

PRELIMINARY OFFICIAL STATEMENT DATED NOVEMBER 5, 2012

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

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

**NEW ISSUE
BOOK-ENTRY ONLY**

BOND RATING: None

BROOKSHIRE MUNICIPAL WATER DISTRICT
(A political subdivision of the State of Texas located within Waller County, Texas)
\$815,000
UNLIMITED TAX BONDS, SERIES 2013

Bonds Dated: February 1, 2013

Due: August 1, as shown on inside cover

The \$815,000 Unlimited Tax Bonds, Series 2013 (the "Bonds") are obligations solely of Brookshire Municipal Water District (the "District") and are not obligations of the State of Texas; Waller County, Texas; the City of Brookshire, Texas; or any other political subdivision or agency. See "THE BONDS--Source of and Security for Payment."

Interest on the Bonds will accrue from February 1, 2013, and will be payable August 1, 2013, and each February 1 and August 1 thereafter, and will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds are issuable only in fully registered form in denominations of \$5,000 or integral multiples thereof initially registered solely in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York, acting as securities depository for the Bonds, until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only. So long as Cede & Co. is the registered owner of the Bonds, as nominee for DTC, the Bonds shall be payable to Cede & Co., which will in turn, remit such amount to DTC participants for subsequent disbursement to the beneficial owners of the Bonds. See "THE BONDS--Book-Entry-Only System."

Principal of and interest on the Bonds are payable by BOKF, NA dba Bank of Texas, Austin, Texas or any successor paying agent/registrar (the "Paying Agent/Registrar"). Interest on the Bonds will be payable by check mailed on or before the interest payment date to registered owners shown on the records of the Paying Agent/Registrar on the fifteenth (15th) day of the month preceding each interest payment date or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and the registered owner at the risk and expense of the registered owner; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, all payments will be made as described under "BOOK-ENTRY ONLY SYSTEM" herein. See "THE BONDS--Description."

SEE INSIDE COVER PAGE FOR MATURITY SCHEDULE

The Bonds, when issued, will constitute valid and legally binding obligations of the District and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. See "THE BONDS--Source of and Security for Payment."

The Bonds will be delivered when, as and if issued by the District and accepted by the underwriter listed below (the "Underwriter"), subject among other things to the approval of the initial Bonds by the Attorney General of the State of Texas and by the approval of certain legal matters by Johnson Radcliffe Petrov & Bobbitt PLLC, Houston, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriter by Fulbright & Jaworski L.L.P., Houston, Texas, Disclosure Counsel. Delivery of the Bonds is expected on February 26, 2013, in Austin, Texas.

Receiving bids until: January 22, 2013 at Noon, Houston, Texas Time

MATURITY SCHEDULE

Bonds Dated: February 1, 2013

Due: August 1, as shown below

<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Initial Yield(a)</u>	<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Initial Yield(a)</u>
2014	\$20,000	%	%	2026(b)	\$35,000	%	%
2015	20,000			2027(b)	35,000		
2016	20,000			2028(b)	40,000		
2017	20,000			2029(b)	40,000		
2018	25,000			2030(b)	45,000		
2019	25,000			2031(b)	45,000		
2020	25,000			2032(b)	50,000		
2021	25,000			2033(b)	50,000		
2022(b)	30,000			2034(b)	55,000		
2023(b)	30,000			2035(b)	55,000		
2024(b)	30,000			2036(b)	60,000		
2025(b)	35,000						

(a) Initial yield represents the initial reoffering yield to the public which has been established by the Underwriter for public offerings and which subsequently may be changed. The initial yields indicated above represent the lower of the yields resulting when priced to maturity or to the first call date. Accrued interest from February 1, 2013 is to be added to the price.

(b) Bonds maturing on or after August 1, 2022, are subject to redemption prior to maturity at the option of the District, as a whole or from time to time, in part, on August 1, 2021, or on any date thereafter, at par plus accrued interest from the most recent interest payment date to the date fixed for redemption. See "THE BONDS--Redemption of Bonds."

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USE OF INFORMATION IN OFFICIAL STATEMENT

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission, this document may be treated as an Official Statement of the District with respect to the Bonds described herein that has been deemed "final" by the District as of its date except for the omission of no more than the information permitted by Rule 15c2-12(b)(1).

This Official Statement, when further supplemented by adding information specifying the interest rates and certain other information relating to the Bonds, shall constitute a "Final Official Statement" of the District with respect to the Bonds, as that term is defined in Rule 15c2-12.

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

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

All of the summaries of the statutes, orders, contracts, audited financial statements, engineering and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from the District, c/o Johnson Radcliffe Petrov & Bobbitt PLLC, 1001 McKinney, Suite 1000, Houston, Texas 77002-6424 upon payment of duplication costs.

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

SALE AND DISTRIBUTION OF THE BONDS

Prices and Marketability

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

THE PRICES AND OTHER TERMS RESPECTING THE OFFERING AND SALE OF THE BONDS MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER AFTER THE BONDS ARE RELEASED FOR SALE, AND THE BONDS MAY BE OFFERED AND SOLD AT PRICES OTHER THAN THE INITIAL OFFERING PRICES, INCLUDING SALES TO DEALERS WHO MAY SELL THE BONDS INTO INVESTMENT ACCOUNTS. IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVER-ALLOT OR

EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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

Securities Laws

No registration statement relating to the Bonds has been filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities laws of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any other jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdictions.

Underwriter

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

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

No Municipal Bond Rating

The District has made no application for a municipal bond rating of the Bonds, nor is it expected that the District would have been successful in receiving an investment grade rating had such application been made.

SUMMARY

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

- The District -

Issuer/Description	Brookshire Municipal Water District (the "District"), a political subdivision of the State of Texas, was created by the 51 st Texas Legislature in 1951. The District is located in Waller County, Texas, approximately 33 miles west of Houston's central business district, on Interstate Highway 10. The City of Brookshire, Texas is entirely within the District's boundaries. The District encompasses approximately 2,419.92 acres and has a 2012 population is estimated at 4,800. See "THE DISTRICT--Description."
Authority	The rights, powers, privileges, authority and functions of the District are established by the general laws of the State of Texas pertaining to municipal utility districts, including particularly Chapters 49 and 54 of the Texas Water Code, as amended. See "THE DISTRICT--Authority."

- The Bonds -

Description	The District's \$815,000 Unlimited Tax Bonds, Series 2013 (the "Bonds") are dated February 1, 2013 and interest will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds bear interest from such date at the rates per annum set forth on the inside cover page hereof, which interest is payable August 1, 2013 and each February 1 and August 1 thereafter until the earlier of maturity or redemption. The Bonds mature serially on August 1 in the years 2014 through 2036, inclusive, in the principal amounts set forth on the inside cover page hereof. Bonds scheduled to mature on or after August 1, 2022, are subject to optional redemption at the option of the District on any date on or after August 1, 2021, at a price of par plus accrued interest to the date of redemption. See "THE BONDS--Description" and "--Redemption of Bonds."
Source of Payment	Principal of and interest on the Bonds are payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. The Bonds are obligations of the District and are not obligations of Waller County, Texas; the City of Brookshire, Texas; the State of Texas; or any political subdivision other than the District. See "THE BONDS--Source of and Security for Payment."
Use of Proceeds	Proceeds of the Bonds will be used to (a) expand the District's existing wastewater treatment plant and to pay engineering costs associated with such expansion and (b) pay legal fees, financial advisor's fees and certain other costs related to the issuance of the Bonds. See "THE BONDS — Use of Proceeds."
Payment Record	The District has never defaulted on the payment of any bonded indebtedness. See "DISTRICT DEBT."
Qualified Tax-Exempt Obligations	The District will designate the Bonds as "qualified tax-exempt obligations" pursuant to Section 265(b) of the Internal Revenue Code of 1986, as amended, and will represent that the total amount of tax-exempt bonds (including the Bonds) issued by it during the calendar year 2013 is not reasonably expected to exceed \$10,000,000. See "TAX MATTERS--Qualified Tax-Exempt Obligations."

Book-Entry Only System	The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co. and Cede & Co. will make distribution of the amounts so paid to the beneficial owners of the Bonds (see "THE BONDS--Book-Entry Only System").
No Municipal Bond Rating	The District has made no application for a municipal bond rating of the Bonds, nor is it expected that the District would have been successful in receiving an investment grade rating had such application been made.
Legal Opinion	Johnson Radcliffe Petrov & Bobbitt PLLC, Houston, Texas, Bond Counsel. See "LEGAL MATTERS."
Disclosure Counsel	Fulbright & Jaworski L.L.P., Houston, Texas
Financial Advisor	Blitch Associates, Inc., Houston, Texas.

RISK FACTORS

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

- Financial Highlights -
(Unaudited)

2012 Taxable Assessed Valuation (100% of Market Value)	\$192,125,985	(a)
Direct Debt		
The Bonds	\$815,000	
Estimated Overlapping Debt	<u>16,733,238</u>	(b)
Direct and Estimated Overlapping Debt	<u><u>\$17,548,238</u></u>	
Direct Debt Ratios:		
Direct Debt to Value	0.42%	
Direct & Estimated Overlapping Debt to Value	9.13%	
2013 Tax Rate per \$100 of Assessed Value (estimated)	<u><u>\$0.035</u></u>	
Estimated Average Annual Debt Service Requirements (2013/36)	\$61,533	
Estimated Maximum Annual Debt Service Requirements (2018)	\$65,425	
Tax Rate Required to pay (at 95%):		
Average (2013/2036)	\$0.034	
Maximum (2018)	\$0.036	
Fund Balances as of December 31, 2012 (Cash & Investments)		
General Fund	\$419,172	
Debt Service Fund	\$2,173	(c)
Capital Recovery Fund	\$430,093	

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

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

(c) Exclusive of one year's interest on the Bonds to be escrowed from Bond proceeds.

BROOKSHIRE MUNICIPAL WATER DISTRICT
\$815,000
UNLIMITED TAX BONDS, SERIES 2013

This Official Statement of Brookshire Municipal Water District (the "District") is provided to furnish certain information with respect to the sale by the District of its \$815,000 Unlimited Tax Bonds, Series 2013 (the "Bonds").

The Bonds are issued pursuant to the Texas Constitution, the general laws of the State of Texas and an order authorizing the issuance of the Bonds (the "Bond Order") adopted by the Board of Directors of the District (the "Board"); Article XVI, Section 59 of the Texas Constitution; Chapters 49 and 54 of the Texas Water Code, as amended; and Chapter 1207, Texas Government Code, as amended. See "THE BONDS."

This Official Statement includes descriptions of the Bonds, the Bond Order and certain other information about the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document, copies of which may be obtained by contacting the District, c/o Johnson Radcliffe Petrov & Bobbitt PLLC, located at 1001 McKinney, Suite 1000, Houston, Texas 77002-6424.

THE BONDS

Description

The Bonds will mature on August 1 of the years and in principal amounts, and will bear interest from February 1, 2013, at the rates per annum, set forth on the inside cover page of this Official Statement. Interest on the Bonds will be payable on August 1, 2013, and semiannually thereafter on each February 1 and August 1 until the earlier of maturity or redemption. Principal of and interest on the Bonds will be payable to Cede & Co., as registered owner and nominee of The Depository Trust Company ("DTC"), New York, New York, by the paying agent/registrar, initially BOKF, NA dba Bank of Texas, Austin, Texas (the "Paying Agent/Registrar"). Cede & Co. will make distribution of the principal and interest so paid to the beneficial owners of the Bonds. For so long as DTC shall continue to serve as securities depository for the Bonds, all transfers of beneficial ownership interest will be made by book-entry only and no investor or other party purchasing, selling or otherwise transferring beneficial ownership of the Bonds is to receive, hold or deliver any Bond certificate.

If at any time, DTC ceases to hold the Bonds as securities depository, then principal of the Bonds will be payable to the registered owner at maturity or redemption upon presentation and surrender at the principal payment office of the Paying Agent/Registrar. Interest on the Bonds will be payable by check, dated as of the interest payment date, and mailed by the Paying Agent/Registrar to the registered owners as shown on the records of the Paying Agent/Registrar at the close of business on the 15th day of the month next preceding the interest payment date (the "Record Date"); provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, all payments will be made as described under "BOOK-ENTRY ONLY SYSTEM" herein.

