor vehicle, dealer’s heavy equipment and retail manufactured housing inventory. The exemption applies to covered property if it 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. 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. However, taxing units who took official action as allowed by prior law before October 1, 2011, to tax goods-in-transit property, and who pledged such taxes for the payment of debt, may continue to impose taxes against the goods-in-transit property until the debt is discharged without further action, if cessation of the imposition would impair the obligations of the contract by which the debt was created. The District has taken official action to allow taxation of all such goods-in-transit personal property, but may choose to exempt same in the future by further official action.

General Residential Homestead Exemption

Texas law authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) of the appraised value of residential homesteads, but not less than \$5,000, if any exemption is granted, from ad valorem taxation. The law provides, however, that where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. For the 2016 tax year, the District has not granted a general residential homestead exemption.

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Assessments under the Property Tax Code are to be based upon one hundred percent (100%) of market value. The appraised value of residential homestead property may be limited to the lesser of the market value of the property, or the sum of the appraised value of the property for the last year in which it was appraised, plus ten percent (10%) of such appraised value multiplied by the number of years since the last appraisal, plus the market value of all new improvements to the property. Once an appraisal roll is prepared and approved by the Appraisal Review Board, it is used by the District in establishing its tax rate. The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraised values. The plan must provide for appraisal of all real property by 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.

District and Taxpayer Remedies

Under certain circumstances, taxpayers and taxing units, including the District, may appeal orders of the Appraisal Review Board by filing a petition for review in district court within forty-five (45) days after notice is received that a final order has been entered. In such event, the property value in question may be determined by the court, or by a jury, if requested by any party. Additionally, taxing units may bring suit against the Appraisal District to comply with the Property Tax Code. The District may challenge the level of appraisal of a certain category of property, the exclusion of property from the appraisal rolls or the grant, in whole or in part, of an exemption. The District may not, however, protest a valuation of any individual property.

Texas law provides for notice and hearing procedures prior to the adoption of an ad valorem tax rate by the District. Additionally, Texas law provides for an additional notice and, upon petition by qualified voters, an election which could result in the repeal of certain tax rate increases on residential homesteads. The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property values, appraisals that are higher than renditions and appraisals of property not previously on an appraisal roll.

Agricultural, Open Space, Timberland and Inventory Deferment

The Property Tax Code permits land designated for agricultural use (including wildlife management), open space, or timberland to be appraised at its value based on the land's capacity to produce agriculture 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. Landowners wishing to avail themselves of any of such designations must apply for the designation, and the Appraisal District 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 and not as to others. If a claimant receives the designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, for three (3) to five (5) years prior to the loss of the designation for agricultural, timberland or open space land prior to the loss of the designation. According to the District's Tax Assessor/Collector, as of January 1, 2016, approximately 7 acres of land within the District was designated for agricultural use, open space, inventory deferment, or timberland.

Tax Abatement

The City of Houston and Harris County may designate all or part of the District as a reinvestment zone, and the District, Harris County, and (if it were to annex the area) the City of Houston may thereafter enter into tax abatement agreements with the owners of property within the zone. The tax abatement agreements may exempt from ad valorem tax, by the applicable taxing jurisdictions, and by the District, for a period of up to ten (10) years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with a comprehensive plan. According to the District's Tax Assessor/Collector, to date, none of the area within the District has been designated as a reinvestment zone.

Levy and Collection of Taxes

The District is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. The District adopts its tax rate each year after it receives a tax roll certified by the Appraisal District. Taxes are due upon receipt of a bill therefor, and become delinquent after January 31 of the following year or thirty (30) days after the date billed, whichever is later, or, if billed after January 10, they are delinquent on the first day of the month next following the 21st day after such taxes are billed. A delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid beginning the first calendar month it is delinquent. A delinquent tax also incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent plus a one percent (1%) penalty 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. However, a tax delinquent on July 1 incurs a total penalty of twelve percent (12%) of the amount of the delinquent tax without regard to the number of months the tax has been delinquent, which penalty remains at such rate without further increase. If the tax is not paid by July 1, an additional penalty of up to the amount of the compensation specified in the District's contract with its delinquent tax collection attorney, but not to exceed twenty percent (20%) of the total tax, penalty and interest, may, under certain circumstances, be imposed by the District. With respect to personal property taxes that become delinquent on or after February 1 of a year and that remain delinquent sixty (60) days after the date on which they become delinquent, as an alternative to the penalty described in the foregoing sentence, an additional penalty on personal property of up to the amount specified in the District's contract with its delinquent tax attorney, but not to exceed twenty percent (20%) of the total tax, penalty and interest, may, under certain circumstances, be imposed by the District prior to July 1. The District's contract with its delinquent tax collection attorney currently specifies a twenty percent (20%) additional penalty. The District may waive penalties and interest on delinquent taxes only if (i) an error or omission of a representative of the District, including the Appraisal District, caused the failure of the taxpayer to pay taxes, (ii) the delinquent taxes are paid on or before the one-hundred and eightieth (180th) day after the taxpayer received proper notice of such delinquency and the delinquent taxes relate to a property for which the appraisal roll lists one or more certain specified inaccuracies, or (iii) the taxpayer submits evidence sufficient to show that the tax payment was delivered before the delinquency date to the United States Postal Service or other delivery service, but an act or omission of the postal or delivery service resulted in the tax payment being considered delinquent. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency of taxes under certain circumstances. A person who is delinquent on taxes for a residential homestead is entitled to an agreement with the District to pay such taxes in installments over a period of between 12 and 36 months (as determined by the District) when such person has not entered into another installment agreement with respect to delinquent taxes with the District in the preceding 24 months. Additionally, the owner of a residential homestead property who is a person sixty-five (65) years of age or older or under a disability for purpose of payment of disability insurance benefits under the Federal Old Age Survivors and Disability Insurance Act 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.

District's Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property against which the tax is levied. In addition, on January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of each taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of other such 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. Further, personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalties, and interest.

Except with respect to (i) owners of residential homestead property who are sixty-five (65) years of age or older or under a disability as described above and who have filed an affidavit as required by law and (ii) owners of residential homesteads who have entered into an installment agreement with the District for payment of delinquent taxes as described above and who are not in default under said agreement, at any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, or by taxpayer redemption rights (a taxpayer may redeem property that is a residence homestead or was designated for agricultural use within two (2) years after the deed issued at foreclosure is filed of record and may redeem all other property within six (6) months after the deed issued at foreclosure is filed of record) or by bankruptcy proceedings which restrict the collection of taxpayer debt. The District's ability to foreclose its tax lien or collect penalties and interest may be limited on property owned by a financial institution which is under receivership by the Federal Deposit Insurance Corporation pursuant to the Federal Deposit Insurance Act (12 U.S.C. 1825, as amended). Generally, the District's tax lien and a federal tax lien are on par with the ultimate priority being determined by applicable federal law. See "INVESTMENT CONSIDERATIONS—Tax Collection Limitations and Foreclosure Remedies."

INVESTMENT CONSIDERATIONS

General

The Bonds are obligations solely of the District and are not obligations of the City of Houston, Harris County, the State of Texas, or any entity other than the District. Payment of the principal 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 and Security for 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, undeveloped land and developed lots which are currently being marketed by the Developer to builders 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, credit availability, construction costs, energy availability and the prosperity and demographic characteristics of the urban center toward which the marketing of lots is directed. Further declines in the price of oil could result in decreased demand for housing and adversely affect values of existing homes. Decreased levels of construction activity would tend to restrict the growth of property values in the District or could adversely impact such values. See "Credit Markets and Liquidity in the Financial Markets" and "THE DISTRICT—Status of Development."

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. A continued downturn in the economic conditions of Houston and the nation could adversely affect development and home-building plans in the District and restrain the growth of the District's property tax base.

Competition

The demand for lots for single-family homes in the District, which is 26 miles from downtown Houston, could be affected by competition from other residential developments including other residential developments located in the west and northwest portions of the Houston metropolitan area. In addition to competition for new home sales from other developments, there are numerous residential developments in the area of the District and in more established neighborhoods.

The competitive position of the Developer in the sale of developed tracts and lots and of builders in the construction of taxable improvements within the District is affected by most of the factors discussed in this section. Such a competitive position directly affects 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 future building and marketing programs in the District by the Developer will be implemented or, if implemented, will be successful.

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 \$383,812,257. After issuance of the Bonds, the maximum debt service requirement will be \$2,309,820 (2029), and the average annual debt service requirement will be \$1,582,323 (2017-2040, 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 \$0.64 and \$0.44 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 \$389,625,863, which reduces the tax rate calculations above to \$0.63 and \$0.43 per \$100 of taxable assessed valuation, respectively. The District is planning to levy a debt service tax rate of \$0.56 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 Collection 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

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 right to seek 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.

Based on recent Texas court decisions, it is unclear whether Section 49.066, Texas Water Code, effectively waives governmental immunity of a municipal utility district for suits for money damages. Even 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.

Bankruptcy Limitation to Registered Owners' Rights

The enforceability of the rights and remedies of Registered Owners may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. Texas law requires a district, such as the District, to obtain the approval of the TCEQ as a condition to seeking relief under the Federal Bankruptcy Code.

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

The District may not be placed 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. A total of \$39,000,000 principal amount of unlimited tax bonds have been authorized by the District's voters for the acquisition of water, sanitary sewer and drainage facilities, and after the issuance of the Bonds, \$2,870,000 of the unlimited tax bonds will remain authorized but unissued for such purposes. In addition, \$28,087,730 of unlimited tax refunding bonds are authorized but unissued and 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 continues to owe the Developer for funds advanced in connection with the development of commercial tracts in the District. 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. The issuance of additional bonds 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."

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.

