

OFFICIAL STATEMENT DATED FEBRUARY 17, 2016

IN THE OPINION OF BOND COUNSEL, INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER EXISTING LAW AND IS NOT INCLUDED IN THE ALTERNATIVE MINIMUM TAXABLE INCOME OF INDIVIDUALS. SEE "TAX MATTERS" FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL INCLUDING A DESCRIPTION OF CERTAIN ALTERNATIVE MINIMUM TAX CONSEQUENCES FOR CORPORATIONS.

The District will designate the Bonds as "qualified tax-exempt obligations" for financial institutions. See "QUALIFIED TAX-EXEMPT OBLIGATIONS."

NEW ISSUE – Book Entry Only

RATINGS: Standard & Poor's Rating Services (BAM) "AA" (stable outlook)
 Standard & Poor's Rating Services (underlying) "A" (stable outlook)
 (see "MUNICIPAL BOND INSURANCE" and "RATINGS")

\$1,900,000

WEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
 (A Political Subdivision of the State of Texas, located within Harris County)

**WATERWORKS AND SEWER SYSTEM COMBINATION
 UNLIMITED TAX AND REVENUE BONDS, SERIES 2016**

Interest accrues from: March 1, 2016

Due: August 1, as shown below

The \$1,900,000 West Harris County Municipal Utility District No. 2 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2016 (the "Bonds"), are obligations of West Harris County Municipal Utility District No. 2 (the "District"), and are not obligations of the State of Texas, Harris County, Texas, the City of Houston, Texas or any entity other than the District. Neither the faith and credit nor the taxing power of the State of Texas, Harris County, Texas, the City of Houston, Texas nor any entity other than the District is pledged to the payment of the principal of or interest on the Bonds.

The Bonds will be initially registered and delivered only to Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Beneficial owners of the Bonds will not receive physical certificates representing the Bonds, but will receive a credit balance on the books of the nominees of such beneficial owners. So long as Cede & Co. is the registered owner of the Bonds, the principal of and interest on the Bonds will be paid by Amegy Bank, a division of ZB, National Association, Houston, Texas, or any successor paying agent/registrant (the "Paying Agent/Registrar") directly to DTC, which will, in turn, remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds. See "THE BONDS – Book-Entry-Only System." Principal of the Bonds is payable to the registered owner(s) of the Bonds (the "Bondholder(s)") at the principal payment office of the Paying Agent/Registrar upon surrender of the Bonds for payment at maturity or upon prior redemption. Interest on the Bonds is payable on August 1, 2016, and each February 1 and August 1 thereafter to the person in whose name the Bonds are registered as of the 15th day of the calendar month next preceding each interest payment date (the "Record Date"). Unless otherwise agreed between the Paying Agent/Registrar and a Bondholder, such interest is payable by check mailed to such persons or by other means acceptable to such person and the Paying Agent/Registrar. The Bonds are issuable in principal denominations of \$5,000 or any integral multiple thereof in fully registered form only.

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



MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS

\$300,000 Serial Bonds

Due (August 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	Due (August 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)
2022	\$ 70,000	1.500%	1.500%	2024	\$ 75,000	1.850%	1.850%
2023	75,000	1.700%	1.700%	2025(b)	80,000	2.000%	2.050%

\$1,600,000 Term Bonds

- \$255,000 Term Bonds due August 1, 2028(a)(b)(c) Interest Rate 2.375% (Price \$99.732)
- \$285,000 Term Bonds due August 1, 2031(a)(b)(c) Interest Rate 3.000% (Price \$101.856)
- \$205,000 Term Bonds due August 1, 2033(a)(b)(c) Interest Rate 3.000% (Price \$100.000)
- \$225,000 Term Bonds due August 1, 2035(a)(b)(c) Interest Rate 3.000% (Price \$98.549)
- \$240,000 Term Bonds due August 1, 2037(a)(b)(c) Interest Rate 3.125% (Price \$98.843)
- \$390,000 Term Bonds due August 1, 2040(a)(b)(c) Interest Rate 3.500% (Price \$100.000)

- (a) The initial reoffering yield has been provided by the Initial Purchaser (defined herein) and represents the initial offering price to the public of a substantial amount of the Bonds for each maturity. Such initial reoffering yield may subsequently be changed. The initial reoffering yields indicated above represent the lower of the yields resulting when priced to maturity or to the first call date. Accrued interest from March 1, 2016 is to be added to the price.
- (b) The Bonds maturing on and after August 1, 2025 are subject to redemption prior to maturity at the option of the District, as a whole or from time to time in part, on August 1, 2024, or any date thereafter at a price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption. See "THE BONDS – Optional Redemption."
- (c) Subject to mandatory redemption by lot or customary method of random selection on August 1 in the years and amounts set forth herein under the caption "THE BONDS – Redemption of the Bonds – Mandatory Redemption."

The Bonds, when issued, will constitute valid and binding obligations of the District and will be payable solely 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 and are further payable and secured by a pledge of and lien on certain Net Revenues (as defined herein), if any, of the District's waterworks and sewer system (the "System") to the extent and upon the conditions described herein. The System is not expected to produce sufficient Net Revenues to make significant contributions, if any, to future debt service payments. See "THE BONDS - Source of Payment." Neither the State of Texas, Harris County, the City of Houston, nor any political subdivision or municipality, other than the District, shall be obligated to pay the principal of or interest on the Bonds. Neither the faith and credit nor the taxing power of the State of Texas, Harris County, or the City of Houston, or any other political subdivision or municipality thereof, other than the District, is pledged to the payment of the principal of or interest on or the redemption price of the Bonds.

The Bonds constitute the fifth series of unlimited tax and revenue bonds issued by the District for the purposes of acquiring or constructing waterworks, wastewater, and drainage facilities. Following the issuance of the Bonds, \$1,710,000 principal amount of unlimited tax and revenue bonds and \$13,600,000 in principal amount of unlimited tax bonds, which may also be used for the purpose of refunding any outstanding bonds, will remain authorized but unissued for such purposes.

Investment in the Bonds is subject to special INVESTMENT CONSIDERATIONS as described herein. See "INVESTMENT CONSIDERATIONS" herein.

The Bonds are offered when, as and if issued by the District and accepted by the Initial Purchaser, subject among other things to the approval of the initial Bonds by the Attorney General of Texas and the approval of certain legal matters by Bacon & Wallace, L.L.P., Houston, Texas, Bond Counsel. The Bonds in definitive form are expected to be available for delivery in Houston, Texas, on or about March 17, 2016. See "LEGAL MATTERS."

USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

All of the summaries of the statutes, orders, resolutions, contracts, audits, and engineering and other related reports set forth in the Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from Robert W. Baird & Co. Incorporated, 1331 Lamar, Suite 1360, Houston, Texas 77010, the Financial Advisor to the District.

The Financial Advisor has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in the Official Statement in accordance with, and as part of, its responsibility to the District and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

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 that they will be realized. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein since the date hereof. However, the District has agreed to keep this Official Statement current by amendment or sticker to reflect material changes in the affairs of the District and, to the extent that information actually comes to its attention, the other matters described in the Official Statement until delivery of the Bonds to the Initial Purchaser, and thereafter only as specified in "SOURCES OF INFORMATION - Updating of Official Statement" and "CONTINUING DISCLOSURE."

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this final official statement for purposes of, and as that term is defined in, United State Securities and Exchange Commission Rule 15c2-12.

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

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SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Bonds, the District has accepted the bid resulting in the lowest net interest cost, which was tendered by Raymond James & Associates, Inc. (the "Initial Purchaser"). The Initial Purchaser has agreed to purchase the Bonds, bearing the interest rates shown under "MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS" on the cover page of this Official Statement, at a price of 97.159155% of the principal amount thereof plus accrued interest to the date of delivery, which resulted in a net effective interest rate of 3.188190 %, calculated pursuant to Chapter 1204, Texas Government Code, as amended.