The Bonds of each maturity will be issued in fully-registered form only in the principal amount or maturity amount of \$5,000 or any integral multiple thereof.

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

Use of Proceeds

Proceeds of the Bonds will be used to (a) expand the District's existing wastewater treatment plant and to pay engineering costs associated with such expansion and (b) pay legal fees, financial advisor's fees and certain other costs related to the issuance of the Bonds.

The costs outlined below have been provided by Clay & Leyendecker, Inc., the District's consulting engineer (the "Engineer"), and reflect those costs approved by the Texas Commission on Environmental Quality ("TCEQ"). Amounts indicated may not add due to rounding.

Construction Costs

Wastewater Treatment Plant Expansion	\$537,764
Contingencies	80,665
Engineering	<u>64,531</u>
Total Construction Costs	\$682,960

Non-Construction Costs

Bond Counsel	\$25,000
Financial Advisor (1.75%)	14,263
Administration, Organization & Issuance Expenses	20,100
Bond Application Report	25,000
Attorney General (0.10%)	815
TCEQ Fee (0.25%)	<u>2,038</u>
Total Non-Construction Costs	<u>\$132,040</u>

The Bonds

\$815,000

Book-Entry-Only System

This section describes how ownership of the Bonds are to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, 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, the Financial Advisor and the Underwriter believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

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

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

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal

debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is 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 DTC Participants, which will receive a credit for such purchases on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct or Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interest in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. **Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.**

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment 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 the notices be provided directly to them.

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

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

Redemption proceeds and principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the District or Paying Agent/Registrar,

on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, Paying Agent/Registrar or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or Paying Agent/Registrar, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

Registration and Transfer

The Bonds will be transferable only on the bond register kept by the Paying Agent/Registrar upon surrender and reissuance. The Bonds are exchangeable for an equal aggregate principal of Bonds of the same maturity and of any authorized denomination upon surrender of the Bonds to be exchanged at the principal office of the Paying Agent/Registrar in Dallas, Texas. No service charge will be made for any registration, transfer or exchange of Bonds, but the District or the Paying Agent/Registrar may require payment of a sum sufficient to cover any tax or governmental charge payable in connection therewith. Neither the District nor the Paying Agent/Registrar is required to issue, transfer or exchange any Bond during the period beginning at the opening of business on a Record Date and ending at the close of business on the next succeeding interest payment date or to transfer or exchange any Bond selected for redemption, in whole or in part, beginning 15 calendar days prior to the date of the first mailing of any notice of redemption and ending at the close of business on the date of such mailing, or to transfer or exchange any Bond called for redemption during the thirty (30) day period prior to the date fixed for redemption of such Bond.

Redemption of Bonds

The District reserves the right, at its option, to redeem the Bonds maturing on or after August 1, 2022, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof on August 1, 2021, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. If less than all of the Bonds are to be redeemed, the Paying Agent/Registrar shall select by lot those Bonds to be redeemed.

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

Ownership

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

Source of and Security for Payment

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

Replacement of Paying Agent/Registrar

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

Authority for Issuance

The District has previously issued ten installments of bonds in the aggregate principal amount of \$2,880,000 for waterworks, sanitary sewer and drainage facilities authorized at various elections held within the District for that purpose. Following issuance of the Bonds, there will remain no unlimited tax bonds authorized but unissued. See "Issuance of Additional Debt."

The Bonds are issued pursuant to the Bond Order; Chapters 49 and 54 of the Texas Water Code, as amended; Chapter 1207, Texas Government Code, as amended; and Article XVI, Section 59 of the Texas Constitution.

Outstanding Debt

The District has no outstanding bonded indebtedness

Issuance of Additional Debt

The District may issue additional bonds to provide those improvements for which the District was created. According to the District's Engineer, additional bonds will be necessary to extend the utility system to the remaining undeveloped acres within the District. Depending upon the rate of development and increases in assessed valuation of taxable property within the District and the amount, maturity schedule and time of issuance of such additional bonds, increases in the District's annual tax rate may be required to provide for the payment of the principal of and interest on such additional bonds and the Bonds. Additional tax bonds and/or tax and revenue bonds may be voted in the future. The Board is further empowered to borrow money for any lawful purpose and pledge the revenues of the waterworks and sewer system therefor and to issue bond anticipation notes and tax anticipation notes.

The District has no plans to issue call a bond election or issue additional bonds within the next twelve months. The Bond Order imposes no limitation on the amount of additional bonds which may be issued by the District. Any additional bonds issued by the District will be on a parity with the Bonds, and may dilute the security of the Bonds.

Defeasance

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

Mutilated, Lost, Stolen or Destroyed Bonds

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

Annexation and Consolidation

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

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

Amendments to the Bond Order

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

Registered Owners' Remedies and Effects of Bankruptcy

The Bond Order does not provide for the appointment of a trustee to represent the interests of the Bond holders upon any failure of the District to perform in accordance with the terms of the Bond Order or upon any other condition and, in the event of any such failure to perform, the registered owners would be responsible for the initiation and cost of any legal action to enforce performance of the Bond Order. Furthermore, the Bond Order does not establish specific events of default with respect to the Bonds and, under State law, there is no right to the acceleration of maturity of the Bonds upon the failure of the District to observe any covenant under the Bond Order. A registered owner of Bonds could seek a judgment against the District if a default occurred in the payment of principal of or interest on any such Bonds; however, such judgment could not be satisfied by execution against any property of the District and a suit for monetary damages could be vulnerable to the defense of sovereign immunity. A registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the District to levy, assess and collect an annual ad valorem tax sufficient to pay principal of and interest on the Bonds as it becomes due or perform other material terms and covenants contained in the Bond Order. In general, Texas courts have held that a writ of mandamus may be issued to require a public official to perform legally imposed ministerial duties necessary for the performance of a valid contract, and Texas law provides that, following their approval by the Attorney General and issuance, the Bonds are valid and binding obligations for all purposes according to their terms. However, the enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis.

Bankruptcy Limitation to Registered Owners' Rights

The enforceability of the rights and remedies of the Registered Owners may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. Subject to the requirements of Texas law, the District may voluntarily proceed under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. Sections 901-946, if the District: (1) is generally authorized to file for federal bankruptcy protection by State law; (2) is insolvent or unable to meet its debts as they mature; (3) desires to effect a plan to adjust such debt; and (4) has either obtained the agreement of or negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiation is impracticable. Under Texas law, a municipal utility district such as the District must obtain approval of the Texas Commission on Environmental Quality ("TCEQ") prior to filing for bankruptcy. The TCEQ must investigate the financial condition of the District and will authorize the District to proceed only if the TCEQ determines that the District has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

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

Legal Investment and Eligibility to Secure Public Funds in Texas

Pursuant to Chapter 1201, Texas Government Code, and Section 49.186, Texas Water Code, the Bonds, whether rated or unrated, are (a) legal investments for banks, trust companies, building and loan associations, savings and loan associations, insurance companies of all kinds and types, fiduciaries, and trustees, and (b) legal investments and lawful security for the public funds of the State, and all agencies, subdivisions, and instrumentalities of the State, including all counties, cities, towns, villages, school districts, and other political subdivisions or public agencies of the State of Texas. The Bonds are also eligible under the Public Funds Collateral Act, Chapter 2257, Texas Government Code, to

secure deposits of public funds of the State of Texas or any political subdivision or public agency of the State of Texas and are lawful and sufficient security for those deposits to the extent of their market value.

Most political subdivisions in the State of Texas are required to adopt investment guidelines under the Public Funds Investment Act, Chapter 2256, Texas Government Code, and such political subdivisions may impose a requirement consistent with such act that the Bonds have a rating of not less than “A” or its equivalent to be legal investments for such entity’s funds. The District makes no representation that the Bonds will be acceptable to banks, savings and loan associations or public entities for investment purposes or to secure deposits of public funds. The District has made no investigation of other laws, regulations or investment criteria which might apply to or otherwise limit the suitability of the Bonds for investment or collateral purposes. Prospective purchasers are urged to carefully evaluate the investment quality of the Bonds as to the suitability of the Bonds for investment or collateral purposes.

THE DISTRICT

Authority

Brookshire Municipal Water District (the “District”), a political subdivision of the State of Texas, was created by the 51st Texas Legislature in 1951. The District is vested with all of the rights, privileges, authority, and functions conferred by the general laws of the State applicable to municipal utility districts, including without limitation those conferred by Chapter 54, Texas Water Code, as amended. The District is empowered to purchase, construct, operate, acquire, own, and maintain all water and wastewater facilities, improvements and the control and diversion of storm water. The District is additionally empowered to establish, operate and maintain a fire department, independently or with one or more other conservation and reclamation districts, and to issue bonds for such purposes, after approval by the City of Brookshire, the TCEQ and the District's voters. The District is subject to the continuing supervisory jurisdiction of the TCEQ.

Description

Originally created with approximately 1,024.49 acres, through various annexations, the District currently encompasses approximately 2,419.92 acres. The District is located on U.S. Interstate Highway 10, approximately 35 miles west of Houston’s central business district. The District is approximately 8 miles west of Katy and 8 miles northwest of Fulshear. The District lies entirely within the exclusive extraterritorial jurisdiction of the City of Brookshire and is located within the Royal Independent School District.

Land within the District is a mixture of residential, commercial and industrial uses. Undeveloped acreage varies from individual residential lots to larger vacant tracts up to approximately 100 acres. The larger tracts are generally open, largely treeless fields. The District lies in a relatively flat area, with the land usually sloping slightly toward the southeast. According to the Federal Emergency Management Agency’s (“FEMA”) Flood Insurance Rate map for Waller County, Texas effective February 18, 2009, the land within the District lies outside the 100-year flood plain except for approximately 40 acres in the following areas:

- a. Along and adjacent to the West Form of Brookshire Creek in the southwest part of the District;
- b. Along and adjacent to Brookshire Creek, expanding in the northeast part of the District to include the Brookshire Gardens subdivision and areas west and north thereof; and
- c. An area in the northwest part of the District on either side of Brookshire-Katy Drainage District’s ditch parallel to and north of U.S. Highway 90.

Management of the District

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

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Edith Penrice-Kelley	President	May, 2016
Albert Wilkins	Vice President	May, 2016
Paulette Lasker	Secretary	May, 2014
Vanessa Johnson	Assistant Secretary	May, 2016
Stephanie Harris-Green	Investment Officer	May, 2014

The District employs Tonya Pierre as General Manager. The District employs ten personnel to operate the water and wastewater facilities and the office. In addition, the District contracts for the services indicated below:

Auditor - The District's audited financial statements for the year ended August 31, 2011 were prepared by Michael D. Sloan, P.C., Houston, Texas, Certified Public Accountant. A copy of such audit appears herein as Appendix A. The District has engaged Sanderson Knox & Company LLP to prepare the audited financial statements for the year ended August 31, 2012.

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

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

Engineer - The consulting engineer for the District is Clay & Leyendecker, Inc., Katy, Texas.

Bookkeeper - The District's books and records are kept by ETI Bookkeeping Services, Houston, Texas.

Tax Assessor/Collector - The District's Tax Assessor/Collector is Tonya Pierre, Brookshire, Texas.

Development

As of December 1, 2012, there were approximately 1,087 single family homes constructed in the District as well as 162 commercial accounts. Approximately 416.7 acres of the District's approximately 2,419.9 acres are comprised of streets and alleys, drainage easements, permanent floodplains and detention ponds, parks and recreation and open spaces and high voltage power line easements, and are thus undevelopable.