Environmental Regulation

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

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

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

Air Quality Issues: Air quality control measures required by the United States Environmental Protection Agency (the “EPA”) and the TCEQ may impact new industrial, commercial and residential development in Houston and adjacent areas. Under the Clean Air Act (“CAA”) Amendments of 1990, the eight-county Houston-Galveston area (“HGB area”) — Harris, Galveston, Brazoria, Chambers, Fort Bend, Waller, Montgomery and Liberty counties — was originally designated by the EPA as a moderate ozone nonattainment area for the “8-hour” ozone standard. Such areas are required to demonstrate progress in reducing ozone concentrations each year until the EPA’s “8-hour” ozone standards are met. To provide for reductions in ozone concentrations, the EPA and the TCEQ have imposed increasingly stringent limits on sources of air emissions and require any new source of significant air emissions to provide for a net reduction of air emissions. If the HGB area fails to demonstrate progress in reducing ozone concentrations or fails to meet EPA’s standards, EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects, as well as severe emissions offset requirements on new major sources of air emissions for which construction has not already commenced.

In order to comply with the EPA’s standards for the HGB area, the TCEQ has established a state implementation plan (“SIP”) setting emission control requirements, some of which regulate the inspection and use of automobiles. These types of measures could impact how people travel, what distances people are willing to travel, where people choose to live and work, and what jobs are available in the HGB area. On June 15, 2007, the Governor of the State of Texas requested a voluntary reclassification of the HGB area to a severe ozone nonattainment area for the 8-hour ozone standard, with an attainment date of June 15, 2019. On October 1, 2008, the EPA granted this request. The severe classification will give the HGB area more time to reach attainment. It is possible that additional controls will be necessary to allow the HGB area to reach attainment by June 15, 2019. These additional controls could have a negative impact on the HGB area’s economic growth and development.

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 in reducing ozone concentration.

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

Pursuant to the Safe Drinking Water Act (“SDWA”), potable (drinking) water provided by a district to more than twenty-five (25) people or fifteen (15) service connections is subject to extensive federal and state regulation as a public water supply system, which includes, among other requirements, frequent sampling and analyses. Additional or more stringent regulations or requirements pertaining to these and other drinking water contaminants in the future could require installation of more costly treatment facilities.

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

Construction activities and operations of Utility Districts, such as the District, are also potentially subject to stormwater discharge permitting requirements under provisions from Section 402 of the Clean Water Act and Chapter 26 of the Texas Water Code. The permitting process is, in most instances, managed by the TCEQ through its Texas Pollutant Discharge Elimination System ("TPDES").

The TCEQ reissued the TPDES Construction General Permit (TXR150000) on February 19, 2013. TXR150000 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 non-stormwater discharges into surface water in the state. Construction activity by the District (or by its Developer) may require coverage under TXR150000.

The TCEQ reissued the General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (TXR040000) on December 13, 2013. TXR040000 became effective on December 13, 2013 and authorizes the discharge of stormwater to surface waters within the state from small municipal separate storm sewer systems ("Small MS4s"). TXR040000, as reissued, impacts a much greater number of Small MS4s that were not subject to the prior permit due to the 2010 Urbanized Area data released from the US Census Bureau. TXR040000, as reissued, also contains more stringent requirements compared to the prior permit. Small MS4s that are subject to TXR040000, as reissued, were required to apply for authorization under such permit by June 11, 2014. Notwithstanding the foregoing, the District is located within Harris County and its Small MS4 is subject to regulation by Harris County. Harris County, along with the City of Houston, Harris County Flood Control District, and the Texas Department of Transportation (collectively, the "Joint Task Force") have been issued a joint permit by the EPA which authorizes the discharge of stormwater to surface waters within the state from their respective separate storm sewer systems. Joint Task Force members regulate stormwater discharges within their respective jurisdictions. Harris County regulates the District's Small MS4 and, therefore, the TCEQ does not at this time require the District to obtain coverage under TXR040000. Small MS4 regulation by Joint Task Force members may change in the future and the TCEQ may require the District to obtain coverage under TXR040000 in the future.

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

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—Tax Exemption."

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 issuer of the Policy (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 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.

Future and Proposed Legislation

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

MUNICIPAL BOND RATING AND MUNICIPAL BOND INSURANCE

Moody's Investors Service ("Moody's") has assigned an underlying rating of "A3" to the Bonds. An explanation of the rating may be obtained from Moody's. 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.

Application has also been made for the qualification of the Bonds for municipal bond insurance. If qualified, such insurance will be available at the option of the Underwriter and at the Underwriter's expense. 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 Opinions

The District will furnish to the Underwriter a transcript of certain certified proceedings incident to the issuance and authorization of the Bonds, including a certified copy of the approving legal 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 Bonds, and that based upon such examination, the Bonds are valid and binding obligations of the District payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District. The District will also furnish the approving legal opinion of Schwartz, Page & Harding, L.L.P., Houston, Texas, 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 the 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. See "Tax Exemption" below. 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 legal limitation as to rate or amount, upon all taxable property within the District. Bond Counsel's opinion will also address the matters described below.

In addition to serving as Bond Counsel, Schwartz, Page & Harding, L.L.P., 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. Certain legal matters will be passed upon for the District by McCall, Parkhurst & Horton L.L.P., Dallas, Texas, as Disclosure Counsel.

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

Legal Review

In its capacity as Bond Counsel, Schwartz, Page & Harding, L.L.P., has reviewed the information appearing in this OFFICIAL STATEMENT under the captioned sections "THE BONDS," "THE DISTRICT—General," and "—Strategic Partnership Agreement," "MANAGEMENT OF THE DISTRICT—District Consultants—Bond Counsel and General Counsel," "TAXING PROCEDURES," and "LEGAL MATTERS," solely to determine whether such information fairly summarizes the law and documents referred to therein. 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.

Tax Exemption

On the date of initial delivery of the Bonds, Bond Counsel will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"): (1) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof, and (2) the Bonds will not be treated as "specified private activity bonds," the interest on which would be included as an alternative minimum tax preference item under Section 57 (a)(5) of the Internal Revenue Code of 1986, as amended (the "Code"). 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.

In rendering its opinion, Bond Counsel will rely upon, and assume continuing compliance with, (a) certain information and representations of the District, including information and representations contained in the District's federal tax certificate issued in connection with the Bonds, and (b) covenants of the District contained in the Bond Order relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the property financed or refinanced therewith. Failure by the District to observe the aforementioned representations or covenants could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinion is not a guarantee of a result. Existing Law, upon which Bond Counsel has based its opinion, is subject to change by Congress, administrative interpretation by the Department of the Treasury and to subsequent judicial interpretation. There can be no assurance that Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of ownership of the Bonds.

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(1)(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 has designated 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." **Potential purchasers should be aware that if the issue price to the public exceeds \$10,000,000, there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of \$10,000,000 is disregarded; however, the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the aforementioned dollar limitation and the Bonds would not be "qualified tax-exempt obligations."**

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 Law which is subject to change or modification retroactively.

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences. The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, including financial institutions, life insurance and property and casualty insurance companies, owners of interests in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, certain S corporations with accumulated earnings and profits and excess passive investment income, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit, and individuals otherwise allowed an earned income credit. THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIFIC 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 included as an adjustment for “adjusted current earnings” of a corporation for purposes of computing its alternative minimum tax under 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.

Tax Accounting Treatment of Original Issue Discount and Premium 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 accrued period or be in excess of one year (the “Original Issue Discount Bonds”). 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 constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond in the initial public offering of the Bonds. 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, such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner. See “Tax Exemption” herein for a discussion of certain collateral federal tax consequences.

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 amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. ALL OWNERS OF ORIGINAL ISSUE DISCOUNT BONDS SHOULD CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE DETERMINATION FOR FEDERAL, STATE AND LOCAL INCOME TAX PURPOSES OF INTEREST ACCRUED UPON REDEMPTION, SALE OR OTHER DISPOSITION OF SUCH ORIGINAL ISSUE DISCOUNT BONDS AND WITH RESPECT TO THE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP, REDEMPTION, SALE OR OTHER DISPOSITION OF SUCH ORIGINAL ISSUE DISCOUNT BONDS.

The initial public offering price to be paid for certain maturities of the Bonds may be greater than the amount payable on such Bonds at maturity (the "Premium Bonds"). 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 a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity. PURCHASERS OF THE PREMIUM BONDS SHOULD CONSULT WITH THEIR OWN TAX ADVISORS WITH RESPECT TO THE DETERMINATION OF AMORTIZABLE BOND PREMIUM 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.

NO MATERIAL ADVERSE CHANGE

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

NO-LITIGATION CERTIFICATE

With the delivery of the Bonds, the President or Vice President and Secretary or Assistant Secretary of the Board will, on behalf of the District, execute and deliver to the Underwriter a certificate dated as of the date of delivery, to the effect that no litigation of any nature of which the District has notice is pending against or, to the knowledge of the District's certifying officers, threatened against the District, either in state or federal courts, contesting or attacking the Bonds; restraining or enjoining the authorization, execution or delivery of the Bonds; affecting the provision made for the payment of or security for the Bonds; in any manner questioning the authority or proceedings for the authorization, execution or delivery of the Bonds; or affecting the validity of the Bonds, the corporate existence or boundaries of the District or the title of the then present officers and directors of the Board.

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 sources other than the District, and its inclusion herein is not to be construed as a representation on the part of the District to such effect. 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. The Financial Advisor 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 Wheeler & Associates, 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 Jacobs Engineering Group Inc. and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

Auditor: The District's financial statements for the fiscal year ended October 31, 2015 have been audited by BKD, LLP. See "APPENDIX A" for a copy of the District's October 31, 2015 audited financial statements. The District did not request BKD, LLP to perform any updating procedures subsequent to the date of its audit report on the October 31, 2015, financial statements.