Prices and Marketability

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

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

The prices and other terms with respect to the offering and sale of the Bonds may be changed from time to time by the Initial Purchaser after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial reoffering prices, including sales to dealers who may sell the Bonds into investment accounts. IN CONNECTION WITH THE OFFERING OF THE BONDS, THE INITIAL PURCHASER 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.

Securities Laws

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

MUNICIPAL BOND INSURANCE

Bond Insurance Policy

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

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

Build America Mutual Assurance Company

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

The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: www.buildamerica.com.

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

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

Capitalization of BAM

BAM's total admitted assets, total liabilities, and total capital and surplus, as of September 30, 2015 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$480.1 million, \$41.5 million and \$438.6 million, respectively.

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

BAM's most recent Statutory Annual Statement, which has been filed with the New York State Insurance Department and posted on BAM's website at www.buildamerica.com, is incorporated herein by reference and may be obtained, without charge, upon request to BAM at its address provided above (Attention: Finance Department). Future financial statements will similarly be made available when published.

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

Additional Information Available from BAM

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

Obligor Disclosure Briefs. Prior to the pricing of bonds that BAM has been selected to insure, BAM may prepare a pre-sale Obligor Disclosure Brief for those bonds. These pre-sale Obligor Disclosure Briefs provide information about the sector designation (e.g. general obligation, sales tax); a preliminary summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. Subsequent to closing, for any offering that includes bonds insured by BAM, any pre-sale Obligor Disclosure Briefs will be updated and superseded by a final Obligor Disclosure Brief to include information about the gross par insured by CUSIP, maturity and coupon. BAM pre-sale and final Obligor Disclosure Briefs are easily

accessible on BAM's website at buildamerica.com/obligor/. BAM will produce an Obligor Disclosure Brief for all bonds insured by BAM, whether or not a pre-sale Obligor Disclosure Brief has been prepared for such bonds. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

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

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

MUNICIPAL BOND RATING

Standard & Poor's Ratings Services ("Standard & Poor's"), a Standard & Poor's Financial Services LLP business, is located at 55 Water Street, New York, New York 10041, telephone number (212) 208-8000 and has engaged in providing ratings for corporate bonds since 1923 and municipal bonds since 1940. Long-term debt ratings assigned by Standard & Poor's reflect its analysis of the overall level of credit risk involved in financings. At present Standard & Poor's assigns long-term debt ratings with symbols "AAA" (the highest rating) through "D" (the lowest rating).

The Bonds are expected to receive an insured rating of "AA" (stable outlook) from Standard & Poor's solely in reliance upon the issuance of the municipal bond insurance policy issued by BAM at the time of delivery of the Bonds.

The Bonds received an underlying rating of "A" (stable outlook) from Standard & Poor's.

An explanation of the significance of the foregoing ratings may only be obtained from Standard & Poor's. The foregoing ratings express only the views of Standard & Poor's at the time such ratings are given. Furthermore, a security rating is not a recommendation to buy, sell or hold securities. There is no assurance that the ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by Standard & Poor's, if, in their judgment, circumstances so warrant. Any such downward change in or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

The District is not aware of any rating assigned to the Bonds other than the ratings of Standard & Poor's.

OFFICIAL STATEMENT SUMMARY

The following material 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.

THE BONDS

The Issuer West Harris County Municipal Utility District No. 2 (the "District"), a political subdivision of the State of Texas, is located within Harris County, Texas.

The Issue The District is issuing its \$1,900,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2016 (the "Bonds"). Interest accrues from March 1, 2016, and the Bonds mature on August 1 of each of the years and in the amounts shown on the cover hereof. Interest is payable August 1, 2016, and on each February 1 and August 1 thereafter until maturity or prior redemption. The Bonds maturing on and after August 1, 2025 are subject to redemption prior to maturity at the option of the District, in whole or in part, on August 1, 2024, or on any date thereafter, at a price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption. See "THE BONDS - General", and " - Redemption Provisions."

Authority for Issuance..... The Bonds are the fifth series of bonds issued out of \$11,900,000 in principal amount of unlimited tax and revenue bonds and \$13,600,000 in principal amount of unlimited tax bonds, (which may also be used for the purposes of refunding any outstanding bonds) for the purpose of purchasing, constructing, acquiring and maintaining water, wastewater, and drainage facilities to serve the District along with \$8,000,000 in principal amount of bond for the purpose of refunding outstanding bonds authorized by the District's voters. Following the issuance of the Bonds, \$1,710,000 principal amount of unlimited tax and revenue bonds for water, sewer and drainage purposes and \$13,600,000 in principal amount of unlimited tax for water, sewer and drainage purposes (which also may be used for refunding purposes), will remain authorized but unissued. Additionally, there remains \$4,773,149 principal amount of refunding bonds authorized but unissued. See "THE BONDS - Authority for Issuance, and - Issuance of Additional Debt."

Source of Payment..... Principal of and interest on the Bonds are payable 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 and are further payable and secured by a pledge of and lien on certain Net Revenues (as defined herein), if any, of the District's waterworks and sewer system (the "System"), to the extent and on the conditions described herein. It is not expected that Net Revenues will make a significant contribution to the payment of principal and interest on the Outstanding Bonds (hereinafter defined) or the Bonds. The Bonds are obligations solely of the District and are not obligations of the State of Texas, Harris County, the City of Houston or any entity other than the District. See "THE BONDS - Sources of Payment."

Use of Proceeds A portion of the proceeds of the Bonds will be used to (1) reimburse Riddle (as defined herein) for construction and engineering costs of (i) Morton Ranch Road Waterline Extensions Phase I, (ii) Morton Ranch Road Utility Extensions Phase II, (iii) Riddle Holdings Force Main, and (iv) East Grand Parkway Clearing and Grubbing; (2) pay for Phase IV Sanitary Sewer Cleaning and Televising; (3) pay for Sanitary Sewer Cleaning & Televising Area 5-2013; (4) pay for Sanitary Sewer Cleaning & Televising Area 4-2013; and (5) pay for Sanitary Sewer Rehabilitation 2015. Additionally, proceeds from the Bonds will be used to pay 24 months of capitalized interest on the Bonds and certain costs of issuance of the Bonds. See “THE BONDS – Estimated Use and Distribution of Bond Proceeds.”

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 (the “Code”), and will represent that the total amount of tax-exempt bonds (including the Bonds) issued by the District during calendar year 2016 is not reasonably expected to exceed \$10,000,000. See “QUALIFIED TAX-EXEMPT OBLIGATIONS.”

Outstanding Bonds The District has previously issued \$2,000,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1977 (the “Series 1977 Bonds”); \$1,100,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1980 (the “Series 1980 Bonds”); \$800,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1980-A (the “Series 1980-A Bonds”); the Series 1996 Bonds; and the Series 2004 Bonds aggregating \$8,290,000 principal amount of waterworks and sewer system combination unlimited tax and revenue Bonds. Additionally, the District has issued \$3,015,000 Unlimited Tax Refunding Bonds, Series 1992 (the “Series 1992 Refunding Bonds”) and \$2,755,000 Unlimited Tax Refunding Bonds, Series 2012 (Series 2012 Refunding Bonds”) to refund a portion of the previously issued bonds. As of February 1, 2016, \$1,985,000 in principal amount of such previously issued bonds remains outstanding (the “Outstanding Bonds”).

Payment Record The District has never defaulted on the timely payment of principal and interest on its previously issued bonds. See “THE BONDS – Source of Payment.”

Municipal Bond Insurance Build America Mutual Assurance Company (“BAM”). See “MUNICIPAL BOND INSURANCE.”

Ratings Standard & Poor’s Rating Services (BAM) – “AA” (stable outlook). Standard & Poor’s Rating Services (Underlying) – “A” (stable outlook). See “MUNICIPAL BOND INSURANCE” and “RATINGS.”