DISTRICT DEBT

Debt Statement

2012 Taxable Assessed Valuation (100% of Market Value)	\$192,125,985	(a)
Direct Debt		
The Bonds	\$815,000	
Estimated Overlapping Debt	<u>16,733,238</u>	(b)
Direct and Estimated Overlapping Debt	<u><u>\$17,548,238</u></u>	
Direct Debt Ratios:		
Direct Debt to Value	0.42%	
Direct & Estimated Overlapping Debt to Value	9.13%	
Estimated Average Annual Debt Service Requirements (2013/36)	\$61,533	
Estimated Maximum Annual Debt Service Requirements (2018)	\$65,425	
Fund Balances as of December 31, 2012 (Cash & Investments)		
General Fund	\$419,172	
Debt Service Fund	\$2,173	
Capital Projects Fund	\$430,093	

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

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

Estimated Overlapping Debt

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

<u>Jurisdiction</u>	<u>Debt As Of December 1, 2012</u>	<u>Overlapping Percent</u>	<u>Overlapping Amount</u>
Brookshire, City of	\$40,000	100.000%	\$40,000
Royal Independent School District	70,627,890	23.573%	16,649,113
Waller County	705,000	6.259%	<u>44,126</u>
Estimated Overlapping Debt			\$16,733,238
The District (the Bonds)			<u>815,000</u>
Total Direct & Estimated Overlapping Debt			<u><u>\$17,548,238</u></u>

Pro Forma Debt Service Schedule

The following sets forth the debt service requirements on the Bonds, assuming an interest rate of 5.50%. (Note: Totals may not add due to rounding)

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013		\$22,413	\$22,413
2014	\$20,000	44,825	64,825
2015	20,000	43,725	63,725
2016	20,000	42,625	62,625
2017	20,000	41,525	61,525
2018	25,000	40,425	65,425
2019	25,000	39,050	64,050
2020	25,000	37,675	62,675
2021	25,000	36,300	61,300
2022	30,000	34,925	64,925
2023	30,000	33,275	63,275
2024	30,000	31,625	61,625
2025	35,000	29,975	64,975
2026	35,000	28,050	63,050
2027	35,000	26,125	61,125
2028	40,000	24,200	64,200
2029	40,000	22,000	62,000
2030	45,000	19,800	64,800
2031	45,000	17,325	62,325
2032	50,000	14,850	64,850
2033	50,000	12,100	62,100
2034	55,000	9,350	64,350
2035	55,000	6,325	61,325
2036	<u>60,000</u>	<u>3,300</u>	<u>63,300</u>
	<u>\$815,000</u>	<u>\$661,788</u>	<u>\$1,476,788</u>

Estimated Average Annual Debt Service (2013/2036) \$61,533
 Estimated Maximum Annual Debt Service (2018) \$65,425

TAX PROCEDURES

Authority To Levy Taxes

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in sufficient amount to pay the principal of and interest on the Bonds and any additional bonds payable from taxes which the District may hereafter issue, and to pay the expenses of assessing and collecting such taxes. The Board is also authorized to levy and collect annual ad valorem taxes for the administration, operation and maintenance of the District and its properties and for the payment of certain contractual obligations other than bonds if such taxes are authorized by vote of the District's electors at an election. No maintenance tax has been authorized by the District's voters.

Exempt Property

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes, and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District; however, no effort is expected to be made to levy taxes against tangible or intangible personal property not devoted to commercial or industrial use. Principal categories of exempt real property include property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; non-profit cemeteries; certain household goods, family supplies and personal effects; and certain property owned by qualified charitable, religious, veterans, youth, fraternal, or educational organizations. Goods, wares, ores, and merchandise (other than oil, gas or petroleum products) that are acquired in or imported into the state and forwarded out of state within 175 days thereafter are also exempt. Property owned by a disabled veteran or by the spouse or certain children of a deceased disabled veteran or a veteran who died while on active duty is exempt to between \$5,000 and \$12,000 depending on the disability rating of the veteran. State law also mandates a complete exemption for the residential homestead of disabled veterans determined to be 100% disabled by the U.S. Department of Veterans Affairs. In addition, the surviving spouse of a deceased veteran who had received a disability rating of 100% is entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries.

If approved by the Board or through a process of petition and referendum by the District's voters, residence homesteads of certain persons who are disabled or at least 65 years old are exempt to the extent of \$3,000 or such higher amount, as the Board or the District's voters may approve. The District's tax assessor is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District's obligation to pay tax-supported debt incurred prior to adoption of the exemption by the District. The District currently grants no homestead exemption to persons who are 65 years of age or older and to disabled homestead owners.

The Board also may exempt up to 20% of the market value of residential homesteads from ad valorem taxation. Such exemption would be in addition to any other applicable exemptions provided by law. However, if ad valorem taxes have previously been pledged for the payment of debt and the granting of the homestead exemption would impair the obligation or the contract by which the debt was created, then the Board may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged. The Board currently grants no percentage homestead exemption.

Waller County may designate all or part of the area within the District as a reinvestment zone, and the District, Waller County, Royal Independent School District or the City of Brookshire may thereafter enter into tax abatement agreements with owners of real property within the zone. The tax abatement agreements may exempt from ad valorem taxation by the applicable taxing jurisdiction, for a period of up to ten years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with a comprehensive plan. None of the area within the District has been designated as a reinvestment zone to date.

Appraisal of Taxable Property

The Texas Property Tax Code (the "Property Tax Code") establishes an appraisal district and an appraisal review board in each county of the State of Texas. The appraisal district is governed by a board of directors which is elected by the governing bodies of cities, towns, the county, school districts and, if entitled to vote, the conservation and reclamation districts that participate in the appraisal district, and of the county. The board of directors selects a chief appraiser to manage the appraisal office of the appraisal district. All taxing units within Waller County, including the District, are included in the Waller County Appraisal District (the "Appraisal District"). The Appraisal District is responsible for appraising property within the District, subject to review by the Waller County Appraisal Review Board (the "Appraisal Review Board"). The appraisal roll approved by the Appraisal Review Board must be used by the District in establishing its tax rolls and tax rate. The valuation and assessment of taxable property within the District is governed by the Property Tax Code.

Assessment and Levy

Generally, all taxable property in the District (other than any qualifying agricultural or timber land) must be appraised at 100% of market value as of January 1 of each tax year, subject to review and approval by the Appraisal Review Board. However, houses held for sale by a developer or builder which remain unoccupied, are not leased or rented, and produce no income are required to be assessed at the price for which they would sell as a unit to a purchaser who would continue the owner's business. Valuation of houses at inventory level in future years could reduce the assessed value of developer and builder house inventory within the District. Certain land may be appraised at less than market value under the Property Tax Code. Upon application of a landowner, land which qualifies as "open-space land" is appraised based on the category of land, agriculture and hunting or recreational leases. Once an appraisal roll is prepared and approved by the Appraisal Review Board, it is used by the District in establishing its tax rate.

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

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

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

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

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

Collection

Taxes are due on receipt of the tax bill and become delinquent after January 31 of the following year. However, a person over 65 years of age is entitled by law to pay current taxes on his residence homestead in installments or to defer taxes without penalty during the time he owns and occupies the property as his residence homestead. The date of the delinquency of a tax bill may be postponed if the tax bill is mailed after January 10. Delinquent taxes are subject to a 6% penalty for the first month of delinquency, 1% for each month thereafter to June 30 and 12% total if any taxes are unpaid on July 1. Delinquent taxes also accrue interest at the rate of 1% per month during the period they remain outstanding. In addition, if the District engages an attorney for collection of delinquent taxes, the Board may impose a further penalty not to exceed 20% on all taxes, penalty and interest unpaid on July 1.

Taxes levied by the District are a personal obligation of the person who owns or acquires the property on January 1 of the year for which the tax is imposed. The District has a statutory lien for unpaid taxes on real property against which the taxes are assessed. In the event a taxpayer fails to make timely payment of taxes due the District, the District may file suit to foreclose its lien securing payment of the tax, to enforce personal liability for the tax, or both. The District's tax lien is on a parity with the tax liens of the other state and local jurisdictions levying taxes on property within the District. Whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. In the absence of such federal law, the District's tax lien takes priority over a lien of the United States. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other federal, state and local taxing jurisdictions, by effects of the foreclosure sale price attributable to market conditions, by taxpayer redemption rights, or by bankruptcy proceedings which restrain the collection of a taxpayer's debts.

TAX DATA

General

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

Tax Collection History

The District has not levied an ad valorem tax since the 2003 tax year; it intends to levy a debt service tax rate of at least \$0.035 for 2013.

Principal Taxpayers

<u>Name of Taxpayer</u>	<u>Type of Property</u>	<u>2012 Taxable Ass'd Value</u>	<u>% of Total</u>	<u>2011 Taxable Ass'd Value</u>	<u>% of Total</u>
Scot Industries	Petroleum Industry Mach.	\$13,187,093	6.87%	\$9,416,761	4.99%
Sulzer Pumps (US) Inc	Pump Manufacturing	10,072,978	5.24%	12,562,544	6.66%
Grundfos CBS Inc	Pump Manufacturing	5,726,363	2.98%	5,605,541	2.97%
Thomas Instrument & Mach	Aerospace Machining	4,457,260	2.32%	4,333,090	2.30%
Saturn Machine Inc.	Oil Well Gates & Valves	4,218,280	2.20%	3,214,300	1.70%
Oldcastle Precast Int Co	Pre-cast Concrete	3,477,190	1.81%	2,622,770	1.39%
KCIC LLC	Management Consulting	3,210,260	1.67%	3,222,740	1.71%
Jetair A Div of Miti	Pipeline Couplings	3,200,560	1.67%	2,768,400	1.47%
Sandell Westbrook Park Ltd	Developer Property	2,331,020	1.21%	2,285,910	1.21%
Texas Petroleum Group LLC	Gas Stations	2,233,010	1.16%	(a)	
Consolidated Communications	Cable Company	(a)		3,198,130	1.70%
		<u>\$52,114,014</u>	<u>27.13%</u>	<u>\$49,230,186</u>	<u>26.09%</u>

(a) Not among the top ten in this year.

Estimated Overlapping Taxes

Property within the District is subject to taxation by several taxing authorities in addition to the District. Under Texas law, a tax lien attaches to property to secure the payment of all taxes, penalty, and interest for the year, on January 1 of that year. The tax lien on property in favor of the District is on a parity with tax liens of other taxing jurisdictions. In addition to ad valorem taxes required to make debt service payments on bonded debt of the District and of such other jurisdictions, certain taxing jurisdictions are authorized by Texas law to assess, levy, and collect ad valorem taxes for operation, maintenance, administrative, and/or general revenue purposes.

<u>Taxing Entities</u>	<u>2012 Tax Rates</u>
Brookshire, City of	\$0.640000
Brookshire-Katy Drainage District	0.092671
Royal Independent School District	1.566400
Waller County	0.661092
Waller County Farm-to-Market Road	<u>0.034733</u>
Overlapping Taxes	\$2.994896
The District (anticipated 2013 tax rate)	<u>0.035000</u>
Total Direct & Overlapping Taxes	<u>\$3.029896</u>

Analysis of Tax Base

Based on information provided to the District by its Tax Assessor/Collector, the following represents the composition of property comprising the tax roll valuations for each of the years indicated:

	<u>2012 Tax Year</u>			<u>2011 Tax Year</u>		
	<u>Amount</u>	<u>Amount</u>	<u>Prct</u>	<u>Amount</u>	<u>Amount</u>	<u>Prct</u>
Land	\$53,899,340		24.42%	\$53,994,961		25.15%
Improvements	106,191,009		48.11%	102,575,191		47.77%
Personal	<u>60,616,390</u>		27.46%	<u>58,134,730</u>		27.08%
Total Appraised Value		\$220,706,739			\$214,704,882	
Less: Exemptions						
Freeport	\$13,903,396			\$11,071,252		
Tax Exempt	8,339,749			8,524,027		
Ag Defer	5,213,720			5,051,020		
Other	<u>1,123,889</u>	<u>28,580,754</u>		<u>1,379,105</u>	<u>26,025,404</u>	
		<u>\$192,125,985</u>			<u>\$188,679,478</u>	

	<u>2010 Tax Year</u>			<u>2009 Tax Year</u>		
	<u>Amount</u>	<u>Amount</u>	<u>Prct</u>	<u>Amount</u>	<u>Amount</u>	<u>Prct</u>
Land	\$53,472,860		25.83%	\$51,563,240		22.84%
Improvements	102,534,285		49.54%	101,471,135		44.95%
Personal	<u>50,977,375</u>		24.63%	<u>72,701,187</u>		32.21%
Total Appraised Value		\$206,984,520			\$225,735,562	
Less: Exemptions						
Freeport	\$12,483,250			\$16,294,452		
Tax Exempt	8,228,751			8,253,733		
Ag Defer	5,307,670			5,282,930		
Other	<u>1,906,661</u>	<u>27,926,332</u>		<u>1,775,459</u>	<u>31,606,574</u>	
		<u>\$179,058,188</u>			<u>\$194,128,988</u>	

Tax Rate Calculations

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 of assessed valuation which would be required to meet certain debt service requirements if no growth in the District's tax base occurs beyond the 2012 Taxable Value (\$192,125,985). The calculations assume collection of 95% of taxes levied and the sale of no additional bonds (other than the Bonds) by the District.