Bookkeeper: The information related to the "unaudited" summary of the District's General Operating Fund as it appears in "THE SYSTEM—Waterworks and Sewer System Operating Statement" has been provided by Myrtle Cruz, Inc., 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 (but not more than 90 days after the date the District delivers the Bonds) until all of the Bonds have been sold to an ultimate customer.

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 Owners and Beneficial Owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (the “MSRB”) through its Electronic Municipal Market Access (“EMMA”) system.

Annual Reports

The District will provide certain updated financial information and operating data to the MSRB. 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 “Estimated Overlapping Debt”), “TAX DATA,” “THE SYSTEM—Waterworks and Sewer System Operating Statement” 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 Rule 15c2-12 (the “Rule”) of the United States Securities and Exchange Commission (the “SEC”). 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 information and operating data which is customarily prepared by the District 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 Resolution 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 October 31. Accordingly, it must provide updated information by April 30 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

Material Event Notices

The District will 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 Registered Owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of the Rule; (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of an definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material. The term “material” when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Order makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under “Annual Reports.”

Availability of Information from MSRB

The District has agreed to provide the foregoing information only to the MSRB. The MSRB intends to make the information available to the public without charge through the EMMA internet portal at www.emma.msrb.org.

Limitations and Amendments

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

The District may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, 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 Registered 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 Initial Purchaser 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.

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

Compliance With Prior Undertakings

During the last five years, the District has complied in all material respects with its previous continuing disclosure agreements, except that Estimated Overlapping Debt information and Overlapping Taxes information was not included in the annual updated financial and operating data due for fiscal years 2010 through 2014. The District has filed such information with respect to the current fiscal year ended October 31, 2015, but has determined that it is not reasonably feasible nor material to create such information for prior years.

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)



NW HARRIS COUNTY
MUNICIPAL UTILITY
DISTRICT NO. 32

SPRING STUEBNER RD.

GRAND PKWY

FM 2920



PHOTOGRAPHS OF THE DISTRICT
(Taken July 2016)

















APPENDIX A

Auditor's Report and Financial Statements of the District for the year ended October 31, 2015

The information contained in this appendix includes the audited financial statements of Northwest Harris County Municipal Utility District No. 32 and certain supplemental information for the fiscal year ended October 31, 2015.

Northwest Harris County Municipal Utility District No. 32

Harris County, Texas

Independent Auditor's Report and Financial Statements

October 31, 2015



Northwest Harris County Municipal Utility District No. 32
October 31, 2015

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Independent Auditor's Report

Board of Directors
Northwest Harris County Municipal Utility District No. 32
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities of Northwest Harris County Municipal Utility District No. 32 (the District), which are comprised of a statement of net position as of October 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 October 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 October 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
March 14, 2016

Northwest Harris County Municipal Utility District No. 32

Management's Discussion and Analysis

October 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.

Northwest Harris County Municipal Utility District No. 32
Management's Discussion and Analysis (Continued)
October 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.

Northwest Harris County Municipal Utility District No. 32
Management's Discussion and Analysis (Continued)
October 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

	2015	2014
Current and other assets	\$ 6,006,044	\$ 6,020,265
Capital assets	16,667,885	15,458,422
Total assets	22,673,929	21,478,687
Deferred outflows of resources	552,436	583,045
Total assets and deferred outflows of resources	\$ 23,226,365	\$ 22,061,732
Long-term liabilities	\$ 28,266,580	\$ 27,621,099
Other liabilities	376,145	388,153
Total liabilities	28,642,725	28,009,252
Net position:		
Restricted	2,950,094	2,959,432
Unrestricted	(8,366,454)	(8,906,952)
Total net position	\$ (5,416,360)	\$ (5,947,520)

The total net position of the District increased by \$531,160, or about 9 percent. The majority of the increase in net position is related to tax revenues intended to pay principal on the District's bonded indebtedness, which is shown as long-term liabilities in the government-wide financial statements. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

At October 31, 2015, unrestricted net position was \$(8,366,454). This amount was negative because not all expenditures from long-term debt were for the acquisition of capital assets. Within Harris County, the county government assumes the maintenance and other incidents of ownership of most storm sewer facilities constructed by the District. Accordingly, these assets are not recorded in the financial statements of the District.

Northwest Harris County Municipal Utility District No. 32
Management's Discussion and Analysis (Continued)
October 31, 2015

Summary of Changes in Net Position

	2015	2014
Revenues:		
Property taxes	\$ 2,477,902	\$ 2,440,218
Charges for services	1,409,804	1,276,282
Other revenues	130,763	86,433
	<hr/>	<hr/>
Total revenues	4,018,469	3,802,933
	<hr/>	<hr/>
Expenses:		
Services	1,664,544	1,388,555
Conveyance of capital assets	481,386	-
Depreciation	326,100	295,938
Debt service	1,015,279	1,375,776
	<hr/>	<hr/>
Total expenses	3,487,309	3,060,269
	<hr/>	<hr/>
Change in net position	531,160	742,664
Net position, beginning of year	<hr/> (5,947,520)	<hr/> (6,690,184)
Net position, end of year	<hr/> <u>\$ (5,416,360)</u>	<hr/> <u>\$ (5,947,520)</u>

Financial Analysis of the District's Funds

The District's combined fund balances as of the end of the fiscal year ended October 31, 2015, were \$5,604,259, a decrease of \$26,566 from the prior year.

The general fund's fund balance decreased by \$8,239 due to capital outlay expenditures related to the water plant expansion.

The special revenue fund's fund balance remained the same because all expenditures were billed to participants.

The debt service fund's fund balance decreased by \$16,573 because bond principal and interest requirements and contracted services expenditures were greater than tax revenues.

The capital projects fund's fund balance decreased by \$1,754, due to capital outlay and other expenditures being greater than investment income.

Northwest Harris County Municipal Utility District No. 32
Management's Discussion and Analysis (Continued)
October 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 property taxes, sewer service and tap connection and inspection fees revenues, as well as purchased services, regional water fee and contracted services expenditures being higher than anticipated. In addition, capital outlay expenditures incurred were not included in the current year budget. The fund balance as of October 31, 2015, was expected to be \$2,042,834 and the actual end-of-year fund balance was \$1,991,300.

Capital Assets and Related Debt

Capital Assets

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

Capital Assets (Net of Accumulated Depreciation)

	2015	2014
Land and improvements	\$ 6,730,807	\$ 5,905,281
Construction in progress	115,639	428,817
Water facilities	3,923,155	3,324,537
Wastewater facilities	5,539,167	5,430,051
Drainage facilities	359,117	369,736
Total capital assets	\$ 16,667,885	\$ 15,458,422

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

Construction in progress related to engineering fees for the wastewater treatment plant expansion	\$ 72,410
Land and improvements, including clearing and grubbing and detention pond for Lakes at Avalon Village, Section 2	825,526
Water plant expansion	151,011
Water and sewer facilities to serve Lakes at Avalon Village, Section 2	486,616
Total additions to capital assets	\$ 1,535,563

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 and the terms of the contracts with the developers. As of October 31, 2015, a liability for developer-constructed capital assets of \$1,842,930 was recorded in the government-wide financial statements.

Northwest Harris County Municipal Utility District No. 32
Management's Discussion and Analysis (Continued)
October 31, 2015

Debt

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

Long-term debt payable, beginning of year	\$ 27,621,099
Increases in long-term debt	1,793,528
Decreases in long-term debt	<u>(1,148,047)</u>
Long-term debt payable, end of year	<u>\$ 28,266,580</u>

At October 31, 2015, the District had \$5,895,000 of unlimited tax bonds authorized, but unissued, for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District.

The District's bonds carry an underlying rating of "BBB+" by Standard & Poor's. The Series 2013 bonds carry a "AA" rating by virtue of bond insurance issued by Assured Guaranty Municipal Corp. The Series 2010 and 2007 bonds carry a "AA" rating by virtue of bond insurance issued by Assured Guaranty Corp.

Other Relevant Factors

Relationship to the City of Houston

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston (the City), the District must conform to the City ordinance consenting to the creation of the District. In addition, the District may be annexed by the City without the District's consent, except as follows:

Strategic Partnership Agreement

Effective November 16, 2012, the District entered into a Strategic Partnership Agreement with the City, which annexed certain portions of the District into the City for "limited purposes," as described therein. Under the terms of the Agreement, the City has agreed it will not annex the District as a whole for full purposes for 30 years.

Contingencies

Developers of the District are constructing water, sewer and drainage facilities within the boundaries of the District. The District has agreed to reimburse the developers for a portion of these costs, plus interest, from the proceeds of future bond sales to the extent approved by the Commission. The District's engineer has stated current construction contract amounts are approximately \$697,900. This amount has not been recorded in the financial statements since the facilities are not complete or operational.