Legal Opinion Bacon & Wallace L.L.P., Houston, Texas, Bond Counsel. See “LEGAL MATTERS.”

Financial Advisor Robert W. Baird & Co. Incorporated, Houston, Texas.

Paying Agent/Registrar Amegy Bank, a division of ZB, National Association, Houston, Texas

THE DISTRICT

Description..... West Harris County Municipal Utility District No. 2, a political subdivision of the State of Texas, was created by the Texas Water Rights Commission, predecessor to the Texas Commission on Environmental Quality, in 1975. The District contains approximately 529 acres and is located within Harris County, approximately 26 miles west of the central business district of the City of Houston and 3 miles east of the City of Katy. The District lies approximately 1.5 miles north of Interstate Highway 10 (Katy Freeway) and is bounded on the north by Morton Road, on the south by Franz Road and on the east by Elrod Road. The District is within the boundaries of Katy Independent School District and the exclusive extraterritorial jurisdiction of the City of Houston. See "THE DISTRICT - General, and - 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 - General."

Development of the District..... Of the approximately 529 acres of land located within the District, approximately 243 acres within the District have been developed with waterworks, sewer system and drainage facilities. Approximately 195 acres have been developed as approximately 1,240 lots in the single-family residential subdivisions of Williamsburg Colony, Sections 1, 2, 3, & 4 and Williamschase, Sections 1, 2 & 3. Substantially all of the lots developed within the District have been improved with completed homes, of which approximately 11 homes are unoccupied. Approximately 48 acres have been developed as commercial acreage on which two gas stations and two commercial office buildings have been constructed and additional commercial office buildings are under construction. Approximately 144 acres within the District are currently planned to be developed for commercial use and are in varying stages of design and/or construction, including a Kroger Marketplace Center which is currently under construction. The remaining 142 acres within the District are undevelopable and primarily consist of detention and drainage facilities and Harris County road right of way. See "DEVELOPMENT OF THE DISTRICT - Status of Development."

Developers/Principal Landowners..... The principal developers of land within the District include Riddle Holdings, Ltd. ("Riddle"); Peron Development, Inc. ("Peron"); NewQuest Properties and NewQuest Croswell (an affiliate of NewQuest Properties), collectively "NewQuest"; First Industrial Realty Trust ("First Industrial"); The Urban Companies and Insite Realty Partners, LP, through affiliated entities ("Urban/Insite") and PBEKES, LLC. See "DEVELOPERS AND PRINCIPAL LANDOWNERS" and "TAX DATA - Top Ten Taxpayers."

INVESTMENT CONSIDERATIONS

INVESTMENT IN THE BONDS IS SUBJECT TO CERTAIN INVESTMENT CONSIDERATIONS. PROSPECTIVE PURCHASERS SHOULD REVIEW THE ENTIRE OFFICIAL STATEMENT BEFORE MAKING AN INVESTMENT DECISION, INCLUDING PARTICULARLY THE SECTION OF THE OFFICIAL STATEMENT ENTITLED "INVESTMENT CONSIDERATIONS."

**SELECTED FINANCIAL INFORMATION
(UNAUDITED)**

2015 Taxable Assessed Valuation.....	\$172,743,965 (a)
(100% of taxable value as of January 1, 2015)	
See "TAX DATA" and "TAXING PROCEDURES."	
Direct Debt:	
The Outstanding Bonds.....	\$ 1,985,000
The Bonds	<u>1,900,000</u>
Total	\$ 3,885,000
Estimated Overlapping Debt.....	<u>\$ 9,072,345 (b)</u>
Total Direct and Estimated Overlapping Debt	<u>\$12,957,345</u>
Ratio of Direct Debt to	
2015 Taxable Assessed Valuation (\$172,743,965)	2.25%
Ratio of Direct and Estimated Overlapping Debt to	
2015 Taxable Assessed Valuation (\$172,743,965)	7.50%
Debt Service Fund Balance (as of January 20, 2016)	\$ 97,636 (c)
General Fund Balance (as of January 20, 2016)	\$ 1,223,906
2015 Tax Rate	
Debt Service	\$0.26
Maintenance & Operation.....	<u>0.22</u>
Total.....	<u>\$0.48(d)</u>
Average Annual Debt Service Requirements (2016-2040).....	\$ 200,358 (e)
Maximum Annual Debt Service Requirements (2021).....	\$ 429,919 (e)
Tax Rate per \$100 of Assessed Valuation Required to Pay Average Annual	
Debt Service Requirements on the Bonds and	
Outstanding Bonds (2016-2040) at 95% Tax Collections	
Based Upon 2015 Assessed Valuation (\$172,743,965).....	\$0.13
Tax Rate per \$100 of Assessed Valuation Required to Pay Maximum Annual	
Debt Service Requirements on the Bonds and	
Outstanding Bonds (2021) at 95% Tax Collections	
Based Upon 2015 Assessed Valuation (\$172,743,965).....	\$0.27

(a) As certified by the Harris County Appraisal District (the "Appraisal District"). See "TAXING PROCEDURES."

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

(c) Neither Texas law nor the Bond Order (hereinafter defined) requires that the District maintain any particular sum in the Debt Service Fund. At closing, 24 months of capitalized interest on the Bonds and accrued interest on the Bonds from the March 1, 2016 to the date of delivery will be deposited to the Debt Service Fund.

(d) See "TAX DATA."

(e) See "DISTRICT DEBT - Debt Service Requirements."

WEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
\$1,900,000 WATERWORKS AND SEWER SYSTEM COMBINATION
UNLIMITED TAX AND REVENUE BONDS, SERIES 2016

INTRODUCTION

This Official Statement provides certain information in connection with the issuance by West Harris County Municipal Utility District No. 2 (the "District"), of its \$1,900,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2016 (the "Bonds").

The Bonds are issued pursuant to (i) the bond order ("Bond Order") adopted by the Board of Directors of the District (the "Board") on the date of the sale of the Bonds; (ii) the Constitution and general laws of the State of Texas, particularly Chapters 49 and 54, Texas Water Code, as amended; (iii) an election held within the District on April 7, 1984; and (iv) an order issued by the Texas Commission on Environmental Quality (the "TCEQ" or the "Commission").

There follow in this Official Statement descriptions of the Bonds, the intended use of the proceeds of the sale of the Bonds, and certain information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from Bacon & Wallace, L.L.P., 6363 Woodway Drive, Suite 800, Houston, Texas 77057-1762, Bond Counsel, upon request and payment of the costs of duplication thereof. Certain capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Bond Order, except as otherwise indicated herein.

THE BONDS

General

The following is a description of certain terms and conditions of the Bonds, which description is qualified in its entirety by reference to the Bond Order. A copy of the Bond Order may be obtained from the District upon request to Bond Counsel. The Bond Order authorizes the issuance and sale of the Bonds and prescribes the terms, conditions and provisions for the payment of the principal of and interest on the Bonds by the District.

The Bonds will mature on August 1 of the years and in principal amounts, and will bear interest from March 1, 2016, at the rates per annum, set forth on the cover page of this Official Statement. Interest on the Bonds will be payable August 1, 2016, and semiannually thereafter on each February 1 and August 1 until maturity or redemption. The Bonds maturing on and after August 1, 2025 are subject to redemption prior to maturity at the option of the District, in whole or from time to time in part, on August 1, 2024, or on any date thereafter, at par plus accrued interest to the date fixed for redemption. If fewer than all the Bonds are redeemed at any time, the particular maturities of Bonds to be redeemed shall be selected by the District. If fewer than all of the Bonds of a particular maturity are redeemed, the Paying Agent/Registrar (defined below) shall select the particular Bonds to be redeemed by random selection method.