Estimated Average Annual Debt Service Requirements (2013/2036)	\$61,533
Tax Rate of \$0.034 on the 2012 Taxable Value produces	\$62,057
Estimated Maximum Annual Debt Service Requirements (2018)	\$65,425
Tax Rate of \$0.036 on the 2012 Taxable Value produces	\$65,707

THE SYSTEM

Regulation

The water and wastewater facilities serving land within the District (the "System") are required to have been designed in conformance with accepted engineering practices and the requirements of certain governmental agencies having regulatory or supervisory jurisdiction over various aspects of the construction and operation of such facilities including, among others, the TCEQ, Waller County Engineering Department, Brookshire-Katy Drainage District and the City of Brookshire. During construction, facilities are subject to inspection by the District's Engineer and various aspects of the facilities are subject to inspection by the foregoing governmental agencies.

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

Description of the System

According to the District's Engineer, the total number of connections projected for the District at full development of approximately 2,419.92 acres is 4,301 equivalent connections. Following the issuance of the Bonds, there will be no authorized but unissued bonds. In the opinion of the Engineer, additional bonds will be needed to serve the District at current projected build-out. A description of the primary components of the System follows and is based upon information supplied by the Engineer based on drawings and data furnished by others.

Proceeds of the sale of the District's prior bonds were used to finance the construction or acquisition of underground water supply, water distribution lines, wastewater collection lines, wastewater treatment plant and stormwater drainage facilities. The District has no other bonds currently outstanding.

-Water Supply and Distribution-

The District's water supply is provided from two separate water systems—one serving the Brookshire area and one exclusively serving Love's Travel Center. The District's primary system obtains water from three water wells with a current production of approximately 1,250 gallons per minute ("gpm") and can serve up to 2,083 equivalent single-family connections ("ESFC"). This system also contains 200,000 gallons of ground storage, 275,000 gallons of elevated storage and 1,000 gpm booster pump capacity. The Love's system is served by one water well producing approximately 200 gpm, which can serve up to 133 ESFC and is supplemented by a 5,000 gallon pressure tank.

The District does not share water or have an interconnect agreement with any other entity .

-Wastewater Collection and Treatment-

The District's wastewater is being treated at a 650,000 gallon per day ("gpd") wastewater treatment plant, which is sufficient to serve approximately 2,167 ESFC. The Bonds are being issued to expand this facility to 970,000 gpd.

Sanitary sewer lines have been extended to serve existing customers. The District's wastewater collection and treatment facilities are sufficient to serve the District's current population. Additional facilities will be needed to serve anticipated full development, according to the District's Engineer.

- Stormwater Drainage -

Most of the land within the District drains to Brookshire Creek and West Brookshire Creek, either via storm sewer pipes and open ditches or by direct runoff into the creeks. A smaller area in the northwest portion of the District drains to Kellner Creek via a Brookshire-Katy Drainage District ditch. All three channels are maintained by the Brookshire-Katy Drainage District, which generally requires on-site detention facilities for new developments.

According to the Federal Emergency Management Agency's ("FEMA") Flood Insurance Rate map for Waller County, Texas effective February 18, 2009, the land within the District lies outside the 100-year flood plain except for approximately 40 acres in the following areas:

- a. Along and adjacent to the West Form of Brookshire Creek in the southwest part of the District;
- b. Along and adjacent to Brookshire Creek, expanding in the northeast part of the District to include the Brookshire Gardens subdivision and areas west and north thereof; and
- c. An area in the northwest part of the District on either side of Brookshire-Katy Drainage District's ditch parallel to and north of U.S. Highway 90.

Rate Order

The District's utility rate order, which is subject to change from time to time by Board, is summarized in part below and became effective on December 17, 2012:

-Water Rates-

Single Family Homes

First 2,500 gallons	\$11.00 (minimum)
Next 2,500 gallons	\$1.25 per 1,000 gallons
Next 2,500 gallons	\$1.40 per 1,000 gallons
Next 2,500 gallons	\$1.50 per 1,000 gallons
Next 5,000 gallons	\$1.75 per 1,000 gallons
Next 5,000 gallons	\$2.25 per 1,000 gallons
Over 20,000 gallons	\$3.00 per 1,000 gallons

Commercial

First 10,000 gallons	\$25.00 (minimum)
Next 10,000 gallons	\$2.50 per 1,000 gallons
Next 30,000 gallons	\$3.00 per 1,000 gallons
Next 50,000 gallons	\$4.00 per 1,000 gallons
Over 100,000 gallons	\$5.00 per 1,000 gallons

-Sewer Rates-

Single Family Homes

First 2,500 gallons	\$13.50 (minimum)
Next 2,500 gallons	\$1.65 per 1,000 gallons
Next 2,500 gallons	\$1.80 per 1,000 gallons
Next 2,500 gallons	\$1.95 per 1,000 gallons
Next 5,000 gallons	\$2.25 per 1,000 gallons
Next 5,000 gallons	\$2.90 per 1,000 gallons
Over 20,000 gallons	\$3.90 per 1,000 gallons

Commercial

First 10,000 gallons	\$32.50 (minimum)
Next 10,000 gallons	\$3.25 per 1,000 gallons
Next 30,000 gallons	\$3.90 per 1,000 gallons
Next 50,000 gallons	\$5.20 per 1,000 gallons
Over 100,000 gallons	\$6.50 per 1,000 gallons

Historical Operations of the General Operating Fund

The following statement sets forth in condensed form the historical operations of the District's General Operating Fund. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Such information has been prepared based upon information obtained from the District's audited financial statements (except for the fiscal year ended August 31, 2012, which was extracted from District records), reference to which is made for further and complete information.

	<u>Fiscal Year Ended August 31,</u>					
	<u>2012(a)</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Revenues						
Utility Revenue	\$1,148,592	\$1,160,638	\$1,148,419	\$1,094,598	\$1,194,881	\$977,464
Tap Connection	7,410	7,906	8,055	18,673	24,025	45,206
Penalty & Interest	57,265	53,428	59,992	64,298	80,165	54,846
Interest on Investments	239	1,403	2,291	4,837	15,470	23,209
Other	<u>28,505</u>	<u>89,630</u>	<u>501,559</u>	<u>48,189</u>	<u>44,508</u>	<u>103,950</u>
Total Revenues	\$1,242,011	\$1,313,005	\$1,720,316	\$1,230,595	\$1,359,049	\$1,204,675
Expenditures						
Personal Services	\$459,796	\$464,690	\$475,225	\$425,048	\$370,375	\$366,863
Purchased/Contracted Svcs	294,481	430,237	324,995	376,103	292,401	274,518
Consumable Supplies/Material	43,164	77,565	114,997	93,070	79,069	79,385
Operating Expenditures	325,551	170,775	219,205	136,031	167,524	110,629
Professional Fees	62,074	86,488	89,556	51,207	86,852	52,020
Capital Outlay	<u>1,225,031</u>	<u>468,298</u>	<u>438,254</u>	<u>70,261</u>	<u>164,531</u>	<u>24,640</u>
Total Expenditures	<u>\$1,307,097</u>	<u>\$1,698,053</u>	<u>\$1,662,232</u>	<u>\$1,151,720</u>	<u>\$1,160,752</u>	<u>\$908,055</u>
Net Operating Revenues	(\$65,086)	(\$385,048)	\$58,084	\$78,875	\$198,297	<u>\$296,620</u>
From Other Funds		<u>86,921</u>	<u>35,541</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Changes to Fund Balance		(\$298,122)	\$93,625	\$78,875	\$198,297	\$296,620
Fund Balance - September 1		<u>1,149,136</u>	<u>1,055,511</u>	<u>976,636</u>	<u>744,327</u>	<u>447,707</u>
Fund Balance - August 31		<u>\$851,009</u>	<u>\$1,149,136</u>	<u>\$1,055,511</u>	<u>\$942,624</u>	<u>\$744,327</u>
Cash, August 31		<u>797,880</u>	<u>1,099,031</u>	<u>1,062,129</u>	<u>841,178</u>	<u>648,409</u>
% of Expenses (b)		<u>64.88%</u>	<u>89.79%</u>	<u>98.21%</u>	<u>84.44%</u>	<u>73.40%</u>
Customers - August 31	<u>1,500</u>	<u>1,471</u>	<u>1,458</u>	<u>1,492</u>	<u>1,485</u>	<u>1,601</u>

(a) Unaudited.

(b) After deduction of Capital Outlay.

RISK FACTORS

General

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

Credit Markets and Liquidity in the Financial Markets

Interest rates and the availability of mortgage and development funding have a direct impact on the construction activity, particularly short-term interest rates at which developers are able to obtain financing for development costs. Interest rate levels may affect the ability of a landowner with undeveloped property to undertake and complete construction activities within the District. Because of the numerous and changing factors affecting the availability of funds, particularly liquidity in the national credit markets, the District is unable to assess the future availability of such funds for continued construction within the District. In addition, since the District is located approximately 33 miles from the central downtown business district of the City of Houston, the success of development within the District and growth of District taxable property values are, to a great extent, a function of the Houston metropolitan and regional economies and national credit and financial markets. A continued downturn in the economic conditions of Houston and further decline in the nation's real estate and financial markets could continue to adversely affect development and home-building plans in the District and restrain the growth of the District's property tax base.

National Economy

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

Factors Affecting Taxable Values and Tax Payments

Economic Factors: The growth of taxable values in the District is directly related to the vitality of the housing development and commercial building industry in the Houston metropolitan area. The housing and building industry has historically been a cyclical industry, affected by both short and long-term interest rates, availability of mortgage and development funds, labor conditions and general economic conditions. During the late 1980's, an oversupply of single-family residential housing in the Houston metropolitan market and the general downturn in the Houston economy adversely affected the local residential development and construction industries. In addition to a decline in housing demand, mortgage foreclosure by private banks and government and financial institutions depressed housing prices and the value of residential real estate in the Houston metropolitan area. The Houston economy is still somewhat dependent on energy prices and a precipitous decline in such prices could result in additional adverse effects on the Houston economy.

Maximum Impact on District Rates: Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of District property owners to pay their taxes. The 2012 taxable value is \$192,125,985. See "TAX DATA." After issuance of the Bonds, the estimated maximum annual debt service requirement (2018) is \$65,425 and the estimated average annual debt service requirements (2013/2036) is \$61,533. Assuming no increase or decrease from the above valuation and no use of funds other than tax collections, tax rates of \$0.036 and \$0.034 per \$100 assessed valuation at a 95% collection rate against the 2012 taxable

value, respectively, would be necessary to pay such debt service requirements on the maximum annual and average annual debt service requirements. The Board is considering levying for 2013 a tax rate of \$0.035 for debt service purposes. See "DISTRICT DEBT--Debt Service Schedule" and "TAX DATA--Tax Rate Calculations."

Overlapping Tax Rates

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

Tax Collection Limitations

The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other state and local taxing authorities on the property against which taxes are levied, and such lien may be enforced by foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by (a) collection procedures, (b) a bankruptcy court's stay of tax collection procedures against a taxpayer, or (c) market conditions limiting the proceeds from a foreclosure sale of taxable property. While the District has a lien on taxable property within the District for taxes levied against such property, such lien can be foreclosed only in a judicial proceeding. Because ownership of the land within the District may become highly fragmented among a number of taxpayers, attorney's fees and other costs of collecting any such taxpayer's delinquencies could substantially reduce the net proceeds to the District from a tax foreclosure sale. Finally, any bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes against such taxpayer.

Registered Owners' Remedies

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

Bankruptcy Limitation to Registered Owners' Rights

The enforceability of the rights and remedies of Registered Owners may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. Subject to the requirements of Texas law discussed below, a political subdivision such as the District may voluntarily file a petition for relief from creditors under Chapter 9 of the Federal Bankruptcy Code, 11 USC sections 901-946. The filing of such petition would automatically stay the enforcement of Registered Owner's remedies, including mandamus and the foreclosure of tax liens upon property within the District discussed above. The automatic stay would remain in effect until the federal bankruptcy judge hearing the case dismisses the petition, enters an order granting relief from the stay or otherwise allows creditors to proceed against the petitioning political subdivisions.