Northwest Harris County Municipal Utility District No. 32
Statement of Net Position and Governmental Funds Balance Sheet
October 31, 2015

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
Assets							
Cash	\$ 1,718,832	\$ 23,380	\$ 1,987,283	\$ 433,392	\$ 4,162,887	\$ -	\$ 4,162,887
Certificates of deposit	-	-	708,636	-	708,636	-	708,636
Short-term investments	441,112	-	92,162	380,192	913,466	-	913,466
Receivables:							
Property taxes	6,039	-	43,227	-	49,266	-	49,266
Service accounts	87,973	-	-	-	87,973	-	87,973
Accrued penalty and interest	-	-	-	-	-	36,321	36,321
Accrued interest	-	-	146	-	146	-	146
Interfund receivable	16,226	18,476	4,481	-	39,183	(39,183)	-
Due from participants	-	27,121	-	-	27,121	-	27,121
Prepaid expenditures	2,715	-	-	-	2,715	17,513	20,228
Capital assets (net of accumulated depreciation):							
Land and improvements	-	-	-	-	-	6,730,807	6,730,807
Construction in progress	-	-	-	-	-	115,639	115,639
Infrastructure	-	-	-	-	-	9,821,439	9,821,439
Total assets	2,272,897	68,977	2,835,935	813,584	5,991,393	16,682,536	22,673,929
Deferred Outflows of Resources							
Deferred amount on debt refundings	0	0	0	0	0	552,436	552,436
Total assets and deferred outflows of resources	\$ 2,272,897	\$ 68,977	\$ 2,835,935	\$ 813,584	\$ 5,991,393	\$ 17,234,972	\$ 23,226,365

Northwest Harris County Municipal Utility District No. 32
Statement of Net Position and Governmental Funds Balance Sheet (Continued)
October 31, 2015

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
Liabilities							
Accounts payable	\$ 116,027	\$ 22,351	\$ 3,564	\$ -	\$ 141,942	\$ -	\$ 141,942
Accrued interest payable	-	-	-	-	-	77,460	77,460
Customer deposits	98,456	-	-	-	98,456	-	98,456
Operating deposits	-	20,169	-	-	20,169	-	20,169
Due to others	37,193	-	-	-	37,193	-	37,193
Unearned tap connection fee	925	-	-	-	925	-	925
Interfund payable	22,957	6,288	9,938	-	39,183	(39,183)	-
Long-term liabilities:							
Due within one year	-	-	-	-	-	1,205,000	1,205,000
Due after one year	-	-	-	-	-	27,061,580	27,061,580
Total liabilities	275,558	48,808	13,502	0	337,868	28,304,857	28,642,725
Deferred Inflows of Resources							
Deferred property tax revenues	6,039	0	43,227	0	49,266	(49,266)	0
Fund Balances/Net Position							
Fund balances:							
Nonspendable, prepaid expenditures	2,715	-	-	-	2,715	(2,715)	-
Restricted:							
Unlimited tax bonds	-	-	2,779,206	-	2,779,206	(2,779,206)	-
Water, sewer and drainage	-	-	-	813,584	813,584	(813,584)	-
Committed, wastewater collection and treatment	-	20,169	-	-	20,169	(20,169)	-
Unassigned	1,988,585	-	-	-	1,988,585	(1,988,585)	-
Total fund balances	1,991,300	20,169	2,779,206	813,584	5,604,259	(5,604,259)	0
Total liabilities, deferred inflows of resources and fund balances	\$ 2,272,897	\$ 68,977	\$ 2,835,935	\$ 813,584	\$ 5,991,393		
Net position:							
Restricted for plant operations						20,169	20,169
Restricted for debt service						2,781,294	2,781,294
Restricted for capital projects						148,631	148,631
Unrestricted						(8,366,454)	(8,366,454)
Total net position						\$ (5,416,360)	\$ (5,416,360)

Northwest Harris County Municipal Utility District No. 32
Statement of Activities and Governmental Funds Revenues,
Expenditures and Changes in Fund Balances
Year Ended October 31, 2015

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
Revenues							
Property taxes	\$ 329,218	\$ -	\$ 2,148,557	\$ -	\$ 2,477,775	\$ 127	\$ 2,477,902
Water service	317,933	-	-	-	317,933	-	317,933
Sewer service	510,137	-	-	-	510,137	-	510,137
Regional water fee	371,399	-	-	-	371,399	-	371,399
Bulk sewer sales	-	453,658	-	-	453,658	(243,323)	210,335
Penalty and interest	19,457	-	9,091	-	28,548	3,948	32,496
Tap connection and inspection fees	78,360	-	-	-	78,360	-	78,360
Investment income	2,885	30	9,000	732	12,647	-	12,647
Other income	7,260	-	-	-	7,260	-	7,260
Total revenues	1,636,649	453,688	2,166,648	732	4,257,717	(239,248)	4,018,469
Expenditures/Expenses							
Service operations:							
Purchased services	243,323	-	-	-	243,323	(243,323)	-
Regional water fee	405,448	-	-	-	405,448	-	405,448
Professional fees	178,160	6,181	2,688	-	187,029	59,520	246,549
Contracted services	358,492	28,823	39,846	-	427,161	-	427,161
Utilities	67,017	60,481	-	-	127,498	-	127,498
Repairs and maintenance	143,174	215,240	-	-	358,414	-	358,414
Other expenditures	48,160	13,303	5,205	216	66,884	-	66,884
Tap connections	32,590	-	-	-	32,590	-	32,590
Capital outlay	168,524	129,660	-	2,270	300,454	(300,454)	-
Conveyance of capital assets	-	-	-	-	-	481,386	481,386
Depreciation	-	-	-	-	-	326,100	326,100
Debt service:							
Principal retirement	-	-	1,165,000	-	1,165,000	(1,165,000)	-
Interest and fees	-	-	970,482	-	970,482	44,797	1,015,279
Total expenditures/expenses	1,644,888	453,688	2,183,221	2,486	4,284,283	(796,974)	3,487,309
Deficiency of Revenues Over Expenditures	(8,239)	-	(16,573)	(1,754)	(26,566)	26,566	
Change in Net Position						531,160	531,160
Fund Balances/Net Position							
Beginning of year	1,999,539	20,169	2,795,779	815,338	5,630,825	-	(5,947,520)
End of year	<u>\$ 1,991,300</u>	<u>\$ 20,169</u>	<u>\$ 2,779,206</u>	<u>\$ 813,584</u>	<u>\$ 5,604,259</u>	<u>\$ 0</u>	<u>\$ (5,416,360)</u>

Northwest Harris County Municipal Utility District No. 32

Notes to Financial Statements

October 31, 2015

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

Northwest Harris County Municipal Utility District No. 32 (the District) was created by an order of the Texas Water Commission, now known as the Texas Commission on Environmental Quality (the Commission), effective August 13, 1986, in accordance with the Texas Water Code, Chapter 54. The District operates in accordance with Chapters 49 and 54 of the Texas Water Code and is subject to the continuing supervision of the Commission. The principal functions of the District are to finance, construct, own and operate waterworks, wastewater and drainage facilities and to provide such facilities and services to the customers of the District. The District also provides solid waste disposal services.

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.

Northwest Harris County Municipal Utility District No. 32

Notes to Financial Statements

October 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.

Special Revenue Fund – Accounts for revenues and expenditures involving specific revenue sources that are legally restricted to expenditures for specified purposes. The primary source of revenue is participant fees.

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.

Northwest Harris County Municipal Utility District No. 32

Notes to Financial Statements

October 31, 2015

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.

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, charges for services and investment income. Other revenues are considered to be measurable and available only when cash is received by the District. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, which are recognized as expenditures when payment is due.

Northwest Harris County Municipal Utility District No. 32

Notes to Financial Statements

October 31, 2015

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.

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

Northwest Harris County Municipal Utility District No. 32
Notes to Financial Statements
October 31, 2015

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.

In the governmental funds, property taxes are initially recorded as receivables and deferred inflows of resources at the time the tax levy is billed. Any collections on the current year tax levy are deferred and recognized in the subsequent fiscal year. Current year revenues recognized are those taxes collected during the fiscal year for prior years' tax levies, plus any collections received during fiscal 2015 on the 2014 levy.

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 October 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.

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

	Years
Water production and distribution facilities	10-45
Wastewater collection and treatment facilities	10-45
Private drainage facilities	45

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.

Northwest Harris County Municipal Utility District No. 32
Notes to Financial Statements
October 31, 2015

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.

In the fund financial statements, governmental fund types recognize premiums and discounts on bonds 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 unrestricted net position at October 31, 2015, are as follows:

General fund, unrestricted fund balance, including deferred taxes	\$ 1,997,339
Prepaid expenses that are not payable in the current period	17,513
Long-term debt in excess of capital assets and unexpended bond proceeds	<u>(10,381,306)</u>
Total	<u><u>\$ (8,366,454)</u></u>

The District has financed drainage facilities, which have been assumed by Harris County for maintenance and other incidents of ownership, which has caused long-term debt to be in excess of capital assets.

Northwest Harris County Municipal Utility District No. 32
Notes to Financial Statements
October 31, 2015

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.	\$ 16,667,885
Property tax revenue recognition and the related reduction of deferred inflows of resources are subject to availability of funds in the fund financial statements.	49,266
Penalty and interest on delinquent taxes is not receivable in the current period and is not reported in the funds.	36,321
Prepaid expenses that are not payable in the current period and are not reported in the funds.	17,513
Deferred amount on debt refundings for governmental activities are not financial resources and are not reported in the funds.	552,436
Accrued interest on long-term liabilities is not payable with current financial resources and is not reported in the funds.	(77,460)
Long-term debt obligations are not due and payable in the current period and are not reported in the funds.	<u>(28,266,580)</u>
Adjustment to fund balances to arrive at net position.	<u><u>\$ (11,020,619)</u></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.	\$ (26,566)
Governmental funds report capital outlays as expenditures. However, for government-wide financial statements, the cost of capitalized assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation, conveyance of capital assets and noncapitalized costs exceeded capital outlay expenditures in the current period.	(566,552)

Northwest Harris County Municipal Utility District No. 32
Notes to Financial Statements
October 31, 2015

Governmental funds report principal payments on debt as expenditures. For the statement of activities, these transactions do not have any effect on net position.	\$ 1,165,000
Revenues that do not provide current financial resources are not reported as revenues for the funds, but are reported as revenues in the statement of activities.	4,075
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.	(44,797)
Change in net position of governmental activities.	\$ 531,160

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 October 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.