The Bonds will be issued only in fully registered form in any integral multiples of \$5,000 of principal amount for any one maturity and will be initially registered and delivered only to The Depository Trust Company, New York, New York ("DTC") in its nominee name of Cede & Co., pursuant to the book-entry-only system described herein. No physical delivery of the Bonds will be made to the owners thereof. Initially, principal of and interest on the Bonds will be payable by Amegy Bank, a division of ZB, National Association, Houston, Texas (the "Paying Agent/Registrar"), to Cede & Co., as registered owner. DTC will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "-Book-Entry-Only System" Below.

In the event the Book-Entry-Only System is discontinued and physical bond certificates issued, interest on the Bonds shall be payable by check mailed by the Paying Agent/Registrar on or before each interest payment date, to the registered owners ("Registered Owners") as shown on the bond register (the "Register") kept by the Paying Agent/Registrar at the close of business on the 15th calendar day of the month immediately preceding each interest payment date to the address of such Registered Owner as shown on the Register, 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 such Registered Owner.

If the date for payment of the principal of or interest on any Bond is not a business day, then the date for such payment shall be the next succeeding business day without additional interest and with the same force and effect as if made on the specified date for such payment.

Book-Entry-Only System

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

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

The Depository Trust Company (“DTC”), New York NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be required by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each of the Bonds, each 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 Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchase of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or

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

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

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 any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issue as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, 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 The Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, The Paying Agent/Registrar or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, 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 the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement it should be understood that while the Bonds are in the book-entry form, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the book-entry system, and (ii) except as described above, notices that are to be given to registered owners under the Bond Order will be given only to DTC.

Paying Agent/Registrar

The Board has selected Amegy Bank, a division of ZB, National Association, Houston, Texas, as the initial Paying Agent/Registrar for the Bonds. The initial designated payment office for the Bonds is located in Houston, Texas. Provision is made in the Bond Order for removal of the Paying Agent/Registrar, provided that no such removal shall be effective until a successor paying agent/registrar shall have accepted the duties of the Paying Agent/Registrar under the provisions of the Bond Order. Any successor paying agent/registrar selected by the District shall be a corporation organized and doing business under the laws of the United States of America or of any state authorized under such laws to exercise trust powers, shall have a combined capital and surplus of at least \$50,000,000, shall be subject to supervision or examination by federal or state authority, shall be registered as a transfer agent with the United States Securities and Exchange Commission and shall have a corporate trust office in the State of Texas.

Registration, Transfer and Exchange

In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar or its corporate trust office and such transfer or exchange shall be without expenses or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. A Bond may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the principal payment office of the Paying Agent/Registrar, or sent by the United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of the Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be cancelled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Bond or Bonds surrendered for exchange or transfer. See "Book-Entry-Only System" herein defined for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

Mutilated, Lost, Stolen or Destroyed Bonds

In the event the Book-Entry-Only System should be discontinued, 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 the Paying Agent/Registrar of security or indemnity which they determine to be sufficient to hold them harmless. The District may require payment of taxes, governmental charges and other expenses in connection with any such replacement.

Authority for Issuance

The bonds authorized by the voters of the District, the amount of bonds issued and the remaining authorized but unissued bonds are as follows:

<u>Election Date</u>	<u>Purpose</u>	<u>Amount Authorized</u>	<u>Amount Issued</u>	<u>Remaining Authorized But Unissued</u>
April 7, 1984	Water, Sewer and Drainage	\$ 8,000,000	\$6,290,000 (a)	\$ 1,710,000-
May 2, 1992	Refunding	8,000,000	3,226,851	4,773,149
November 4, 2014	Water, Sewer, Drainage and Refunding	13,600,000	-0-	13,600,000

(a) Includes the Bonds.

The Bonds are issued pursuant to (i) the Bond Order; (ii) the Constitution and general laws of the State of Texas, particularly Chapters 49 and 54, Texas Water Code, as amended; (iii) an election held within the District on April 7, 1984; and (iv) an order issued by the TCEQ.

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

Source of Payment

The Bonds, when issued, will constitute valid and binding obligations of the District, and the principal thereof and the interest thereon, together with the principal and interest on the Outstanding Bonds and such additional tax bonds of the District as may hereafter be authorized by District voters, if any, and subsequently issued, are payable from and secured by the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. The District has the authority to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District for each year the Bonds are outstanding. In the Bond Order, the District has covenanted to establish a rate of taxation each year ample and sufficient to provide funds to pay the interest on the Bonds

and to pay the principal when due, full allowance being made for delinquencies and costs of collection. The Bonds are further payable and secured by a pledge of and lien on certain Net Revenues, if any, of the District's waterworks and sewer system (the "System"), to the extent and on the conditions described in the Bond Order. It is not expected that Net Revenues will make a significant contribution to the payment of principal and interest on the Outstanding Bonds or the Bonds. See "THE SYSTEM- Historical Operations of the System."

The Bonds are solely obligations of West Harris County Municipal Utility District No. 2 and are not obligations of the State of Texas, Harris County, Texas, the City of Houston, Texas, or any political subdivision or agency other than the District.

Payment Record

The District has never defaulted in the timely payment of the principal of and interest on its previously issued bonds.

Redemption Provisions

- Optional Redemption -

The Bonds maturing on and after August 1, 2025 shall be subject to redemption at the option of the District, in whole or from time to time in part, on August 1, 2024, or on any date thereafter, at par plus accrued interest to the date fixed for redemption. Notice of the exercise of the reserved right of redemption will be given at least thirty (30) days prior to the redemption date by sending such notice by first class mail to the Registered Owner of each Bond to be redeemed in whole or in part at the address shown on the bond register. If fewer than all of the Bonds are redeemed at any time, the maturities of the Bonds to be redeemed shall be selected by the District. If fewer than all of the Bonds of a certain maturity are to be redeemed, the particular Bonds or portions thereof to be redeemed will be selected by the Paying Agent/Registrar prior to the redemption date by a random selection method in integral multiples of \$5,000 within any one maturity. The Registered Owner of any Bond, all or a portion of which has been called for redemption, shall be required to present such Bond to the Paying Agent/Registrar for payment of the redemption price on the portion of the Bonds so called for redemption and issuance of a new Bond in the principal amount equal to the portion of such Bond not redeemed.

-Mandatory Redemption-

The Bonds maturing on August 1 in each of the years 2028, 2031, 2033, 2035, 2037, and 2040 (the "Term Bonds") are subject to mandatory sinking fund redemption by the District by lot or other customary method of random selection prior to scheduled maturity on August 1 in the years ("Mandatory Redemption Dates") and in the amounts set forth below (subject to reduction as described below) at a redemption price of par plus accrued interest to the date of redemption.

\$255,000 Term Bonds Maturing on August 1, 2028

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
August 1, 2026	\$ 80,000
August 1, 2027	85,000
August 1, 2028 (Maturity)	90,000

\$285,000 Term Bonds Maturing on August 1, 2031

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
August 1, 2029	\$ 90,000
August 1, 2030	95,000
August 1, 2031 (Maturity)	100,000

\$205,000 Term Bonds Maturing on August 1, 2033

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
August 1, 2032	\$100,000
August 1, 2033 (Maturity)	105,000

\$225,000 Term Bonds Maturing on August 1, 2035

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
August 1, 2034	\$110,000
August 1, 2035 (Maturity)	115,000

\$240,000 Term Bonds Maturing on August 1, 2037

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
August 1, 2036	\$120,000
August 1, 2037 (Maturity)	120,000

\$390,000 Term Bonds Maturing on August 1, 2040

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
August 1, 2038	\$125,000
August 1, 2039	130,000
August 1, 2040 (Maturity)	135,000

On or before 30 days prior to each Mandatory Redemption Date as set forth above, the Registrar shall (i) determine the principal amount of the Bonds that must be mandatorily redeemed on such Mandatory Redemption Date, after taking into account deliveries for cancellation and optional redemptions as more fully provided for below, (ii) select, by lot or other customary method of random selection, the Bonds or portions of the Bonds of such maturity to be mandatorily redeemed on such Mandatory Redemption Date, and (iii) give notice of such redemption as provided in the Bond Resolution. The principal amount of any Bonds to be mandatorily redeemed on such Mandatory Redemption Date shall be reduced by the principal amount of Bonds of such maturity, which by the 45th day prior to such Mandatory Redemption Date, have either been purchased in the open market and delivered or tendered for cancellation by the District or on behalf of the District to the Registrar or optionally redeemed and which, in either case, have not previously been made the basis for a reduction under this sentence.