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

Environmental Regulations

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; and
- 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 designated by the EPA in 2008 as a severe ozone nonattainment area, with an attainment date of June 15, 2019. 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. 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 HBG area's economic growth and development.

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

Pursuant to the Safe Drinking Water Act ("SDWA"), potable (drinking) water provided by the District to more than twenty five (25) people or fifteen (15) service connections will be subject to extensive federal and state regulation as a public water supply system, which include, among other requirements, frequent sampling and analyses. Further, EPA adopted drinking water rules in 2006 (the Stage 2 Disinfectants and Disinfection Byproducts Rule; the Long Term 2 Enhanced Surface Water Treatment Rule, and the Ground Water Rule), which the TCEQ made effective on January 10, 2008, which may increase costs to public water systems for sampling and treatment. Additionally, the EPA has been charged with establishing maximum contaminant levels (MCLs) for potential drinking water contaminants (both naturally occurring and anthropogenic) such as lead, radon, and disinfection by-products (e.g. chlorine). While the Six-Year Review 2 of Drinking Water Standards published in 2010 only contained recommendations for revisions to four standards, the EPA is constantly reviewing new issues with drinking water, including the 2011 announcement of a review of regulations on fluoride. Additional or more stringent regulations or requirements pertaining to these and other drinking water contaminants in the future could require installation of more costly treatment facilities.

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

TPDES permits set limits on the type and quantity of discharge, in accordance with state and federal laws and regulations. Any discharges to water bodies designated as impaired streams in accordance with the Clean Water Act may be precluded from obtaining a TPDES permit if pollutants for which the stream is designated as impaired are among those pollutants being released by a Utility District. Moreover, the Clean Water Act and Texas Water Code require municipal wastewater treatment plants to meet secondary treatment effluent limitations. In addition, under the Clean Water Act, states must identify any bodies of water for which more stringent effluent standards are needed to achieve water quality standards and must establish the maximum allowable daily load of certain pollutants into the water bodies. Total maximum daily loads ("TMDLs") rules can have a significant impact on Utility Districts' ability to obtain and maintain TPDES permits. On April 8, 2009, the Commission approved the adoption of eighteen TMDLs for bacteria in Buffalo and White Oak Bayous and tributaries in the San Jacinto River Basin. These new TMDLs were approved by EPA in June 2009. Additionally, the TCEQ made significant revisions to the "2010 Texas Surface Water Quality Standards" and the "Procedures to Implement the Standards" on June 30, 2010, effective July 22, 2010. Finally, on August 16, 2011, the stakeholder-led Bacteria Implementation Group approved its final draft Implementation Plan for the Houston-Galveston region and submitted it to the TCEQ for program review and commission approval (the group prepares an plan to remedy high levels of bacteria in waterways in four TMDL projects in the Houston Region).

Utility Districts may be required to expend substantial funds to meet any of these revised requirements. If the District fails to achieve compliance with its discharge permits, a private plaintiff or the EPA could institute a civil action for injunctive relief and civil penalties. Operations of Utility Districts are also potentially subject to stormwater discharge permitting requirements under the Clean Water Act and regulations implementing the Act. The TCEQ issued a general permit for stormwater discharges associated with industrial activities (which was amended and reissued on July 22, 2011,

effective August 14, 2011) and a general permit for stormwater discharges associated with small municipal separate storm sewer systems (which was issued on August 13, 2007). Note there have been recent changes in the permit requirements – including several key changes to the newly re-issued industrial stormwater permit as well as the draft TPDES general permit for small MS4s which has been published for stakeholder review and comment. Utility Districts are also required to develop and implement stormwater pollution prevention plans and stormwater management plans. The District could incur substantial costs to develop and implement such plans as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff. Failure to comply with these requirements may result in the imposition of administrative, civil, and criminal penalties as well as injunctive relief under the Clean Water Act or the Texas Water Code.

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

Future Debt

After issuance of the Bonds, the District will have no bonds authorized by the District’s voters which remain unissued. The District has the right to issue such additional bonds as may hereafter be approved by both the Board and voters of the District.

Continuing Compliance with Certain Covenants

The Bond Order contains covenants by the District intended to preserve the exclusion from gross income of interest on the Bonds. Failure by the District to comply with such covenants on a continuous basis prior to maturity of the Bonds could result in interest on the Bonds becoming taxable retroactively to the date of original issuance.

Marketability

The District has no understanding (other than the initial reoffering yields) with the Underwriter regarding the reoffering yields or prices of the Bonds and has no control over the trading of the Bonds in the secondary market. Moreover, there is no assurance that a secondary market will be made for the Bonds. If there is a secondary market, the difference between the bid and asked price of the Bonds may be greater than the difference between the bid and asked price of other bonds which are more generally bought, sold or traded in the secondary market. See “SALE AND DISTRIBUTION OF THE BONDS—Prices and Marketability.”

Approval of the Bonds

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

LEGAL MATTERS

Legal Opinions

The District will furnish the Underwriter a transcript of certain certified proceedings held incident to the authorization and issuance of the Bonds, including a certified copy of the approving opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Bonds are valid and legally binding obligations of the District. The District will also furnish the legal opinion of Johnson Radcliffe Petrov & Bobbitt PLLC, Bond Counsel, to the effect that, based upon an examination of such transcript, the Bonds are legal, valid and binding obligations of the District and to the effect that interest on the Bonds is excludable

from gross income for federal income tax purposes under existing statutes, regulations, published rulings and court decisions as described below under "TAX EXEMPTION." Such opinions will express no opinions with respect to the sufficiency of the security for or the marketability of the Bonds.

Legal Review

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

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

No-Litigation Certificate

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

No Material Adverse Change

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

Legal Opinions

Issuance of the Bonds is subject to the approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and binding obligations of the District secured by the proceeds of an ad valorem tax levied, without limit as to rate or amount, upon all taxable property in the District and, based upon examination of the transcript of the proceedings incident to authorization and issuance of the Bonds, the legal opinion of Bond Counsel to the effect that (1) the Bonds are valid and legally binding obligations of the District payable from the sources and enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity, and (2) are payable from annual ad valorem taxes, which are not limited by applicable law in rate or amount, levied against all property within the District which is not exempt from taxation by or under applicable law. The Attorney General of Texas does not guarantee or pass upon the safety of the Bonds as an investment or upon the adequacy of the information contained in this Official Statement. Bond Counsel's opinion will address the matters described below under "TAX MATTERS--Tax Exemption."

TAX MATTERS

Tax Exemption

The delivery of the Bonds is subject to an opinion of Johnson Radcliffe Petrov & Bobbitt PLLC, Bond Counsel, to the effect that, assuming continuing compliance by the District with the provisions of the Bond Order subsequent to the issuance of the Bonds, pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions thereunder (1) interest on the Bonds will be excludable from the gross income, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes, and (2) interest on the Bonds will not be subject to the alternative minimum tax imposed on individuals or corporations, except as described below in the discussion concerning the adjusted current earnings adjustment for corporations that acquire the Bonds. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change, prospectively or on a retroactive basis. In rendering such opinion, Bond Counsel will rely upon representations and certifications of the District pertaining to the use, expenditure, and investment of the proceeds of the Bonds and, as described above, will assume continuing compliance with certain provisions of the Bond Order and a Tax Certificate executed by the District. Failure to comply with any of these covenants would cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

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

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

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

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

Proposed Tax Legislation and “Fiscal Cliff”

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

Tax Accounting Treatment of Discount and Premium on Certain Bonds

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

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

The initial public offering of certain of the Bonds (the “Premium Bonds”) may be greater than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bond. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser may be reduced each year by the amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any

loss) to be recognized for federal income tax purposes upon the sale or other taxable disposition of a Premium Bond. Generally, no corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity. Purchasers of Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium with respect to the Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning Premium Bonds.

Qualified Tax-Exempt Obligations for Financial Institutions

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

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

CONTINUING DISCLOSURE OF INFORMATION

The offering of the Bonds qualifies for the Rule 15c2-12(d)(2) exemption from Rule 15c2-12(b)(5) regarding the District's continuing disclosure obligations because the District has not issued more than \$10,000,000 in aggregate amount of outstanding bonds and no person is committed by contract or other arrangement with respect to payment of the Bonds; however, the District, in the Bond Order, has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors. This information will be available free of charge from the Municipal Securities Rule Making Board ("MSRB") via the Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org.

Annual Reports

The financial information and operating data which will be provided is found in the annual audit report, which the District will provide to the MSRB within six months after the end of each of its fiscal years. Any information so provided shall be prepared in accordance with generally accepted auditing standards or other such principles as the District may be required to employ from time to time pursuant to state law or regulation, and audited if the audit report is completed within the period during which it must be provided. If the audit report is not complete within such period, then the District shall provide unaudited financial statements for the applicable fiscal year to the MSRB within such six month period, and audited financial statements when the audit report becomes available.

The District's current fiscal year end is August 31. Accordingly, it must provide updated information by the last day of February 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 also will provide timely notices of any of the following events with respect to the Bonds (not in excess of ten (10) business days after the occurrence of the event): (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 or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other materials events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) the appointment of a successor or additional trustee or change of name of the trustee, if material. Neither the Bonds nor the Bond Order require the funding of debt service reserves.

For these purposes, any event described in the immediately preceding paragraph (12) is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District.

In addition, the District will provide timely notice of any failure by the District to provide annual financial information, data or financial statements in accordance with its agreement described above under "Annual Reports." The District will provide each notice described in this paragraph to the MSRB in an electronic format, as prescribed by the MSRB.

Availability of Information From EMMA

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

Limitations and Amendments

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

statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

The District may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status or type of operations of the District, if but only if (1) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering made hereby in compliance with SEC Rule 15c2-12 (the "Rule"), taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as any changed circumstances, and (2) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any qualified professional unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. If the District so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described under "Annual Reports," an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating so provided. The District may also amend or repeal the agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgement that such provisions of the Rule are invalid, and the District also may amend its continuing disclosure agreement in its discretion in any other manner or circumstance, but in either case only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds.

Compliance with Prior Undertakings

Other than in connection with the issuance of the Bonds, the District has not previously made a continuing disclosure agreement in accordance with the Rule.

PREPARATION OF OFFICIAL STATEMENT

General

The information contained in this Official Statement has been obtained primarily from the District's records, the District's Engineer, the Appraisal District, the District's Tax Assessor/Collector and other sources believed to be reliable. The District, however, makes no representation as to the accuracy or completeness of the information derived from such sources. The summaries of the statutes, resolutions, orders, agreements and engineering and other related reports set forth in this Official Statement are included herein subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents for further information.

Consultants

The information contained in this Official Statement relating to the physical characteristics of the District and engineering matters and, in particular, that engineering information included in the sections captioned "THE DISTRICT" and "THE SYSTEM" has been provided by the District's Engineer and has been included herein in reliance upon the authority of such firm as experts in the field of civil engineering.

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

The financial statements contained in “APPENDIX A–Financial Statements of the District” have been included in reliance upon the accompanying report of the District’s Auditor.

Updating the Official Statement

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

Certification of Official Statement

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

President, Board of Directors
Brookshire Municipal Water District

ATTEST:

Secretary, Board of Directors
Brookshire Municipal Water District

APPENDIX A—Financial Statements of the District

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***MICHAEL D. SLOAN, P.C.
CERTIFIED PUBLIC ACCOUNTANT
10515 SADDLEHORN TRAIL
HOUSTON, TEXAS 77064***

Phone 281-890-3042

Independent Auditor's Report

Board of Directors
Brookshire Municipal Water District
Brookshire, Texas

I have audited the accompanying government - wide financial statements of Brookshire Municipal Water District, Brookshire, Texas, as of and for the year ended August 31, 2011, as listed in the table of contents. These government - wide financial statements are the responsibility of Brookshire Municipal Water District's management. My responsibility is to express an opinion on these government - wide financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the government - wide financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the government - wide financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall government - wide financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the government - wide financial statements referred to above present fairly, in all material respects, the financial position of the Brookshire Municipal Water District, as of August 31, 2011, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management Discussion and Analysis on pages 5 to 8, Budgetary Comparison Schedule – General Fund on page 23, and the additional information on pages 29 to 38, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Houston, Texas
March 14, 2012



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BROOKSHIRE MUNICIPAL WATER DISTRICT

**Management's Discussion and Analysis
For The Year Ended August 31, 2011
(unaudited)**

As management of Brookshire Municipal Water District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended August 31, 2011.