Northwest Harris County Municipal Utility District No. 32
Notes to Financial Statements
October 31, 2015

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 October 31, 2015, the District had the following investments and maturities:

Type	Maturities in Years				
	Fair Value	Less Than 1	1-5	6-10	More Than 10
TexPool	\$ 913,466	\$ 913,466	\$ 0	\$ 0	\$ 0

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 October 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 at October 31, 2015, as follows:

Carrying value:	
Deposits	\$ 4,871,523
Investments	913,466
Total	\$ 5,784,989

Included in the following statement of net position captions:

Cash	\$ 4,162,887
Certificates of deposit	708,636
Short-term investments	913,466
Total	\$ 5,784,989

Northwest Harris County Municipal Utility District No. 32
Notes to Financial Statements
October 31, 2015

Investment Income

Investment income of \$12,647 for the year ended October 31, 2015, consisted of interest income.

Note 3: Capital Assets

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

Governmental Activities	Balances, Beginning of Year	Additions	Reclassi- fications	Balances, End of Year
Capital assets, non-depreciable:				
Land and improvements	\$ 5,905,281	\$ 825,526	\$ -	\$ 6,730,807
Construction in progress	428,817	72,410	(385,588)	115,639
 Total capital assets, non-depreciable	 6,334,098	 897,936	 (385,588)	 6,846,446
Capital assets, depreciable:				
Water production and distribution facilities	4,779,299	357,201	385,588	5,522,088
Wastewater collection and treatment facilities	7,161,751	280,426	-	7,442,177
Drainage facilities	477,889	-	-	477,889
 Total capital assets, depreciable	 12,418,939	 637,627	 385,588	 13,442,154
Less accumulated depreciation:				
Water production and distribution facilities	(1,454,762)	(144,171)	-	(1,598,933)
Wastewater collection and treatment facilities	(1,731,700)	(171,310)	-	(1,903,010)
Drainage facilities	(108,153)	(10,619)	-	(118,772)
 Total accumulated depreciation	 (3,294,615)	 (326,100)	 0	 (3,620,715)
 Total governmental activities, net	 \$ 15,458,422	 \$ 1,209,463	 \$ 0	 \$ 16,667,885

Note 4: Long-term Liabilities

Changes in long-term liabilities for the year ended October 31, 2015, were as shown below.

Northwest Harris County Municipal Utility District No. 32
Notes to Financial Statements
October 31, 2015

Governmental Activities	Balances, Beginning of Year	Increases	Decreases	Balances, End of Year	Amounts Due in One Year
Bonds payable:					
General obligation bonds	\$ 27,645,000	\$ -	\$ 1,165,000	\$ 26,480,000	\$ 1,205,000
Add premiums on bonds	214,728	-	11,031	203,697	-
Less discounts on bonds	313,031	-	27,984	285,047	-
	<u>27,546,697</u>	<u>0</u>	<u>1,148,047</u>	<u>26,398,650</u>	<u>1,205,000</u>
Developer advances	25,000	-	-	25,000	-
Due to developers	<u>49,402</u>	<u>1,793,528</u>	<u>-</u>	<u>1,842,930</u>	<u>-</u>
Total governmental activities long-term liabilities	<u>\$ 27,621,099</u>	<u>\$ 1,793,528</u>	<u>\$ 1,148,047</u>	<u>\$ 28,266,580</u>	<u>\$ 1,205,000</u>

General Obligation Bonds

	Series 2005	Series 2007
Amounts outstanding, October 31, 2015	\$255,000	\$4,855,000
Interest rates	3.50%	4.375% to 6.375%
Maturity dates, serially beginning/ending	October 1, 2016	October 1, 2016/2033
Interest payment dates	April 1/ October 1	April 1/ October 1
Callable dates*	October 1, 2014	October 1, 2016
	Series 2010	Series 2012
Amounts outstanding, October 31, 2015	\$3,060,000	\$1,705,000
Interest rates	4.25% to 5.25%	3.50% to 5.00%
Maturity dates, serially beginning/ending	October 1, 2016/2033	October 1, 2016/2033
Interest payment dates	April 1/ October 1	April 1/ October 1
Callable dates*	October 1, 2018	October 1, 2019

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

Northwest Harris County Municipal Utility District No. 32
Notes to Financial Statements
October 31, 2015

	Refunding Series 2013	Refunding Series 2014
Amounts outstanding, October 31, 2015	\$7,125,000	\$9,480,000
Interest rates	2.00% to 3.50%	2.85%
Maturity dates, serially beginning/ending	October 1, 2016/2029	October 1, 2016/2029
Interest payment dates	April 1/ October 1	April 1/ October 1
Callable dates*	October 1, 2019	October 1, 2017

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

Annual Debt Service Requirements

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

Year	Principal	Interest	Total
2016	\$ 1,205,000	\$ 929,520	\$ 2,134,520
2017	1,240,000	889,725	2,129,725
2018	1,290,000	848,394	2,138,394
2019	1,335,000	807,205	2,142,205
2020	1,385,000	764,626	2,149,626
2021-2025	7,770,000	3,114,406	10,884,406
2026-2030	8,545,000	1,714,371	10,259,371
2031-2033	3,710,000	331,244	4,041,244
	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 26,480,000</u>	<u>\$ 9,399,491</u>	<u>\$ 35,879,491</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	\$ 39,000,000
Bonds sold	33,105,000
Refunding bonds voted	29,000,000
Refunding bonds authorization used	912,270

Northwest Harris County Municipal Utility District No. 32
Notes to Financial Statements
October 31, 2015

Due to Developers

Developers have constructed underground utilities on behalf of the District. The District has agreed to reimburse the developers for these construction costs and interest to the extent approved by the Commission. The District's engineer estimates reimbursable costs for completed projects are \$1,842,930. The District has agreed to reimburse these amounts, plus interest, to the extent approved by the Commission from the proceeds of future bond sales. These amounts have been recorded in the financial statements as long-term liabilities.

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. The 2015 debt service tax levy was assessed subsequent to year-end. During the current fiscal year, the District levied an ad valorem debt service tax at the rate of \$0.6850 per \$100 of assessed valuation, which resulted in a tax levy of \$2,148,456 on the taxable valuation of \$313,643,998 for the 2014 tax year. The interest and principal requirements paid from the tax revenues and available resources were \$2,133,744.

Note 6: Maintenance Taxes

At an election held January 20, 2001, voters authorized a maintenance tax not to exceed \$1.50 per \$100 valuation on all property within the District subject to taxation. The 2015 maintenance tax levy was assessed subsequent to year-end. During the current fiscal year, the District levied an ad valorem maintenance tax at the rate of \$0.1050 per \$100 of assessed valuation, which resulted in a tax levy of \$329,326 on the taxable valuation of \$313,643,998 for the 2014 tax year. The maintenance tax is being used by the general fund to pay expenditures of operating the District.

Note 7: Financing and Operation of Regional Facilities

On March 26, 1998, the District entered into regional water and wastewater treatment contracts with Northwest Harris County Municipal District No. 30 (District No. 30) whereby the District holds legal title to the facilities and will provide or cause to be provided the regional water supply and delivery facilities and the regional waste collection, treatment and disposal facilities necessary to serve the District and other adjacent districts. Under the terms of the regional contract, the cost sharing for the operation of the facilities is based on capacity.

Effective February 2, 2002, the District entered into a purchase and sale agreement with District No. 30, which terminated the regional water contract discussed previously. Under the terms of the agreement, District No. 30 owns and operates the existing water plant No. 1 and assumed the District's obligation to pay the developer for its share of the facility and water transmission lines within the boundaries of District No. 30. In exchange, the District owns and operates water plant

Northwest Harris County Municipal Utility District No. 32
Notes to Financial Statements
October 31, 2015

No. 2, which was completed during 2002, and assumed all of District No. 30's obligations to the developer for its share of the facility and transmission lines within the boundaries of the District. The District also agreed to reimburse District No. 30 for any costs the District may have previously paid for transmission lines within the boundaries of District No. 30.

The wastewater treatment agreement was amended May 1, 2002, July 12, 2007, and March 12, 2015, to provide for expansion of the facilities and for the sharing of operational costs. Upon completion of the expansion to the wastewater treatment plant, all operation and maintenance costs are shared proportionately between the District and District No. 30 based on ownership and connections.

Transactions for the current year included in the wastewater treatment plant are summarized as follows:

	The District	District No. 30	Total
Receivable, beginning of year	\$ 18,574	\$ 46,718	\$ 65,292
Billings to participants	243,323	210,335	453,658
Payments by participants	(243,421)	(229,932)	(473,353)
Receivable, end of year	\$ 18,476	\$ 27,121	\$ 45,597

The districts have funded a \$40,338 operating reserve with each district depositing \$20,169.

Note 8: Regional Water Authority

The District is within the boundaries of the North Harris County Regional Water Authority (the Authority), which was created by the Texas Legislature. The Authority was created to provide a regional entity to acquire surface water and build the necessary facilities to convert from groundwater to surface water in order to meet conversion requirements mandated by the Harris-Galveston Subsidence District, which regulates groundwater withdrawal. As of October 31, 2015, the Authority was billing the District \$2.00 per 1,000 gallons of water pumped from its wells. This amount is subject to future increases.

Note 9: 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.