Outstanding Bonds

The District has previously issued \$2,000,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1977 (the "Series 1977 Bonds"); \$1,100,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1980 (the "Series 1980 Bonds"); \$800,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1980-A (the "Series 1980-A Bonds"); the Series 1996 Bonds; and the Series 2004 Bonds aggregating \$8,290,000 principal amount of waterworks and sewer system combination unlimited tax and revenue Bonds. Additionally, the District has issued \$3,015,000 Unlimited Tax Refunding Bonds, Series 1992 (the "Series 1992 Refunding Bonds") and \$2,755,000 Unlimited Tax Refunding Bonds, Series 2012 (Series 2012 Refunding Bonds") to refund a portion of the previously issued bonds. As of February 1, 2016, \$1,985,000 principal amount of such previously issued bonds remains outstanding (the "Outstanding Bonds").

Annexation and Consolidation

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston, the District may be annexed for full purposes by the City of Houston without the District's consent, subject to compliance by the City of Houston with various requirements of Chapter 43 of the Texas Local Government Code, as amended. If the District is annexed, the City of Houston must assume the District's assets and obligations (including the Bonds and the Outstanding Bonds) and abolish the District within 90 days of the date of annexation. Annexation of territory by the City of Houston is a policy-making matter within the discretion of the Mayor and City Council of the City of Houston, and therefore, the District makes no representation that the City of Houston will ever annex the District and assume its debt. Moreover, no representation is made concerning the ability of the City of Houston to make debt service payments should annexation occur.

Consolidation

The District has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its assets, such as cash and the utility system, with the water and wastewater system of districts with which it is consolidating as well as its liabilities (which would include the Bonds). No representation is made concerning the likelihood of consolidation, but the District currently has no plans to do so.

Strategic Partnership Agreement

Effective November 13, 2012, the District entered into a Strategic Partnership Agreement (“SPA”) with the City of Houston, Texas, since amended on November 13, 2013, and December 12, 2014. The agreement provides that in accordance with Subchapter F of the Chapter 43 of the Local Government Code and the Act, the City annexed a tract of land defined as the “Tract” for the limited purpose of imposing and collecting sales and use tax on qualified businesses within the Tract. The District and the City agreed to divide equally all revenue from such taxation. The District will continue to develop, to own, and to operate and maintain a water, wastewater and drainage system in the District. All taxable property within the District shall not be liable for any present or future debts of the City, and current and future taxes levied by the City shall not be levied on taxable property within the District. The District’s assets, liabilities, indebtedness, and obligations will remain the responsibility of the District during the period of this agreement.

The City has agreed in the SPA, that it will not annex the District for full purposes or commence any action to annex the District for full purposes during the term of the SPA. The term of the SPA is 30 years from the effective date, or November 12, 2042.

During the 2015 fiscal year, the District did not record any sales tax revenue as a result of the SPA.

Defeasance

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

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

of the reservation be included in any redemption notices that it authorizes. In the Bond Order, the District has specifically reserved the right to call the Bonds for redemption after the defeasance thereof.

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

Issuance of Additional Debt

The District has reserved the right in the Bond Order to issue additional bonds. Following the issuance of the Bonds, the District will have the right to issue an additional \$15,310,000 bonds for waterworks, sanitary sewer, and drainage facilities, of which \$13,600,000 can also be used for refunding purposes, and \$4,773,149 bonds for refunding purposes.

The District has the right to issue the aforementioned bonds without the necessity of further voter authorization. Before issuing any additional bonds for waterworks, sanitary sewer, and drainage facilities, the District would have to obtain approval of the TCEQ for the issuance of such bonds and the projects to be financed thereby. In addition to the above-mentioned bonds, the District has the right to issue such additional tax bonds, revenue bonds, or combination tax and revenue bonds as may be hereafter approved by the voters of the District. The District also has the right to issue revenue notes, bond anticipation notes and tax anticipation notes without the necessity of voter approval. In addition, the District has the right to enter into contracts and to pledge its taxing power to secure any payments the District is required to make under such a contract, provided the provisions of the contract are approved by the voters of the District. The District further has the right to issue refunding bonds, in addition to the refunding bonds described above, with additional voter approval. The Bond Order places no limitation on the amount of additional bonds which may be issued by the District.

Following the issuance of the Bonds, the District will still owe developers within the District approximately \$8,000,000 for the reimbursable expenditures advanced to develop land, including water, sewer, and road improvements within the District on behalf of the District. See "THE SYSTEM" and "DEVELOPMENT WITHIN THE DISTRICT."

The District anticipates submitting a bond application later this year in an amount yet to be determined with a corresponding bond sale anticipated in 2017.

The District also is authorized by law to engage in fire-fighting activities, including the issuance of bonds payable from taxes for such purpose. Before the District could issue such bonds, the following actions would be required: (1) authorization of a detailed master plan and bonds for such purpose by the qualified voters in the District; (2) approval of the master plan and bonds by the TCEQ; and (3) approval of bonds by the Attorney General of Texas. The Board has not considered calling an election at this time for such purposes. The District has no information concerning any determination by the City concerning modification of its ordinances.

The District is authorized by statute to develop parks and recreational facilities, including the issuing of bonds payable from taxes for such purpose. Before the District could issue park bonds payable from taxes, the following actions would be required: (a) preparation of a detailed park plan; (b) authorization of park bonds by the qualified voters in the District; (c) approval of the park project and bonds by the TCEQ; and (d) approval of the bonds by the Attorney General of Texas. If the District does issue park bonds, the outstanding principal amount of such bonds may not exceed an amount equal to one percent of the value of the taxable property in the District.

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, and provided that it has not failed to make a timely payment of principal of or interest on the Bonds, no such amendment, addition or rescission may (1) change

the date specified as the date on which the principal of or any installment of interest on any Bond is due and payable, reduce the principal amount thereof, the redemption price thereof, or the rate of interest thereon, change the place or places at, or the coin or currency in which any Bond or the interest thereon is payable, or in any other way modify the terms or sources of payment of the principal of or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) modify any of the provisions of the Bond Order relating to the amendment thereof, except to increase any percentage provided thereby or to provide that certain other provisions of the Bond Order cannot be modified or waived without the consent of the holder of each Bond affected thereby. 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

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. 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. Subject to the holdings of several recent Texas Supreme Court cases discussed below, 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. 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. 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. In addition, the Texas Supreme Court has ruled that a waiver of sovereign immunity must be provided for by statute in clear and unambiguous language and that certain statutory language previously relied upon by lower courts to support a finding that sovereign immunity had been waived did not constitute a clear and unambiguous waiver of sovereign immunity. Neither the remedy of mandamus nor any other type of injunctive relief was considered in these recent Supreme Court cases; and, in general, Texas courts have held that a writ of mandamus may be issued to require a public official to perform ministerial acts that clearly pertain to their duties, such as a legal duty that leaves nothing to the exercise of discretion or judgment. Texas courts have also held that mandamus may be used to require a public official to perform legally-imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party, including the payment of monies due under a contract.

The District is also eligible to seek relief from its creditors under Chapter 9. Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bond holders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bond Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, including rights afforded to creditors under the Bankruptcy Code. See "INVESTMENT CONSIDERATIONS - Registered Owners' Remedies," and "- Bankruptcy Limitation to Registered Owners' Rights."