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 two components: 1) government – wide financial statements and 2) notes to the financial statements. This report also contains supplementary information required by GASBS 34 and the Texas Commission of Environmental Quality in addition to the basic financial statements themselves.

Government – wide financial statements – The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities presents information showing how the District's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide financial statements present the business activities of the District. The District provided water and sewer service the citizens residing within the boundaries of the district. The government – wide financial statements can be found on page 10-11 of this report.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government – wide financial statements. The notes to the financial statements can be found on pages 12-22.

BROOKSHIRE MUNICIPAL WATER DISTRICT

**Management's Discussion and Analysis
For The Year Ended August 31, 2011
(unaudited)**

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Other Information – In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information required by GASBS 34 and the Texas Commission on Environmental Quality. The required supplementary information can be found on pages 23-38.

FINANCIAL HIGHLIGHTS

- The District's assets exceeded its liabilities by \$2,833,635 (Net Assets) as of the close of the fiscal year, August 31, 2011. The net assets are made up of: 1) investment in capital assets (\$2,011,385), 2) reserved or restricted for capital improvements (\$881,559), and 3) unrestricted ((59,309)).
- The District's revenue for services for the year ended August 31, 2011 and 2010 were \$1,160,638 and \$1,148,419. Actual total revenue for the year ended August 31, 2011 was under budgeted revenue by \$35,545.
- Overall expenditures excluding depreciation for the year ended August 31, 2011 and 2010 were \$1,698,053 and \$1,662,232. Actual total expenditures for the year ended August 31, 2011 were over budgeted expenditures by \$48,203.
- Over the last two fiscal years the District has completed several capital projects which has enabled the District to provide better service to the citizens in the district.

FINANCIAL ANALYSIS OF THE WATER DISTRICT AS A WHOLE

The largest portion of the District's net assets (71%) reflects its investments in capital assets (e.g. land, buildings, equipment, furniture and fixtures, and the water and sewer system). These capital assets are used to provide water and sewer services to the citizens of the District. These capital assets are fully paid for and the District has \$881,559 in restricted or reserved net assets for capital improvements.

BROOKSHIRE MUNICIPAL WATER DISTRICT

Management's Discussion and Analysis
For The Year Ended August 31, 2011
(unaudited)

FINANCIAL ANALYSIS OF THE WATER DISTRICT AS A WHOLE (continued)

Brookshire Municipal Water District Net Assets

	2011	2010
Current and other assets	\$ 1,146,483	\$ 1,488,787
Capital assets	2,011,355	1,744,193
	<u>3,157,838</u>	<u>3,232,980</u>
Current and other liabilities	324,203	275,415
	<u>324,203</u>	<u>275,415</u>
Net assets:		
invested in Capital Assets	2,011,385	1,744,193
Restricted	736,661	730,785
Reserved	144,898	356,849
Unrestricted	(59,309)	125,738
	<u>\$ 2,833,635</u>	<u>\$ 2,957,565</u>

Brookshire Municipal Water District Revenue and Expenditures

	2011	2010
Revenue	\$ 1,313,192	\$ 1,722,399
Expenditures		
Operating	1,322,817	1,206,754
Depreciation	114,305	111,352
	<u>1,437,122</u>	<u>1,318,106</u>
Revenue Over (Under) Expenditures	<u>\$ (123,930)</u>	<u>\$ 404,293</u>

BROOKSHIRE MUNICIPAL WATER DISTRICT

**Management's Discussion and Analysis
For The Year Ended August 31, 2011
(unaudited)**

FINANCIAL ANALYSIS OF THE WATER DISTRICT AS A WHOLE (continued)

During the year ended August 31, 2011 total liabilities increased 18% while current and other assets decreased 23%. Unrestricted net assets decreased 148% during the year ended August 31, 2011. Management feels the financial health of the District is good and expected to become better over the next year.

FINANCIAL ANALYSIS OF GOVERNMENT FUNDS

The fund balance/net assets are reported in four categories: 1) investment in capital assets, 2) reserved for capital expenditures, 3) restricted, and 4) unrestricted. The fund balance/net assets – investment in capital assets increased during the year. The increase is due to the capital expenditures being in excess of depreciation expense for the year. The reserve for capital expenditures increased during the year. The restricted fund balance/net assets increased during the year. These funds are from impact fees charged by the District for new connections to the water and sewer system to offset additional capital requirements due to the increased use of the system. The unrestricted fund balance/net assets are for the District's use in operations of the water and sewer system. The District has adequate fund balance/net assets for its operations.

ANALYSIS OF CHANGES IN CAPITAL ASSETS AND LONG-TERM DEBT

The 2011-2012 budget provides \$80,000 for various capital expenditures. The District is always seeking to improve the quality of its service through the improvement and maintenance of its water and sewer system. As of August 31, 2011 the District had no debt.

THE BUDGET, ECONOMIC ENVIRONMENT, AND RATES

The District's budget for fiscal year 2012 provides for revenue of \$1,281,800 and expenditures (excluding capital expenditures) of \$1,332,450. Capital expenditures budget is \$80,000. The District's 2012 budget is 5% lower for revenue and 14% lower for expenditures than the fiscal 2011 budget. The District's financial position is strong and expected to remain strong in the coming year.

GOVERNMENT – WIDE FINANCIAL STATEMENTS

BROOKSHIRE MUNICIPAL WATER DISTRICT
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET

August 31, 2011

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>	<u>Adjustments (Note 11)</u>	<u>Statement of Net Assets</u>
<u>Assets</u>					
Cash					
Unrestricted	\$ 207,998	\$	\$ 207,998	\$	\$ 207,998
Restricted	693,414	77	693,491		693,491
Accounts receivable - (net of \$12,049 allowance for doubtful accounts)	184,120		184,120		184,120
Delinquent taxes receivable		48,176	48,176		48,176
Due from City of Brookshire		12,668	12,668		12,668
Capital assets (net of depreciation)					
Land				202,737	202,737
Water and sewer system				1,392,835	1,392,835
Other capital assets				415,813	415,813
Total Assets	\$ 1,085,532	\$ 60,921	\$ 1,146,453	2,011,385	3,157,838
<u>Liabilities</u>					
Accounts payable	\$ 93,765	\$	\$ 101,252	\$	\$ 101,252
Refundable deposits	103,532		103,532		103,532
Accrued compensated absences				34,017	34,017
Deferred tax revenue		48,176	48,176		48,176
Due to City of Brookshire	36,586		36,586		36,586
Due to Volunteer Fire Department & EMS	640		640		640
Total Liabilities	234,523	55,663	290,186	34,017	324,203
<u>Fund Balance/Net Assets</u>					
Fund Balances:					
Reserved for capital expenditures	139,640	5,258	144,898	(144,898)	
Restricted - Impact fee - Water	481,028		481,028	(481,028)	
Restricted - Impact fee - Sewer	255,633		255,633	(255,633)	
Undesignated and unreserved	(25,292)		(25,292)	25,292	
Total Fund Balances	851,009	5,258	856,267	(856,267)	
Total Liabilities and Fund Balances	\$ 1,085,532	\$ 60,921	\$ 1,146,453		
Net assets:					
Investment in capital assets				2,011,385	2,011,385
Reserved for capital expenditures				144,898	144,898
Restricted				736,661	736,661
Unrestricted				(59,309)	(59,309)
Total Net Assets				\$ 2,833,635	\$ 2,833,635

See independent auditor's report and notes to financial statements.

BROOKSHIRE MUNICIPAL WATER DISTRICT
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

For the Year Ended August 31, 2011

	General	Debt Service	Total	Adjustments (Note 11)	Statement of Activities
Revenues					
Charges for water and sewer service	\$ 1,160,638	\$ 32	\$ 1,160,638	\$ 32	1,160,638
Taxes					32
Tap connection fees and permit fees	7,906	67	7,906		7,906
Penalty and interest	53,428	88	53,495		53,495
Interest on investments	1,403		1,491		1,491
Miscellaneous	89,630		89,630		89,630
Total Revenues	1,313,005	187	1,313,192		1,313,192
Expenditures/expenses:					
Service operations					
Personal Services	464,690		464,690	6,261	470,951
Purchased and contracted services	430,237		430,237		430,237
Consumable supplies and materials	77,565		77,565		77,565
Operating expenditures	170,775		170,775		170,775
Professional fees	86,488		86,488		86,488
Capital Outlay	468,298		468,298	(381,497)	86,801
Depreciation				114,305	114,305
Total Expenditures/Expenses:	1,698,053		1,698,053	(260,931)	1,437,122
Revenues Over (Under) Expenditures	(385,048)	187	(384,861)	260,931	(123,930)
Transfers	86,921	(86,921)			
Fund balances/net assets - Beginning	1,149,136	91,992	1,241,128	1,716,437	2,957,565
Fund Balances/Net Assets - Ending	\$ 851,009	\$ 5,258	\$ 856,267	\$ 1,977,368	\$ 2,833,635

See independent auditor's report and notes to financial statements.

BROOKSHIRE MUNICIPAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – CREATION OF DISTRICT

Brookshire Municipal Water District (the “District”) was created by the 51st Legislature of Texas in 1951 and confirmed by the electorate. The Board of Directors held its first meeting in February, 1952, and the first bonds were sold in March, 1952.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the District conform with accounting principles generally accepted in the United States of America. The following is a summary of the most significant policies:

A. Reporting Entity

The District is a political subdivision of the State of Texas governed by an elected five member board and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the District’s financial reporting entity. Based on these considerations, no other entities, organizations, or functions have been included in the District’s financial reporting entity. Additionally, as the District is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the District’s financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the District is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the District’s financial reporting entity status is that of a primary government are: that it has a separately elected governing body; it is legally separate; and it is fiscally independent of other state and local governments. Although not considered significant in the District’s reporting entity evaluation, other prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable; and considerations pertaining to other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

BROOKSHIRE MUNICIPAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, fund equity, revenues, and expenditures. Following is a description of the various funds:

Governmental Fund Types

General Fund

The General Fund is used to account for the operation of the District's water and sewer system and all other financial transactions not properly includable in other funds. The principal sources of revenue are related to water and sewer service operations. Expenditures include all costs associated with the daily operations of the District.

Debt Service Fund

The Debt Service Fund accounts for collection of taxes and the payment of interest and principal on the district's general long-term debt. As of August 31, 2009 there were no outstanding bonds. The balance of funds will be used by the District for capital improvements.

C. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. As such, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing resources) and decreases (expenditures and other financing uses) in net current assets.

The District utilizes the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become both measurable and available (see discussion regarding property taxes below). Revenues accrued generally include income from District operations. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for unmatured principal and interest on general long-term debt, which is recognized when due.

BROOKSHIRE MUNICIPAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Accounting (continued)

Property tax revenues are generally recognized in the period for which the tax levy was made. Property taxes receivable at the end of the fiscal year are treated as deferred revenues because they are not considered available to pay liabilities of the current period. The District levies taxes for debt service purposes only.

D. Budget – General Budget Policies

The budget for the District shall present a plan for the ensuing fiscal year. It shall set forth all proposed expenditures for the administration, operations and maintenance of all departments of the District for which appropriations are required to be made or taxes levied by the District. The budget shall also include: (1) all expenditures for capital projects to be undertaken or executed during the fiscal year; (2) all interest and debt redemption charges during the fiscal year and the actual or estimated operating deficits from prior fiscal years. In addition, thereto, the budget shall set forth the anticipated income and other means of financing the total proposed expenditures of the District for the fiscal year.

Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation – is utilized in the governmental funds. Encumbrances outstanding at year-end (if any) are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year,

All appropriations lapse at year-end.

BROOKSHIRE MUNICIPAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Budget – General Budget Policies (continued)

The budget for the general fund is adopted on a basis consistent with accounting principals generally accepted in the United States of America. The debt service fund has no legally adopted budget. The legal level of control is the total approved budget for each fund. The Board must approve all transfers from one department to another or from one fund to another. The original budget is used in the report.

E. Capital Asset

Capital assets, which includes property, equipment, furniture & fixtures, and water and sewer system, are reported in the applicable columns in the government-wide financial statements. All capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset life are not capitalized. Depreciation has been calculated using the straight-line method. Estimated useful lives are as follows:

Water and Sewer System	25 Years
Furniture, Fixtures, and Equipment	5-10 Years

F. Debt Service

As of August 31, 2011 there were no bonds outstanding. The District did not levy taxes in the year ended August 31, 2011.