Northwest Harris County Municipal Utility District No. 32
Notes to Financial Statements
October 31, 2015

Note 10: Strategic Partnership Agreement

Effective November 16, 2012, the District and the City of Houston (the City) entered into a Strategic Partnership Agreement (the Agreement), under which the City annexed a tract of land (the tract) within the boundaries of the District for limited purposes. The District continues to exercise all powers and functions of a municipal utility district, as provided by law. As consideration for the District providing services as detailed in the Agreement, the City agrees to remit one-half of all sales and use tax revenues generated within the boundaries of the tract. As consideration for the sales tax payments by the City, the District agrees to continue to provide and develop water, sewer and drainage services within the District in lieu of full purpose annexation. The City agrees it will not annex the District for full purposes or commence any action to annex the District during the term of the Agreement, which is 30 years.

Note 11: Contingencies

Developers of the District are constructing water, sewer and drainage facilities within the boundaries of the District. The District has agreed to reimburse the developers for a portion of these costs, plus interest, from the proceeds of future bond sales to the extent approved by the Commission. The District's engineer has stated current construction contract amounts are approximately \$697,900. This amount has not been recorded in the financial statements since the facilities are not complete or operational.

Required Supplementary Information

Northwest Harris County Municipal Utility District No. 32
Budgetary Comparison Schedule – General Fund
Year Ended October 31, 2015

	Original Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Property taxes	\$ 266,920	\$ 329,218	\$ 62,298
Water service	320,000	317,933	(2,067)
Sewer service	425,000	510,137	85,137
Regional water fee	350,000	371,399	21,399
Penalty and interest	30,000	19,457	(10,543)
Tap connection and inspection fees	18,000	78,360	60,360
Investment income	5,000	2,885	(2,115)
Other income	-	7,260	7,260
	<u>1,414,920</u>	<u>1,636,649</u>	<u>221,729</u>
Expenditures			
Service operations:			
Purchased services	160,575	243,323	(82,748)
Regional water fee	350,000	405,448	(55,448)
Professional fees	218,000	178,160	39,840
Contracted services	311,750	358,492	(46,742)
Utilities	60,000	67,017	(7,017)
Repairs and maintenance	185,000	143,174	41,826
Other expenditures	81,300	48,160	33,140
Tap connections	5,000	32,590	(27,590)
Capital outlay	-	168,524	(168,524)
	<u>1,371,625</u>	<u>1,644,888</u>	<u>(273,263)</u>
Excess (Deficiency) of Revenues Over Expenditures	43,295	(8,239)	(51,534)
Fund Balance, Beginning of Year	<u>1,999,539</u>	<u>1,999,539</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 2,042,834</u>	<u>\$ 1,991,300</u>	<u>\$ (51,534)</u>

Northwest Harris County Municipal Utility District No. 32
Budgetary Comparison Schedule – Special Revenue Fund
Year Ended October 31, 2015

	Original Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Bulk sewer sales	\$ 281,300	\$ 453,658	\$ 172,358
Investment income	-	30	30
	<u>281,300</u>	<u>453,688</u>	<u>172,388</u>
Total revenues	<u>281,300</u>	<u>453,688</u>	<u>172,388</u>
Expenditures			
Service operations:			
Professional fees	15,000	6,181	8,819
Contracted services	28,800	28,823	(23)
Utilities	65,000	60,481	4,519
Repairs and maintenance	157,500	215,240	(57,740)
Other expenditures	15,000	13,303	1,697
Capital outlay	-	129,660	(129,660)
	<u>281,300</u>	<u>453,688</u>	<u>(172,388)</u>
Total expenditures	<u>281,300</u>	<u>453,688</u>	<u>(172,388)</u>
Excess of Revenues Over Expenditures	-	-	-
Fund Balance, Beginning of Year	<u>20,169</u>	<u>20,169</u>	-
Fund Balance, End of Year	<u>\$ 20,169</u>	<u>\$ 20,169</u>	<u>\$ 0</u>

Northwest Harris County Municipal Utility District No. 32
Notes to Required Supplementary Information
October 31, 2015

Budgets and Budgetary Accounting

Annual operating budgets are prepared for the general and special revenue funds by the District's consultants. The budgets reflect resources expected to be received during the year and expenditures expected to be incurred. The Board of Directors is required to adopt the budgets prior to the start of its fiscal year. The budgets are not a spending limitation (a legally restricted appropriation). The original budgets of the general and special revenue funds were not amended during fiscal 2015.

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

Supplementary Information

Northwest Harris County Municipal Utility District No. 32
Supplementary Schedules Included Within This Report
October 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 12-26
- [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

Northwest Harris County Municipal Utility District No. 32

Schedule of Services and Rates

Year Ended October 31, 2015

1. Services provided by the District:

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

2. Retail service providers

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

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate Per 1,000 Gallons Over Minimum</u>	<u>Usage Levels</u>
Water:	\$ 14.50	10,000	N	\$ 1.50	10,001 to No Limit
Wastewater:	\$ 34.71	0	Y		
Regional water fee:	\$ 2.00	1	N	\$ 2.00	1,001 to No Limit

Does the District employ winter averaging for wastewater usage? Yes No

Total charges per 10,000 gallons usage (including fees): Water \$ 34.50 Wastewater \$ 34.71

b. Water and wastewater retail connections:

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFC*</u>
Unmetered	-	-	x1.0	-
≤ 3/4"	1,266	1,260	x1.0	1,260
1"	35	33	x2.5	83
1 1/2"	6	6	x5.0	30
2"	21	21	x8.0	168
3"	-	-	x15.0	-
4"	-	-	x25.0	-
6"	-	-	x50.0	-
8"	-	-	x80.0	-
10"	-	-	x115.0	-
Total water	1,328	1,320		1,541
Total wastewater	1,280	1,280	x1.0	1,280

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

Gallons pumped into the system:	202,900
Gallons billed to customers:	193,611
Water accountability ratio (gallons billed/gallons pumped):	95.42%

*"ESFC" means equivalent single-family connections

Northwest Harris County Municipal Utility District No. 32
Schedule of General Fund Expenditures
Year Ended October 31, 2015

Personnel (including benefits)		\$	-
Professional Fees			
Auditing	\$	17,900	
Legal		97,278	
Engineering		62,982	
Financial advisor		-	178,160
		<hr/>	
Purchased Services for Resale			
Bulk water and wastewater service purchases			243,323
Regional Water Fee			405,448
Contracted Services			
Bookkeeping		17,635	
General manager		-	
Appraisal district		-	
Tax collector		-	
Security		-	
Other contracted services		72,444	90,079
		<hr/>	
Utilities			67,017
Repairs and Maintenance			143,174
Administrative Expenditures			
Directors' fees		10,650	
Office supplies		14,016	
Insurance		6,549	
Other administrative expenditures		16,945	48,160
		<hr/>	
Capital Outlay			
Capitalized assets		151,011	
Expenditures not capitalized		17,513	168,524
		<hr/>	
Tap Connection Expenditures			32,590
Solid Waste Disposal			268,413
Fire Fighting			-
Parks and Recreation			-
Other Expenditures			-
			<hr/>
Total expenditures			<u><u>\$ 1,644,888</u></u>

Northwest Harris County Municipal Utility District No. 32
Schedule of Temporary Investments
October 31, 2015

	Interest Rate	Maturity Date	Face Amount	Accrued Interest Receivable
General Fund				
TexPool	0.10%	Demand	\$ 441,112	\$ 0
Debt Service Fund				
Certificates of Deposit				
No. 1002682570	0.50%	04/11/16	237,327	59
No. 3300041102	0.40%	04/11/16	234,816	46
No. 6000005170	0.35%	04/11/16	236,493	41
TexPool	0.10%	Demand	92,162	-
			<u>800,798</u>	<u>146</u>
Capital Projects Fund				
TexPool	0.10%	Demand	380,192	0
Totals			<u>\$ 1,622,102</u>	<u>\$ 146</u>

Northwest Harris County Municipal Utility District No. 32
Analysis of Taxes Levied and Receivable
Year Ended October 31, 2015

	Maintenance Taxes	Debt Service Taxes
Receivable, Beginning of Year	\$ 5,918	\$ 43,221
Additions and corrections to prior years' taxes	13	107
Adjusted receivable, beginning of year	5,931	43,328
 2014 Original Tax Levy	 291,900	 1,904,298
Additions and corrections	37,426	244,158
Adjusted tax levy	329,326	2,148,456
Total to be accounted for	335,257	2,191,784
Tax collections: Current year	(328,508)	(2,143,117)
Prior years	(710)	(5,440)
Receivable, end of year	\$ 6,039	\$ 43,227
 Receivable, by Years		
2014	\$ 818	\$ 5,339
2013	634	5,042
2012	435	5,226
2011	461	3,350
2010	462	3,357
2009	471	3,425
2008	492	4,022
2007	624	4,680
2006	828	4,965
2005	604	3,021
2004	210	800
Receivable, end of year	\$ 6,039	\$ 43,227

Northwest Harris County Municipal Utility District No. 32
Analysis of Taxes Levied and Receivable (Continued)
Year Ended October 31, 2015

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Property Valuations				
Land	\$ 67,442,837	\$ 56,990,402	\$ 54,807,789	\$ 54,845,760
Improvements	264,890,278	234,142,680	217,715,969	220,503,139
Personal property	4,296,825	4,036,075	1,616,879	2,140,029
Exemptions	<u>(22,985,942)</u>	<u>(21,232,664)</u>	<u>(19,318,285)</u>	<u>(19,839,661)</u>
Total property valuations	<u>\$ 313,643,998</u>	<u>\$ 273,936,493</u>	<u>\$ 254,822,352</u>	<u>\$ 257,649,267</u>
Tax Rates per \$100 Valuation				
Debt service tax rates	\$ 0.6850	\$ 0.7950	\$ 0.8400	\$ 0.8000
Maintenance tax rates*	<u>0.1050</u>	<u>0.1000</u>	<u>0.0700</u>	<u>0.1100</u>
Total tax rates per \$100 valuation	<u>\$ 0.7900</u>	<u>\$ 0.8950</u>	<u>\$ 0.9100</u>	<u>\$ 0.9100</u>
Tax Levy	<u>\$ 2,477,782</u>	<u>\$ 2,451,725</u>	<u>\$ 2,318,878</u>	<u>\$ 2,344,603</u>
Percent of Taxes Collected to Taxes Levied**	<u>99%</u>	<u>99%</u>	<u>99%</u>	<u>99%</u>

*Maximum tax rate approved by voters: \$1.50 on January 20, 2001.