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 Texas 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 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 decided 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

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

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

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

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

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

Estimated Use and Distribution of Bond Proceeds

A portion of the proceeds of the Bonds will be used to (1) reimburse the Riddle and Peron (as defined herein) for construction and engineering costs of (i) Morton Ranch Road Waterline Extensions Phase I, (ii) Morton Ranch Road Utility Extensions Phase II, (iii) Riddle Holdings Force Main, and (iv) East Grand Parkway Clearing and Grubbing; (2) pay for Phase IV Sanitary Sewer Cleaning and Televising; (3) pay for Sanitary Sewer Cleaning & Televising Area 5-2013; (4) pay for Sanitary Sewer Cleaning & Televising Area 4-2013; and (5) pay for Sanitary Sewer Rehabilitation 2015. Additionally, proceeds from the Bonds will be used to pay 24 months of capitalized interest on the Bonds and certain costs of issuance of the Bonds.

	<u>District's Share</u>
CONSTRUCTION COSTS	
A. Developer Contribution Items	
1. Morton Ranch road 12-Inch Waterline Extension	\$ 542,226
2. Riddle Holdings Force Main	109,531
3. Morton Ranch Road Utility Extension Phase II	136,138
4. East Grand Parkway Clearing and Grubbing	69,630
5. Engineering (14.47% of Items 1-4)	<u>124,106</u>
Total Developer Contribution Items	981,631
 B. District Items	
1. Wastewater Cleaning and Televising Phase IV	\$ 19,698
2. Wastewater Cleaning and Televising Area 5	23,670
3. Wastewater Cleaning and Televising Area 4	17,265
4. Wastewater Rehabilitation throughout the District	245,000
5. Contingencies (20% of Item 4)	49,000
6. Engineering (20.79% of Items 1-4)	<u>63,551</u>
Total District Items	<u>418,184</u>
 TOTAL CONSTRUCTION COSTS	 \$1,399,815
 NON-CONSTRUCTION COSTS	
A. Legal Fees	\$ 52,500
B. Fiscal Agent Fees	38,000
C. Interest	
3. Capitalized Interest	110,336
4. Developer Interest	50,287
D. Bond Discount	53,976
E. Bond Issuance Expenses	85,248
F. Bond Application Report Costs	30,000
G. Attorney General Fee (0.1%)	1,900
H. TCEQ Bond Issuance Fee (0.25%)	4,750
I. Contingency	<u>73,188</u>
 TOTAL NON-CONSTRUCTION COSTS	 \$ 500,185
 TOTAL BOND ISSUE REQUIREMENT	 <u>\$1,900,000</u>

DISTRICT DEBT

General

The following tables and calculations relate to the Bonds. The District and various other political subdivisions of government which overlap all or a portion of the District are empowered to incur debt to be raised by taxation against all or a portion of the property within the District.

2015 Taxable Assessed Valuation.....	\$172,743,965 (a)
(100% of taxable value as of January 1, 2015)	
See "TAX DATA" and "TAXING PROCEDURES."	
Direct Debt:	
The Outstanding Bonds.....	\$ 1,985,000
The Bonds	<u>1,900,000</u>
Total	\$ 3,885,000
Estimated Overlapping Debt	<u>\$ 9,072,345 (b)</u>
Total Direct and Estimated Overlapping Debt	<u>\$12,957,345</u>
Ratio of Direct Debt to	
2015 Taxable Assessed Valuation (\$172,743,965)	2.25%
Ratio of Direct and Estimated Overlapping Debt to	
2015 Taxable Assessed Valuation (\$172,743,965)	7.50%
Debt Service Fund Balance (as of January 20, 2016)	\$ 97,636 (c)
General Fund Balance (as of January 20, 2016)	\$ 1,223,906
2015 Tax Rate	
Debt Service	\$0.26
Maintenance & Operation	<u>0.22</u>
Total.....	<u>\$0.48(d)</u>
Average Annual Debt Service Requirements (2016-2040).....	\$ 200,358 (e)
Maximum Annual Debt Service Requirements (2021).....	\$ 429,919 (e)
Tax Rate per \$100 of Assessed Valuation Required to Pay Average Annual	
Debt Service Requirements on the Bonds and	
Outstanding Bonds (2016-2040) at 95% Tax Collections	
Based Upon 2015 Assessed Valuation (\$172,743,965).....	\$0.13
Tax Rate per \$100 of Assessed Valuation Required to Pay Maximum Annual	
Debt Service Requirements on the Bonds and	
Outstanding Bonds (2021) at 95% Tax Collections	
Based Upon 2015 Assessed Valuation (\$172,743,965).....	\$0.27

(a) As certified by the Harris County Appraisal District (the "Appraisal District"). See "TAXING PROCEDURES."

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

(c) Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the Debt Service Fund. At closing, 24 months of capitalized interest on the Bonds and accrued interest on the Bonds from March 1, 2016 to the date of delivery will be deposited to the Debt Service Fund.

(d) See "TAX DATA."

(e) See "DISTRICT DEBT - Debt Service Requirements."

Estimated Overlapping Debt Statement

The following table indicates the indebtedness, defined as outstanding bonds payable from ad valorem taxes, of governmental entities overlapping the District 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 jurisdictions and/or the Texas Municipal Reports prepared by the Municipal Advisory Council of Texas. Such figures do not indicate the tax burden levied by the applicable taxing jurisdictions for operation and maintenance or for other purposes.

Taxing Jurisdiction	Outstanding Debt as of January 31, 2016	Percent	Overlapping Amount
Harris County	\$ 2,530,303,330	0.04%	\$1,119,541
Harris County Department of Education	7,210,000	0.04	3,189
Harris County Flood Control	83,075,000	0.05	37,914
Katy ISD	1,264,885,662	0.60	7,605,582
Port of Houston Authority	674,269,397	0.05	<u>317,290</u>
TOTAL ESTIMATED OVERLAPPING DEBT			\$9,072,345
Direct Debt			<u>3,885,000</u> (a)
TOTAL DIRECT & ESTIMATED OVERLAPPING DEBT (b)			<u>\$12,957,345</u>

(a) Includes the Bonds.

Debt Ratios

	2015 Taxable Assessed Valuation
Direct Debt	2.25%
Total Direct and Estimated Overlapping Debt	7.50%

Debt Service Requirements

The following schedule sets forth the principal and interest requirements on the Outstanding Bonds, plus the estimated principal and interest requirements for the Bonds.

Calendar Year	Outstanding Debt Service	Plus: The Bonds		Total New Debt Service	Total Debt Service
		Principal	Interest		
2016	\$ 326,725		\$ 22,487	\$22,487	\$ 349,212
2017	357,450		53,969	53,969	411,419
2018	366,250		53,969	53,969	420,219
2019	366,500		53,969	53,969	420,469
2020	371,450		53,969	53,969	425,419
2021	375,950		53,969	53,969	429,919
2022		\$70,000	53,969	123,969	123,969
2023		75,000	52,919	127,919	127,919
2024		75,000	51,644	126,644	126,644
2025		80,000	50,256	130,256	130,256
2026		80,000	48,656	128,656	128,656
2027		85,000	46,756	131,756	131,756
2028		90,000	44,738	134,738	134,738
2029		90,000	42,600	132,600	132,600
2030		95,000	39,900	134,900	134,900
2031		100,000	37,050	137,050	137,050
2032		100,000	34,050	134,050	134,050
2033		105,000	31,050	136,050	136,050
2034		110,000	27,900	137,900	137,900
2035		115,000	24,600	139,600	139,600
2036		120,000	21,150	141,150	141,150
2037		120,000	17,400	137,400	137,400
2038		125,000	13,650	138,650	138,650
2039		130,000	9,275	139,275	139,275
2040		135,000	4,725	139,725	139,725
Total	<u>\$ 2,164,325</u>	<u>\$1,900,000</u>	<u>\$994,618</u>	<u>\$2,844,618</u>	<u>\$5,008,943</u>
Average Annual Requirements - (2016-2040).....					\$200,358
Maximum Annual Requirement - (2021).....					\$429,919