G. Restricted Assets

Resources set aside for a specific purpose are classified as restricted assets on the balance sheet because applicable covenants or contractual agreements limit their use.

BROOKSHIRE MUNICIPAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 3 – DEPOSITS AND INVESTMENTS

At August 31, 2011, the carrying amount of the District's deposits was \$312,488, and the bank balance was \$425,843. Of the bank balance, \$425,843 was covered by federal depository insurance or by collateral or insurance held in the pledging financial institutions' trust department in the District's name.

The District's investments are categorized as either insured or registered, or securities held by the government or by its agent in the government's name. The securities have a carrying amount of \$1,325,000 and a market value of \$959,797.

The District is authorized to invest funds in accordance with its investment policy and the Texas Public Investment Act. Legal provisions generally permit the District to invest in direct and indirect obligations of the United States of America or its agencies, certain certificates of deposit, repurchase agreements, public funds investment pools and mutual funds. During the year ended August 31, 2011, the District did not own any types of securities other than those permitted by statute.

NOTE 4 – RESTRICTED ASSETS

As of August 31, 2011 the Debt Service Fund had a balance of \$5,258. All bonds have been paid and the balance may be used for capital improvements in the district.

BROOKSHIRE MUNICIPAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 5 – PROPERTY TAXES

The District's bond resolutions require that property taxes be levied for use in paying interest and principal on long-term debt and for use in paying the cost of assessing and collecting taxes. Property taxes are collected for based on rates adopted for the year of the levy. The District did not levy taxes for tax year 2010. As of August 31, 2011 all bonds have been paid. Property taxes receivable at August 31, 2011 consisted of the following:

	Amount
Prior levies	<u>\$ 48,176</u>

NOTE 6 – CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets net of depreciation for the year ended August 31, 2011, follows:

	September 1, 2010	Additions	Depreciation/ Retirements	Balance August 31, 2011
Land and facilities	1,653,872	\$ 354,507	\$ 97,472	1,910,907
Furniture fixtures	18,767	24,281	4,317	38,731
Equipment	71,548	2,715	12,516	61,747
Totals	1,744,187	\$ 381,503	\$ 114,305	2,011,385

BROOKSHIRE MUNICIPAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 7 – CHANGES IN GENERAL LONG-TERM DEBT, DEBT SERVICE REQUIREMENTS, AND BOND RESOLUTION REQUIREMENTS

At August 31, 2011 the District had no outstanding debt.

At August 31, 2011, the District had \$815,000 voted and unissued bonds.

NOTE 8 – COMPENSATED ABSENCES

Sick leave and vacation leave are accrued and recorded in the General Fund. The only liability recognized for sick leave is for those benefits that are required to be paid at retirement.

NOTE 9 – PENSION PLAN

A. Plan Description

The Brookshire Municipal Water District provides retirement, disability, and death benefits for all full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The TCDRS Board of Trustees is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 610 nontraditional defined benefit pension plans. TCDRS in the aggregate issued a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the Board of Trustees at P.O.Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the governing body of the employer within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 10 or more years of service, with 20 years of service regardless of age, or when the sum of their age and years of service equals 80 or more. Members are vested after 10 years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

BROOKSHIRE MUNICIPAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 9 – PENSION PLAN

A. Plan Description - continued

Benefit amounts are determined by the sum of the employee's deposits to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated deposits and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TDRCS Act.

B. Funding Policy

The employer has chosen a Fixed-Rate plan under the provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the regular 7.24% contribution rate of the employer is a fixed percent equal to the 7% deposit rate payable by the employee members as adopted by the governing body of the employer. This regular contribution rate of the employer is not actuarially determined and is one of the rates that can be adopted in accordance with the TCDRS Act. However, the plan of benefits adopted by the employer at the time of plan inception or when benefit increases were adopted was limited by the TCDRS Act to what the actuary determined could be adequately financed by the commitment to contribute the same amount as the employees. The employee deposit rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

If a plan has had adverse experience, the TCDRS Act has provisions which allow the employer to contribute a fixed supplemental contribution rate determined by the System's actuary above the regular rate for 25 years or to reduce benefits earned in the future.

During the year ended August 31, 2011, the employer contributed a total rate of 7.24%.

BROOKSHIRE MUNICIPAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 9 – PENSION PLAN (continued)

C. Annual Pension Cost

For the employer's accounting year ending August 31, 2011, the annual pension cost for the TCDRS plan for its employees was \$19,053 and the actual contributions were \$19,053.

The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees, and were in compliance with the GSAB Statement No. 27 parameters based on the actuarial valuation as of December 31, 2010, the basis for determining the contribution rate for calendar year 2010. The December 31, 2010 actuarial valuation is the most recent valuation.

Actuarial Valuation Information

Actuarial valuation date	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10
Actuarial cost method	entry age				
Amortization method	level percentage of payroll, open				
Amortization period	30.0	30.0	30.0	30.0	30.0
Asset valuation method	long-term appreciation with adjustment				
Actuarial Assumptions:					
Investment return	8.00%	8.00%	8.00%	8.00%	8.00%
Projected salary increases	5.30%	5.30%	5.30%	5.40%	5.40%
Inflation	3.50%	3.50%	3.50%	3.50%	3.50%
Cost-of-Living adjustments	0%	0%	0%	0%	0%

* Includes inflation at the stated rate

BROOKSHIRE MUNICIPAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 9 – PENSION PLAN (continued)

C. Annual Pension Cost (continued)

Trend Information for the Pension Plan for the Employees of Brookshire Municipal Water District.

Trend Information for the Retirement Plan for the Employees of Brookshire Municipal Water District

Accounting Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
August 31, 2007	\$ 17,401	100%	0
August 31, 2008	\$ 11,496	100%	0
August 31, 2009	\$ 10,102	100%	0
August 31, 2010	\$ 15,470	100%	0
August 31, 2011	\$ 19,053	100%	0

Actuarial Valuation Date	UAAL as a Percentage of Covered Payroll					
	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	
						(((b-a)/c)
12/31/06	759,260	708,387	(50,873)	107.18%	255,101	-19.94%
12/31/07	832,449	779,184	(53,265)	106.84%	227,854	-23.38%
12/31/08	823,189	855,622	32,433	96.21%	256,556	12.64%
12/31/09	919,181	911,521	(7,660)	100.84%	289,142	-2.65%
12/31/10	972,700	963,306	(9,394)	100.98%	249,468	-3.77%

D. Transition Disclosure

It was determined in accordance with GASB Statement No. 27 that the pension liability was zero at the transition to that statement effective at the beginning of this accounting year, because all actuarially required contributions for the accounting years beginning in 1987 up to the beginning of this accounting year have been paid. There was no previously reported pension liability before the transition. Therefore, the difference between the pension liability at transition and previously reported pension liability is zero.

BROOKSHIRE MUNICIPAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 10 – RISK MANAGEMENT

The Governmental Accounting Standards Board (GASB) issued Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which establishes standard accounting and financial reporting practices for public entity risk pools and governmental entities. In accordance with GASB Statement No. 10, we make the following disclosures.

The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; personal injuries; and natural disasters. The risk of losses is covered by commercial insurance. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE 11 – ADJUSTMENTS TO THE FINANCIAL STATEMENTS

The government-wide balance sheet has been adjusted to reflect the capital assets net of depreciation in the amount of \$2,011,385 and accrued compensated absences of \$34,017. The government-wide statement of activities has been adjusted to reflect the capitalization of assets in the amount of \$381,497, and depreciation of \$114,305.

BROOKSHIRE MUNICIPAL WATER DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY COMPARISON SCHEDULE -
GENERAL FUND - YEAR ENDED AUGUST 31, 2011

	2011		Variance Favorable (Unfavorable)	2010 Actual
	Budget	Actual		
Revenues				
Services	\$ 1,250,000	\$ 1,160,638	\$ (89,362)	\$ 1,148,419
Tap connection, sewer inspection, and permit fees	12,950	7,906	(5,044)	8,055
Penalty and interest	69,300	53,428	(15,872)	59,992
Interest on investments	2,500	1,403	(1,097)	2,291
Miscellaneous	<u>13,800</u>	<u>89,630</u>	<u>75,830</u>	<u>501,559</u>
Total Revenues	1,348,550	1,313,005	(35,545)	1,720,316
Expenditures				
Current:				
Personal services	573,000	464,690	108,310	475,225
Purchased and contracted services	373,500	430,237	(56,737)	324,995
Consumable supplies and materials	108,400	77,565	30,835	114,997
Operating expenditures	204,950	170,775	34,175	219,205
Professional fees	83,500	86,488	(2,988)	89,556
Capital Outlay	306,500	468,298	(161,798)	438,254
Total Expenditures	1,649,850	1,698,053	(48,203)	1,662,232
Revenues Over Expenditures	(301,300)	(385,048)	(83,748)	58,084
Transfer				
Fund balance - Beginning	1,149,136	1,149,136		1,055,511
Fund Balance - Ending	\$ 847,836	\$ 851,009	\$ (83,748)	\$ 1,149,136

See independent auditor's report and notes to financial statements.

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ADDITIONAL INFORMATION

***MICHAEL D. SLOAN, P.C.
CERTIFIED PUBLIC ACCOUNTANT
10515 SADDLEHORN TRAIL
HOUSTON, TEXAS 77064***

Phone 281-890-3042

**Independent Auditors' Report
On Additional Information**

Board of Directors
Brookshire Municipal Water District
Brookshire, Texas

My audit was made for the purpose of forming an opinion on the government – wide financial statements taken as a whole. The following additional information is presented for purposes of additional analysis and is not a required part of the government – wide financial statements of the District. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in my opinion, is fairly presented in all material respects in relation to the government – wide financial statements taken as a whole.



Houston, Texas
March 14, 2012

Note: On the back of this page is a list of Additional Schedules included within this report.

BROOKSHIRE MUNICIPAL WATER DISTRICT
ADDITIONAL SCHEDULES INCLUDED WITHIN THIS REPORT

August 31, 2011

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

BROOKSHIRE MUNICIPAL WATER DISTRICT

TSI -1. SERVICES AND RATES

Year Ended August 31, 2011

1. Services provided by the District:

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

2. Retail rates based on 5/8" meter:

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

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate per 1,000 Gallons Over Minimum	Usage Levels
Residential Rates					
Water	\$ 11.00	2,500	N	\$ 1.25 \$ 1.40 \$ 1.50 \$ 1.75 \$ 2.25 \$ 3.00	2,501 to 5,000 5,001 to 7,500 7,501 to 10,000 10,001 to 15,000 15,001 to 20,000 20,001 and over
Sewer	\$ 13.50	2,500	N	\$ 1.65 \$ 1.80 \$ 1.95 \$ 2.25 \$ 2.90 \$ 3.90	2,501 to 5,000 5,001 to 7,500 7,501 to 10,000 10,001 to 15,000 15,001 to 20,000 20,001 and over
Commercial Rates					
Water	\$ 25.00	10,000	N	\$ 2.50 \$ 3.00 \$ 4.00 \$ 5.00	10,001 to 20,000 20,001 to 50,000 50,001 to 100,000 100,001 and over
Sewer	\$ 32.50	10,000	N	\$ 3.25 \$ 3.90 \$ 5.20 \$ 6.50	10,001 to 20,000 20,001 to 50,000 50,001 to 100,000 100,001 and over

BROOKSHIRE MUNICIPAL WATER DISTRICT

TSI -1. SERVICES AND RATES (continued)

Year Ended August 31, 2011

2. Retail rates based on 5/8" meter (continued):

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

District employs winter averaging for wastewater usage?	Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
Total charges per 10,000 gallons usage - Residential:	Water:	<u>\$ 21.38</u>	Sewer:	<u>\$ 27.01</u>
Total charges per 10,000 gallons usage - Commercial:	Water:	<u>\$ 25.00</u>	Sewer:	<u>\$ 32.50</u>

b. Water and Wastewater Retail Connections:

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
3/4"	1523	1348	x 1.0	1,348
1"	65	63	x 2.5	158
1 1/2"	9	8	x 5.0	40
2"	46	45	x 8.0	240
3"	5	4	x 12.0	48
4"	1	1	x 25.0	25
6"	2	1	x 50.0	50
8"	1	1	x 75.0	75
Total Water	<u><u>1652</u></u>	<u><u>1471</u></u>		
Total Wastewater	<u><u>1439</u></u>	<u><u>1417</u></u>		

BROOKSHIRE MUNICIPAL WATER DISTRICT

TSI-1. SERVICES AND RATES (continued)

Year Ended August 31, 2011

3. Total water consumption during the fiscal year (rounded to the nearest 1,000)

Gallons pumped into system	<u>175,355,400</u>
Gallons billed to customers	<u>165,165,813</u>

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

Does the District have Debt Service standby fees? Yes No X

If yes, Date of the most recent Commission Order: N/A

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

If yes, Date of the most recent Commission Order: N/A

Have standby fees been levied in accordance with Water Code Section 49.231, thereby constituting a lien on property: N/A Yes No

5. Location of District

County(ies) in which the District is located: Waller

Is the District located entirely within one county? Yes X No

Is the District located within a city? Entirely Partly X Not at all

City(ies) in which the District is located: City of Brookshire

Is the District located within a city's extra territorial jurisdiction(ETJ) Entirely Partly X Not at all

ETJ's in which the District is located: City of Brookshire

Are Board members appointed by an office outside the district? Yes No X

If Yes, by whom? N/A

BROOKSHIRE MUNICIPAL WATER DISTRICT

TSI - 2. GENERAL FUND EXPENDITURES

Year Ended August 31, 2011

		<u>2011</u>
Payroll and Benefits:		
Payroll and benefits		\$ 417,144
		<u>417,144</u>
Professional Fees:		
Auditing		13,800
Legal		<u>62,726</u>
		<u>76,526</u>
Contract Services:		
Tax assessing & collecting		2,213
Solid waste disposal		<u>57,460</u>
		<u>59,673</u>
Utilities:		174,309
		<u>174,309</u>
Repairs and Maintenance:		231,330
		<u>231,330</u>
Administration Expenditures:		
Board of directors fees		30,975
Office supplies and postage		17,576
Insurance		7,386
Administrative expenses		79,732
Other expenses		<u>135,104</u>
		<u>270,773</u>
Capital Outlay		
Acquisition of fixed assets		468,298
		<u>468,298</u>
Total Expenditures		\$ 1,698,053

Number of persons employed by the District:

Full-Time _____ 10
Part-Time

BROOKSHIRE MUNICIPAL WATER DISTRICT

TSI - 3. TEMPORARY INVESTMENTS

August 31, 2011

<u>Funds</u>	<u>Identifi- cation or Certificate Number</u>	<u>Interest Rate (%)</u>	<u>Balances at August 30, 2011</u>
<u>General Fund</u>			
Unrestricted			
Texpool	23752-1111-0	0.2307%	\$ 156,719
Texas Class Investments	TX-0-0456-0001	0.1400%	62,408
			<u>219,127</u>
Restricted			
Texpool	23752-0000-3	0.2307%	376,186
Texpool	23752-0000-4	0.2307%	130,985
Texpool	23752-1111-000	0.2307%	85,994
Texas Class Investments	TX-0-0456-0002	0.1400%	30,218
			<u>406,404</u>
Total General Fund			\$ 625,531

BROOKSHIRE MUNICIPAL WATER DISTRICT

TSI - 4. TAXES LEVIED AND RECEIVABLE

Year Ended August 31, 2011

	Debt Service Fund
Taxes receivable - September 1, 2010	<u>\$ 48,208</u>
2010 Original tax roll	
Additions and corrections	
Adjusted 2010 tax roll	
Adjustments and corrections to prior tax rolls	
Total to be Accounted for	<u>48,208</u>

Tax Collections

Current year	
Prior years - collections and adjustments	<u>32</u>
Total Collections	<u>32</u>
Taxes Receivable - August 31, 2011	<u>\$ 48,176</u>

Taxes Receivable - By Years

Prior years	<u>\$ 48,176</u>
Taxes Receivable - August 31, 2011	<u>\$ 48,176</u>

Property Valuations	2011	2010	2009	2008	2007
Real property	\$ 156,438,322	\$ 121,545,301	\$ 155,615,350	\$ 125,446,322	\$ 114,272,905
Personal property	\$ 56,061,810	\$ 72,583,687	\$ 70,300,022	\$ 65,023,743	\$ 48,296,075
Total Property Valuations	\$ 212,500,132	\$ 194,128,988	\$ 225,915,372	\$ 190,470,065	\$ 162,568,980

BROOKSHIRE MUNICIPAL WATER DISTRICT

TSI - 4 OF TAXES LEVIED AND RECEIVABLE

Year Ended August 31, 2011

Tax rate for any other special district which (a) encompasses less than a county, (b) provides water, waste-water collection, drainage, or roads to property in the District AND (c) has tax property in the District.

<u>Name of Special District(s)</u>	<u>Service Provided</u>	<u>Tax Rate</u>
None		\$ _____
Total Rate(s) of Special District(s)		\$ _____

Tax rate for all overlapping jurisdictions. Include any taxing entities which overlap ten percent or more of the District.

<u>Taxing Jurisdiction</u>	<u>Tax Rate</u>
a. Brookshire-Katy Drainage District	\$ 0.093355
b. Waller County	0.682031
c. Royal Independent School District	1.630000
d. City of Brookshire	0.640000
e. Waller Harris Emergency Service District	0.094400
f. _____	_____
g. District tax rate	0.000000
Total Overlapping Tax Rate	\$ 3.139786

BROOKSHIRE MUNICIPAL WATER DISTRICT

TSI - 7a. COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES -
GENERAL FUND - FIVE YEARS ENDED

August 31, 2011

	Amounts					Percent of Total Fund Revenues				
	2011	2010	2009	2008	2007	2011	2010	2009	2008	2007
General Fund Revenues										
Service revenues	\$ 1,160,638	\$ 1,148,419	\$ 1,094,598	\$ 1,194,881	\$ 977,464	88.4 %	93.1 %	88.9 %	87.9 %	81.1 %
Tap connection, penalties, and other fees	152,367	85,055	135,997	164,168	227,211	11.6	6.9	11.1	12.1	18.9
Total General Fund Revenues	1,313,005	1,233,474	1,230,595	1,359,049	1,204,675	100.0	100.0	100.0	100.0	100.0
General Fund Expenditures										
Current:										
Payroll and benefits	464,690	475,225	425,048	370,375	366,863	35.4	38.5	34.5	27.3	30.5
Purchased and contract services	430,237	324,995	376,103	292,401	274,518	32.8	26.3	30.6	21.5	22.8
Consumable supplies and materials	77,565	114,997	93,070	79,069	79,385	5.9	9.3	7.6	5.8	6.6
Recurring operating expenses	170,775	219,205	136,031	167,524	110,629	13.0	17.8	11.1	12.3	9.2
Professional fees	86,488	89,556	51,207	86,852	52,020	6.6	7.3	4.2	6.4	4.3
Capital outlay	468,298	270,699	70,261	164,531	24,640	35.7	21.9	5.7	12.1	2.0
Debt Service										
Total General Fund Expenditures	1,698,053	1,494,677	1,151,720	1,160,752	908,055	129.4	121.1	93.7	85.4	75.4
General Fund Revenues										
Over (Under) Expenditures	\$ (385,048)	\$ (261,203)	\$ 78,875	\$ 198,297	\$ 296,620	(29.40) %	(21.1) %	6.3 %	14.6 %	24.6 %

BROOKSHIRE MUNICIPAL WATER DISTRICT

TSI - 7b. COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES -
DEBT SERVICE FUND - FIVE YEARS ENDED

August 31, 2011

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
<u>Debt Service Fund Revenues</u>										
Property taxes, including penalties	\$ 99	\$ 1,823	\$ 467	\$ 2,764	\$ 2,419	52.9 %	87.5 %	34.5 %	44.0 %	30.9 %
Interest on deposits	88	260	885	3,516	5,408	47.1	12.5	65.5	56.0	69.1
Total Debt Service Fund Revenues	187	2,083	1,352	# 6,280	7,827	100.0	100.0	100.0	100.0	100.0
<u>Debt Service Fund Expenditures</u>										
Operating expenditures			125						9.2	
Principal retirement										
Interest										
Total Debt Service Fund Expenditures	125	<b">125</b">	<b">125</b">	<b">125</b">	<b">125</b">	<b">125</b">	<b">125</b">	<b">125</b">	<b">125</b">	125
<u>Debt Service Fund Revenues</u>										
Over Expenditures	\$ 187	\$ 2,083	\$ 1,227	\$ 6,280	\$ 7,827	100.0 %	100.0 %	90.8 %	100.0 %	100.0 %
Total Active Retail Water/Wastewater Connections	1,471	1,458	1,492	1,485	1,601					

BROOKSHIRE MUNICIPAL WATER DISTRICT

TSI - 8. BOARD MEMBERS, KEY PERSONNEL, AND CONSULTANTS

August 31, 2011

District's Mailing Address: Brookshire Municipal Water District
P.O.Box 1850
Brookshire TX 77423

District's Business Telephone Number: (281) 375-5010

Name and Address	Term of Office Elected and Expires	Fees	Title at Year End	Resident of District?	Reimbursed Expenses *
<u>Board Members</u>					
Kirk Glover 3534 Steller Road Katy, Texas 77492	05/08 05/12	\$ 7,200	President	Yes	\$ 4,439
Paulette Lasker 3123 Stellar Brookshire TX 77423	05/10 05/14	5,100	Secretary	Yes	1,034
Albert Wilkins P.O. Box 941 Brookshire TX 77423	05/08 05/12	7,650 **	Vice President	Yes	1,033
Edith Penrice 3102 Third Street Brookshire TX 77423	05/08 05/12	7,200	Investment Officer	Yes	1,415
Stephanie Green 517 Solomon Lane Brookshire TX 77423	05/10 05/14	4,650	Assistant Secretary	Yes	513
<u>Key Administrative Personnel</u>					
		<u>Salary</u>			
Tonya J. Pierre P.O.Box 1850 Brookshire TX 77423	6/2006	61,679	General Manager	No	3,945
Norman C. Vaughn 34431 IH-10 Brookshire, TX 77423	7/2006	58,079	Field Manager	Yes	1,971

* The reimbursed expenses are for mileage and meals related to attending training.

** The fees paid Director Wilkins is in excess of what Section 49.060 of the Texas Water Code allows.
He was informed of the excess fees and has made arrangements to pay back the excess fees.

BROOKSHIRE MUNICIPAL WATER DISTRICT

TSI - 8. BOARD MEMBERS, KEY PERSONNEL, AND CONSULTANTS (continued)

August 31, 2011

<u>Name and Address</u>	<u>Term of Office Elected and Expires</u>	<u>Professional Fees</u>	<u>Title at Year End</u>
<u>Consultants</u>			
Olson & Olson Wortham Tower, Suite 600 2727 Allen Parkway Houston TX 77019	02/83	0	Legal
Linebarger, Goggan, Blair, & Sampson 1301 Travis, Suite 300 Houston, TX 77002	07/06	0	Legal
Johnson, Radcliffe, Petrov, & Bobbitt PLLC 1001 McKinney, Suite 1000 Houston, Texas 77002	08/06	62,726	Legal
Michael D. Sloan, P.C. 10515 Saddlehorn Trail Houston, TX 77064	Annual	18,800	Auditors

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MICHAEL D. SLOAN, P.C.
CERTIFIED PUBLIC ACCOUNTANT
10515 SADDLEHORN TRAIL
HOUSTON, TEXAS 77064

Phone 281-890-3042

Independent Auditor's Report
On Internal Control

Board of Directors
Brookshire Municipal Water District
Brookshire, Texas

In planning and performing my audit of the government - wide financial statements of Brookshire Municipal Water District for the year ended August 31, 2011, I considered its internal control in order to determine my auditing procedures for the purpose of expressing an opinion on the government - wide financial statements and not to provide assurance on the internal control. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or irregularities in the amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, I noted no matters involving the internal control and its operation that I consider to be material weaknesses as defined above.

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

I would like to thank the District's Board and consultants for their cooperation during the course of our audit. Please feel free to contact me at your convenience to discuss this report or any other concerns that you may have.

Houston, Texas
March 14, 2012