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

Northwest Harris County Municipal Utility District No. 32
Schedule of Long-term Debt Service Requirements by Years
October 31, 2015

Due During Fiscal Years Ending October 31	Series 2005		Total
	Principal Due October 1	Interest Due April 1, October 1	
2016	<u>\$ 255,000</u>	<u>\$ 8,925</u>	<u>\$ 263,925</u>

Northwest Harris County Municipal Utility District No. 32
Schedule of Long-term Debt Service Requirements by Years (Continued)
October 31, 2015

Due During Fiscal Years Ending October 31	Series 2007		
	Principal Due October 1	Interest Due April 1, October 1	Total
2016	\$ 60,000	\$ 215,078	\$ 275,078
2017	60,000	211,628	271,628
2018	65,000	209,003	274,003
2019	70,000	206,159	276,159
2020	70,000	203,096	273,096
2021	75,000	200,034	275,034
2022	80,000	196,753	276,753
2023	85,000	193,253	278,253
2024	90,000	189,534	279,534
2025	90,000	185,596	275,596
2026	95,000	181,659	276,659
2027	100,000	177,503	277,503
2028	105,000	173,128	278,128
2029	110,000	168,534	278,534
2030	910,000	163,721	1,073,721
2031	945,000	123,909	1,068,909
2032	920,000	82,565	1,002,565
2033	925,000	41,620	966,620
Totals	<u>\$ 4,855,000</u>	<u>\$ 3,122,773</u>	<u>\$ 7,977,773</u>

Northwest Harris County Municipal Utility District No. 32
Schedule of Long-term Debt Service Requirements by Years (Continued)
October 31, 2015

Due During Fiscal Years Ending October 31	Series 2010		
	Principal Due October 1	Interest Due April 1, October 1	Total
2016	\$ 170,000	\$ 135,362	\$ 305,362
2017	170,000	126,437	296,437
2018	170,000	117,513	287,513
2019	170,000	110,288	280,288
2020	170,000	103,062	273,062
2021	170,000	95,838	265,838
2022	170,000	88,612	258,612
2023	170,000	81,388	251,388
2024	170,000	74,162	244,162
2025	170,000	66,937	236,937
2026	170,000	59,713	229,713
2027	170,000	52,488	222,488
2028	170,000	45,262	215,262
2029	170,000	37,825	207,825
2030	170,000	30,387	200,387
2031	170,000	22,950	192,950
2032	170,000	15,300	185,300
2033	170,000	7,650	177,650
Totals	<u>\$ 3,060,000</u>	<u>\$ 1,271,174</u>	<u>\$ 4,331,174</u>

Northwest Harris County Municipal Utility District No. 32
Schedule of Long-term Debt Service Requirements by Years (Continued)
October 31, 2015

Due During Fiscal Years Ending October 31	Series 2012		
	Principal Due October 1	Interest Due April 1, October 1	Total
2016	\$ 60,000	\$ 69,875	\$ 129,875
2017	60,000	66,875	126,875
2018	65,000	64,775	129,775
2019	65,000	62,500	127,500
2020	70,000	60,225	130,225
2021	75,000	57,425	132,425
2022	80,000	54,425	134,425
2023	85,000	51,225	136,225
2024	90,000	47,825	137,825
2025	95,000	44,225	139,225
2026	100,000	40,425	140,425
2027	105,000	36,425	141,425
2028	110,000	32,225	142,225
2029	115,000	27,825	142,825
2030	120,000	23,225	143,225
2031	130,000	18,125	148,125
2032	135,000	12,600	147,600
2033	145,000	6,525	151,525
Totals	\$ 1,705,000	\$ 776,750	\$ 2,481,750

Northwest Harris County Municipal Utility District No. 32
Schedule of Long-term Debt Service Requirements by Years (Continued)
October 31, 2015

Due During Fiscal Years Ending October 31	Refunding Series 2013		
	Principal Due October 1	Interest Due April 1, October 1	Total
2016	\$ 390,000	\$ 230,100	\$ 620,100
2017	405,000	222,300	627,300
2018	420,000	210,150	630,150
2019	440,000	197,550	637,550
2020	455,000	184,350	639,350
2021	475,000	170,700	645,700
2022	490,000	156,450	646,450
2023	510,000	141,750	651,750
2024	530,000	123,900	653,900
2025	555,000	105,350	660,350
2026	580,000	85,925	665,925
2027	600,000	65,625	665,625
2028	625,000	44,625	669,625
2029	650,000	22,750	672,750
Totals	\$ 7,125,000	\$ 1,961,525	\$ 9,086,525

Northwest Harris County Municipal Utility District No. 32
Schedule of Long-term Debt Service Requirements by Years (Continued)
October 31, 2015

Due During Fiscal Years Ending October 31	Refunding Series 2014		
	Principal Due October 1	Interest Due April 1, October 1	Total
2016	\$ 270,000	\$ 270,180	\$ 540,180
2017	545,000	262,485	807,485
2018	570,000	246,953	816,953
2019	590,000	230,708	820,708
2020	620,000	213,893	833,893
2021	645,000	196,223	841,223
2022	675,000	177,840	852,840
2023	700,000	158,603	858,603
2024	735,000	138,653	873,653
2025	760,000	117,705	877,705
2026	790,000	96,045	886,045
2027	825,000	73,530	898,530
2028	860,000	50,018	910,018
2029	895,000	25,508	920,508
Totals	\$ 9,480,000	\$ 2,258,344	\$ 11,738,344

Northwest Harris County Municipal Utility District No. 32
Schedule of Long-term Debt Service Requirements by Years (Continued)
October 31, 2015

Due During Fiscal Years Ending October 31	Annual Requirements For All Series		
	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2016	\$ 1,205,000	\$ 929,520	\$ 2,134,520
2017	1,240,000	889,725	2,129,725
2018	1,290,000	848,394	2,138,394
2019	1,335,000	807,205	2,142,205
2020	1,385,000	764,626	2,149,626
2021	1,440,000	720,220	2,160,220
2022	1,495,000	674,080	2,169,080
2023	1,550,000	626,219	2,176,219
2024	1,615,000	574,074	2,189,074
2025	1,670,000	519,813	2,189,813
2026	1,735,000	463,767	2,198,767
2027	1,800,000	405,571	2,205,571
2028	1,870,000	345,258	2,215,258
2029	1,940,000	282,442	2,222,442
2030	1,200,000	217,333	1,417,333
2031	1,245,000	164,984	1,409,984
2032	1,225,000	110,465	1,335,465
2033	1,240,000	55,795	1,295,795
Totals	<u>\$ 26,480,000</u>	<u>\$ 9,399,491</u>	<u>\$ 35,879,491</u>

Northwest Harris County Municipal Utility District No. 32
Changes in Long-term Bonded Debt
Year Ended October 31, 2015

Bond

	Series 2003	Series 2005	Series 2006	Series 2007
Interest rates	4.50%	3.50%	4.25%	4.375% to 6.375%
Dates interest payable	April 1/ October 1	April 1/ October 1	April 1/ October 1	April 1/ October 1
Maturity dates		October 1, 2016		October 1, 2016/2033
Bonds outstanding, beginning of current year	\$ 145,000	\$ 500,000	\$ 205,000	\$ 4,910,000
Retirements, principal	<u>145,000</u>	<u>245,000</u>	<u>205,000</u>	<u>55,000</u>
Bonds outstanding, end of current year	<u>\$ 0</u>	<u>\$ 255,000</u>	<u>\$ 0</u>	<u>\$ 4,855,000</u>
Interest paid during current year	<u>\$ 6,525</u>	<u>\$ 17,500</u>	<u>\$ 8,713</u>	<u>\$ 218,584</u>

Paying agent's name and address:

- Series 2003** - Wells Fargo Bank Texas, N.A., Houston, Texas
- Series 2005** - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
- Series 2006** - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
- Series 2007** - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
- Series 2010** - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
- Series 2012** - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
- Series 2013** - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas
- Series 2014** - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

Bond authority:

	Tax Bonds	Other Bonds	Refunding Bonds
Amount authorized by voters	\$ 39,000,000	0	\$ 29,000,000
Amount issued	<u>\$ 33,105,000</u>	<u>0</u>	<u>\$ 912,270</u>
Remaining to be issued	<u>\$ 5,895,000</u>	<u>0</u>	<u>\$ 28,087,730</u>

Debt service fund cash and temporary investment balances as of October 31, 2015: \$ 2,788,081

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 1,993,305

Issues

Series 2010	Series 2012	Refunding Series 2013	Refunding Series 2014	Totals
4.25% to 5.25%	3.50% to 5.00%	2.00% to 3.50%	2.85%	
April 1/ October 1	April 1/ October 1	April 1/ October 1	April 1/ October 1	
October 1, 2016/2033	October 1, 2016/2033	October 1, 2016/2029	October 1, 2016/2029	
\$ 3,230,000	\$ 1,760,000	\$ 7,360,000	\$ 9,535,000	\$ 27,645,000
<u>170,000</u>	<u>55,000</u>	<u>235,000</u>	<u>55,000</u>	<u>1,165,000</u>
<u>\$ 3,060,000</u>	<u>\$ 1,705,000</u>	<u>\$ 7,125,000</u>	<u>\$ 9,480,000</u>	<u>\$ 26,480,000</u>
<u>\$ 144,288</u>	<u>\$ 72,625</u>	<u>\$ 234,800</u>	<u>\$ 265,709</u>	<u>\$ 968,744</u>