TAXING PROCEDURES

Set forth below is a summary of certain provisions of the Texas Property Tax Code (the "Property Tax Code") relating to the District's ability to levy and collect property taxes on property within the District. Provisions of the Property Tax Code are complex and are not fully summarized herein. Reference is made to the Property Tax Code for more complete information, including the identification of property subject to taxation; property exempt or which may be exempted from taxation, if claimed; the appraisal of property for ad valorem tax purposes, and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

Authority to Levy Taxes

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate and amount, on all taxable property within the District in sufficient amount to pay the principal of and interest on the Bonds and the Remaining Outstanding 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 District agrees in the Bond Order to levy such a tax from year to year as described more fully above under the caption "THE BONDS - Source of Payment." The Board is also authorized to levy and collect annual ad valorem taxes for the administration and maintenance of the District and the System and for the payment of certain contractual obligations if such taxes are authorized by vote of the District's electors at an election. The District's electors have authorized the levy of such a maintenance tax in the maximum amount of \$0.25 per \$100 of assessed valuation, and the District has not levied such a tax in the past. The District levied a maintenance tax of \$0.22 per \$100 of assessed valuation for the 2015 tax year. See "TAX DATA - Maintenance Tax."

Property Tax Code and County-Wide Appraisal District

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

The Property Tax Code requires the appraisal district, by May 15 of each year, or as soon thereafter as practicable, to prepare appraisal records of property as of January 1 of each year based upon market value. The chief appraiser must give written notice before May 15, or as soon thereafter as practicable, to each property owner whose property value is appraised higher than the value in the prior tax year or the value rendered by the property owner, or whose property was not on the appraisal roll the preceding year, or whose property was reappraised in the current tax year. Notice must also be given 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 property owner who has timely filed notice with the appraisal review board may appeal a final determination by the appraisal review board by filing suit in a Texas district court. Prior to such appeal or any tax delinquency date, however, the property owner must pay the tax due on the value of that portion of the property involved that is not in dispute or the amount of tax imposed in the prior year, whichever is greater, or the amount of tax due under the order from which the appeal is taken. In such event, the value of the property in question will be determined by the court, or by a jury, if requested by any party. In addition, taxing units, such as the District, are 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 of the granting in whole or in part of certain exemptions. A taxing unit may not, however, challenge the valuation of individual properties.

Although the District has the responsibility for establishing tax rates and levying and collecting its taxes each year, under the Property Tax Code, the District does not establish appraisal standards or determine the frequency of revaluation or reappraisal. The appraisal district is governed by a board of directors elected by the governing bodies of the county and all cities, towns, school districts and, if entitled to vote, the conservation and reclamation districts that participate in the appraisal district. The Property Tax Code requires each appraisal district to implement a plan for periodic reappraisal of property to update appraised values. Such plan must provide for reappraisal of all real property in the appraisal district at least once every three years. It is not known what frequency of future reappraisals will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone or county-wide basis.

Property Subject to Taxation by the District

General: Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: property owned by the State of Texas or its political subdivisions, if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies and personal effects; certain goods, wares, and merchandise in transit; certain farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually-owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons 65 years or older and certain disabled persons, to the extent deemed advisable by the Board of Directors of the District. The District may be required to offer such exemptions if a majority of voters approve same at an election. The District would be required to call an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the preceding election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District's obligation to pay tax supported debt incurred prior to adoption of the exemption by the District. The District has adopted disabled and over 65 exemptions of \$25,000 for the 2016 tax year.

Furthermore, the District must grant exemptions to disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces, if requested, but only to the maximum extent of between \$5,000 and \$12,000 depending upon the disability rating of the veteran claiming the exemption. A veteran who receives a disability rating of 100% is entitled to an exemption of full value of the veteran's residential homestead. Furthermore, qualifying surviving spouses of persons 65 years of age and older are entitled to receive a resident homestead exemption equal to the exemption received by the deceased spouse, and surviving spouses of a deceased veteran who had received a disability rating of 100% are entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. The surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

Residential Homestead Exemptions: The Property Tax Code authorizes the governing body of each political subdivision in the State to exempt up to twenty percent (20%) of the appraised market value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of a homestead exemption may be considered each year, but must be adopted by May 1. The District plans to adopt a general homestead exemption of 10% on February 17, 2016 for the 2016 tax year.

Freeport Goods Exemption and "Goods-in-Transit": A "Freeport Exemption" applies to goods, wares, ores, and merchandise other than oil, gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining petroleum or natural gas), and to aircraft or

repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A "Goods-in-Transit" Exemption is applicable to the same categories of tangible personal property which are covered by the Freeport Exemption, if, for tax year 2011 and prior applicable years, such property is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation, and the location where said property is detained during that period is not directly or indirectly owned or under the control of the property owner. For tax year 2013 and subsequent years, such Goods-in-Transit Exemption includes tangible personal property acquired in or imported into Texas for storage purposes only if such property is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit property. A taxing unit must exercise its option to tax goods-in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law. The District has taken official action to allow taxation of all such goods-in-transit personal property for all prior and subsequent years.

Tax Abatement

The City of Houston (if it were to annex the District) or Harris County may designate all or part of the area within the District as a reinvestment zone. Thereafter, the City, Harris County, or the District, may, at the option and discretion of each entity enter into tax abatement agreements with owners of real property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions for a period of up to 10 years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with the terms of the tax abatement agreement. None of the area within the District has been designated as a reinvestment zone to date, nor does the District expect any area within the District to be so designated in the foreseeable future.

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Property Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Property Tax Code. Nevertheless, certain land may be appraised at less than market value, as such is defined in the Property Tax Code. The Texas Constitution limits increases in the appraised value of residence homesteads to 10 percent annually regardless of the market value of the property.

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

Notice and Hearing Procedures

The Property Tax Code establishes procedures for providing notice and the opportunity for a hearing for taxpayers in the event of certain proposed tax increases and provides for taxpayers referenda which could result in the repeal of certain tax increases. Effective September 1, 2003, the District was required to publish a notice of a public hearing regarding the tax rate proposed to be levied in the current year and comparing the proposed tax rate 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.

District and Taxpayer Remedies

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

The Property Tax Code establishes a procedure for notice to property owners of reappraisals reflecting increased property values, appraisals that are higher than renditions and appraisals of property not previously on an appraisal roll.

Rollback of Operation and Maintenance Tax Rate

The qualified voters of the District have the right to petition for a rollback of the District's operation and maintenance tax rate only if the total tax bill on the average residence homestead increases by more than eight percent. If a rollback election is called and passes, the rollback tax rate is the District's current year's debt service tax rate plus the operation and maintenance tax rate that would impose 1.08 times the amount of operation and maintenance tax imposed by the District in the preceding year on the average residence homestead, disregarding exemptions. The District's debt service tax rate cannot be changed by a rollback election.

Agricultural, Open Space, Timberland and Inventory Deferment

The Property Tax Code permits land designated for agricultural use (including wildlife management), open space, or timberland to be appraised at its value based on the land's capacity to produce agriculture or timber products rather than at its fair market value. The Property Tax Code permits, under certain circumstances, that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Landowners wishing to avail themselves of any of such designations must apply for the designation, and the Appraisal District is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions and not as to others. If a claimant receives the designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including such taxes for a period of three (3) years to five (5) years for agricultural use, timberland or open space land prior to the loss of the designation. As of January 1, 2016, no land within the District was designated for agricultural use, open space or timberland.