Northwest Harris County Municipal Utility District No. 32
Comparative Schedule of Revenues and Expenditures – General Fund
Five Years Ended October 31,

	Amounts				
	2015	2014	2013	2012	2011
General Fund					
Revenues					
Property taxes	\$ 329,218	\$ 273,121	\$ 179,640	\$ 281,585	\$ 285,632
Water service	317,933	309,620	333,969	336,459	378,323
Sewer service	510,137	495,219	470,441	430,276	429,227
Regional water fee	371,399	341,924	359,927	343,431	413,265
Penalty and interest	19,457	19,758	17,547	14,670	26,777
Tap connection and inspection fees	78,360	35,745	82,345	2,570	125,015
Investment income	2,885	2,796	3,685	3,747	5,687
Other income	7,260	2,427	1,759	-	-
Total revenues	<u>1,636,649</u>	<u>1,480,610</u>	<u>1,449,313</u>	<u>1,412,738</u>	<u>1,663,926</u>
Expenditures					
Service operations:					
Purchased services	243,323	119,403	132,840	133,613	253,087
Regional water fee	405,448	368,983	365,382	367,199	439,080
Professional fees	178,160	160,382	150,230	241,543	124,022
Contracted services	358,492	337,116	316,163	290,890	281,133
Utilities	67,017	52,499	58,195	56,151	61,088
Repairs and maintenance	143,174	96,686	131,176	193,806	128,486
Other expenditures	48,160	58,886	53,715	63,259	49,402
Tap connections	32,590	11,450	27,750	3,200	11,135
Capital outlay	168,524	325,688	86,727	16,401	-
Total expenditures	<u>1,644,888</u>	<u>1,531,093</u>	<u>1,322,178</u>	<u>1,366,062</u>	<u>1,347,433</u>
Excess (Deficiency) of Revenues Over Expenditures	(8,239)	(50,483)	127,135	46,676	316,493
Other Financing Sources (Uses)					
Interfund transfers in (out)	-	-	(622)	48,858	23,454
Excess (Deficiency) of Revenues and Transfers In Over Expenditures Transfers Out	(8,239)	(50,483)	126,513	95,534	339,947
Fund Balance, Beginning of Year	<u>1,999,539</u>	<u>2,050,022</u>	<u>1,923,509</u>	<u>1,827,975</u>	<u>1,488,028</u>
Fund Balance, End of Year	<u>\$ 1,991,300</u>	<u>\$ 1,999,539</u>	<u>\$ 2,050,022</u>	<u>\$ 1,923,509</u>	<u>\$ 1,827,975</u>
Total Active Retail Water Connections	<u>1,320</u>	<u>1,258</u>	<u>1,237</u>	<u>1,132</u>	<u>1,148</u>
Total Active Retail Wastewater Connections	<u>1,280</u>	<u>1,220</u>	<u>1,187</u>	<u>1,086</u>	<u>1,098</u>

Percent of Fund Total Revenues

2015	2014	2013	2012	2011
20.1 %	18.4 %	12.4 %	19.9 %	17.2 %
19.4	20.9	23.0	23.8	22.8
31.2	33.5	32.5	30.5	25.8
22.7	23.1	24.8	24.3	24.8
1.2	1.3	1.2	1.0	1.6
4.8	2.4	5.7	0.2	7.5
0.2	0.2	0.3	0.3	0.3
0.4	0.2	0.1	-	-
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
14.8	8.1	9.2	9.4	15.2
24.8	24.9	25.2	26.0	26.4
10.9	10.8	10.4	17.1	7.4
21.9	22.8	21.8	20.6	16.9
4.1	3.5	4.0	4.0	3.7
8.8	6.5	9.1	13.7	7.7
2.9	4.0	3.7	4.5	3.0
2.0	0.8	1.9	0.2	0.7
10.3	22.0	5.9	1.2	-
<u>100.5</u>	<u>103.4</u>	<u>91.2</u>	<u>96.7</u>	<u>81.0</u>
<u>(0.5) %</u>	<u>(3.4) %</u>	<u>8.8 %</u>	<u>3.3 %</u>	<u>19.0 %</u>

Northwest Harris County Municipal Utility District No. 32
Comparative Schedule of Revenues and Expenditures – Debt Service Fund
Five Years Ended October 31,

	Amounts				
	2015	2014	2013	2012	2011
Debt Service Fund					
Revenues					
Property taxes	\$ 2,148,557	\$ 2,171,328	\$ 2,151,359	\$ 2,047,894	\$ 2,077,637
Penalty and interest	9,091	14,412	13,351	17,510	12,904
Investment income	9,000	10,004	12,087	18,014	27,597
Total revenues	<u>2,166,648</u>	<u>2,195,744</u>	<u>2,176,797</u>	<u>2,083,418</u>	<u>2,118,138</u>
Expenditures					
Current:					
Professional fees	2,688	1,285	3,323	338	6,392
Contracted services	39,846	39,218	37,245	33,829	38,776
Other expenditures	5,205	7,512	16,068	6,591	11,379
Debt service:					
Principal retirement	1,165,000	1,060,000	1,080,000	870,000	825,000
Interest and fees	970,482	1,141,576	1,130,188	1,324,460	1,308,579
Debt issuance costs	-	212,777	408,736	-	-
Total expenditures	<u>2,183,221</u>	<u>2,462,368</u>	<u>2,675,560</u>	<u>2,235,218</u>	<u>2,190,126</u>
Deficiency of Revenues Over Expenditures	<u>(16,573)</u>	<u>(266,624)</u>	<u>(498,763)</u>	<u>(151,800)</u>	<u>(71,988)</u>
Other Financing Sources (Uses)					
General obligation bonds issued	-	9,535,000	7,550,000	-	-
Deposit with escrow agent	-	(9,309,725)	(7,377,000)	-	-
Premium on debt issued	-	-	237,770	-	-
Total other financing sources	<u>0</u>	<u>225,275</u>	<u>410,770</u>	<u>0</u>	<u>0</u>
Deficiency of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	<u>(16,573)</u>	<u>(41,349)</u>	<u>(87,993)</u>	<u>(151,800)</u>	<u>(71,988)</u>
Fund Balance, Beginning of Year	<u>2,795,779</u>	<u>2,837,128</u>	<u>2,925,121</u>	<u>3,076,921</u>	<u>3,148,909</u>
Fund Balance, End of Year	<u><u>\$ 2,779,206</u></u>	<u><u>\$ 2,795,779</u></u>	<u><u>\$ 2,837,128</u></u>	<u><u>\$ 2,925,121</u></u>	<u><u>\$ 3,076,921</u></u>

Percent of Fund Total Revenues

2015	2014	2013	2012	2011
99.2 %	98.9 %	98.8 %	98.3 %	98.1 %
0.4	0.6	0.6	0.8	0.6
0.4	0.5	0.6	0.9	1.3
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
0.1	0.1	0.2	0.1	0.3
1.8	1.8	1.7	1.6	1.8
0.2	0.3	0.7	0.3	0.6
53.8	48.2	49.6	41.8	38.9
44.8	52.0	51.9	63.6	61.8
-	9.7	18.8	-	-
<u>100.7</u>	<u>112.1</u>	<u>122.9</u>	<u>107.4</u>	<u>103.4</u>
<u>(0.7) %</u>	<u>(12.1) %</u>	<u>(22.9) %</u>	<u>(7.4) %</u>	<u>(3.4) %</u>

Northwest Harris County Municipal Utility District No. 32
Board Members, Key Personnel and Consultants
Year Ended October 31, 2015

Complete District mailing address:	Northwest Harris County Municipal Utility District No. 32 c/o Schwartz, Page & Harding, L.L.P. 1300 Post Oak Boulevard, Suite 1400 Houston, Texas 77056
District business telephone number:	713.623.4531
Submission date of the most recent District Registration Form (TWC Sections 36.054 and 49.054):	July 7, 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
Steven C. Grychka	Elected 05/12- 05/16	\$ 2,100	\$ 712	President
Joseph J. Palumbo	Elected 05/14- 05/18	1,200	0	Vice President
Gregg A. Edmonds	Elected 05/12- 05/16	900	0	Secretary
Deborah Gower	Elected 05/14- 05/18	4,800	1,272	Assistant Secretary
Lex J. Lacaze	Elected 05/12- 05/16	1,650	0	Assistant Secretary

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

Northwest Harris County Municipal Utility District No. 32
Board Members, Key Personnel and Consultants (Continued)
Year Ended October 31, 2015

Consultants	Date Hired	Fees and Expense Reimbursements	Title
BKD, LLP	10/08/02	\$ 20,400	Auditor
Environmental Development Partners	06/27/12	282,667	Operator
First Southwest Company	06/23/95	0	Financial Advisor
Harris County Appraisal District	Legislative Action	20,459	Appraiser
Jacobs Engineering Group, Inc.	11/06/95	211,757	Engineer
Myrtle Cruz, Inc.	11/06/95	25,442	Bookkeeper
Perdue, Brandon, Fielder, Collins & Mott, L.L.P.	04/08/03	2,688	Delinquent Tax Attorney
Schwartz, Page & Harding, L.L.P.	06/23/95	102,629	Attorney
Wheeler & Associates, Inc.	11/13/95	22,534	Tax Assessor/ Collector
Investment Officers			
Mary Jarmon and Bill Russell	03/23/00	N/A	Bookkeepers