Levy and Collection of Taxes

The District is responsible for the levy and collection of its taxes, unless it elects to transfer such functions to another governmental entity. The date of delinquency may be postponed if the tax bills are mailed after January 1. A person over sixty-five (65) years of age is entitled by law to pay current taxes on his residential homestead in installments or to defer tax without penalty during the time he owns and occupies the property as his residential homestead. By September 1 of each year, or as soon thereafter as practicable, the rate of

taxation is set by the Board of Directors of the District based on valuation of property within the District as of the preceding January 1.

Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) if imposed by the District. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances.

District's Rights in the Event of Tax Delinquencies

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

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights or by bankruptcy proceedings which restrict the collection of taxpayer debts. A taxpayer may redeem property within two (2) years for residential and agricultural property and six (6) months for commercial property and all other types of property after the purchasers deed at the foreclosure sale is filed in the county records.

TAX DATA

General

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 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 generally 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 of and interest on the Bonds. 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. In addition, the District has the power and authority to assess, levy and collect ad valorem taxes, not to exceed \$0.25 per \$100 of assessed valuation, for operation and maintenance purposes. The District levied a 2015 tax rate of \$0.26 per \$100 of assessed valuation for debt service purposes and \$0.22 per \$100 of assessed valuation for operation and maintenance purposes.

Tax Rate Limitation

Debt Service: Unlimited (no legal limit as to rate or amount).
 Maintenance: \$0.25 per \$100 Assessed Valuation.

Historical Tax Collections

The following table illustrates the collection history of the District for the 2010-2015 tax years:

Tax Year	Certified Assessed Valuation	Tax Rate/ \$100 (a)	Adjusted Levy	% of Collections Current Year	Fiscal Year Ending 9/30	% of Collections as of 11/30/15
2010	\$ 118,698,861	0.460	\$ 546,032	99.50	2011	99.68
2011	121,383,947	0.500	443,083	99.78	2012	99.78
2012	115,944,656	0.500	435,457	99.59	2013	99.69
2013	117,248,450	0.500	448,392	99.04	2014	99.57
2014	135,385,590	0.500	486,848	98.54	2015	98.57
2015	172,743,965	0.480	486,848	(b)	2016	(b)

(a) Includes a tax for maintenance and operation purposes. See “- Tax Rate Distribution” below.

(b) In process of collection.

Tax Rate Distribution

	2015	2014	2013	2012	2011	2010
Debt Service	\$0.260	\$0.270	\$0.315	\$0.315	\$0.320	\$0.310
Maintenance	<u>0.220</u>	<u>0.230</u>	<u>0.185</u>	<u>0.185</u>	<u>0.180</u>	<u>0.150</u>
	<u>\$0.480</u>	<u>\$0.500</u>	<u>\$0.500</u>	<u>\$0.500</u>	<u>\$0.500</u>	<u>\$0.460</u>

Analysis of Tax Base

The following table illustrates the District’s total taxable assessed value in the tax years 2011-2015 by type of property.

Type of Property	2015 Assessed Valuation	2014 Assessed Valuation	2013 Assessed Valuation	2012 Assessed Valuation	2011 Assessed Valuation
Land	\$ 55,240,860	\$35,507,479	\$30,953,484	\$ 28,345,373	\$ 28,750,281
Improvements	120,759,763	103,468,818	90,161,666	91,355,555	96,240,072
Personal Property	3,147,057	3,314,958	2,938,685	2,616,262	2,599,867
Less Exemption	<u>(6,403,715)</u>	<u>(6,905,665)</u>	<u>(6,805,385)</u>	<u>(6,372,534)</u>	<u>(6,206,273)</u>
Total	<u>\$172,743,965</u>	<u>\$135,385,590</u>	<u>\$117,248,450</u>	<u>\$115,944,656</u>	<u>\$121,383,947</u>

Principal Taxpayers

The following represents the principal taxpayers, type of property, and their assessed values as of January 1, 2015:

Taxpayer	Type of Property	Assessed Valuation 2015 Tax Roll
Urban Grand Parkway LP (a)(b)	Land & Improvements	\$13,950,895
First Industrial LP (a)	Land	10,823,658
A-S 128 Grand Parkway (a)(c)	Land	10,285,948
Susser Petroleum Property Co LLC	Land & Improvements	1,796,626
A-S 128 Grand Parkway - Morton Ranch Road (a)(c)	Land	1,513,754
Morton Ranch Plaza Ltd	Land	1,482,565
Consolidated Comm of Fort Bend	Personal Property	1,036,170
GPW Properties LP (a)(c)	Land	977,816
Franz Elrod LLC	Land	909,751
Centerpoint Energy	Personal Property	<u>824,670</u>
Total		<u>\$43,601,853</u>
Percentage of 2015 Assessed Valuation		<u>25.24%</u>

(a) See "DEVELOPERS AND PRINCIPAL LANDOWNERS"

(b) This taxpayer is affiliated with the Urban/Insite.

(c) This taxpayer is affiliated with NewQuest.

Tax Rate Calculations

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 of Taxable Assessed Valuation that would be required to meet certain debt service requirements if no growth in the District occurs beyond the 2015 Taxable Assessed Valuation (\$172,743,965). The foregoing further assumes collection of 95% of taxes levied and the sale of no additional bonds:

Average Annual Debt Service Requirements on the Bonds and the Outstanding Bonds (2016-2040)	\$200,358
Tax Rate of \$0.69 on the 2015 Taxable Assessed Valuation at 95% collection produces	\$213,339
Maximum Annual Debt Service Requirements on the Bonds and the Outstanding Bonds (2021).....	\$429,919
Tax Rate of \$0.71 on the 2015 Taxable Assessed Valuation at 95% collection produces	\$459,499

Estimated Overlapping Taxes

Property within the District is subject to taxation by several taxing authorities in addition to the District. Under Texas law, if ad valorem taxes levied by a taxing authority become delinquent, a lien is created upon the property which has been taxed. A 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 (see "DISTRICT DEBT - Estimated Direct and Overlapping Debt Statement"), 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.

Set forth below is a compilation of all 2015 taxes levied by such jurisdictions per \$100 of assessed valuation. Such levies do not include local assessments for community associations, fire department contributions, charges for solid waste disposal, or any other dues or charges made by entities other than political subdivisions.

<u>Taxing Jurisdiction</u>	<u>2015 Tax Rate/ Per \$100 of A.V.</u>
The District	\$0.480000
Katy Independent School District	1.516600
Harris County	0.419230
Harris County Flood Control	0.027330
Port of Houston Authority	0.013420
Harris County Hospital District	0.170000
Harris County Department of Education	0.005422
Harris County Emergency Services District No. 48	<u>0.089000</u>
Estimated Total Tax Rate	<u>\$2.721002</u>

THE DISTRICT

Authority

The District is a political subdivision of the State of Texas operating as a municipal utility pursuant to Article XVI, Section 59, of the Constitution of the State of Texas and Chapters 49 and 54 of the Texas Water Code. The District was created by the Texas Water Rights Commission, predecessor to the TCEQ, in 1975. The creation was confirmed at an election held on August 14, 1976, by a vote of 4 for to 0 against. The District is vested with all of the rights, privileges, authority and functions conferred by the general laws of the State of Texas applicable to municipal utility districts, including without limitation those conferred by Chapters 49 and 54, Texas Water Code. The District is empowered to finance, construct, own and operate waterworks, wastewater and drainage facilities, to provide such facilities and services to the customers of the District and to provide for solid waste disposal services. In addition, the District is empowered, if approved by the electorate, the TCEQ and the City, to establish, operate and maintain a fire department, either independently or with certain other districts. The TCEQ exercises continuing, supervisory jurisdiction over the District.

Description

The District is located within the limits of Harris County and the Katy Independent School District. The District is situated approximately 26 miles west of Houston's central business district, three miles east of the City of Katy and approximately 1.5 miles north of Interstate Highway 10. The District is bounded on the north by Morton Road, on the south by Franz Road and on the east by Elrod Road.

Management of the District

The District is governed by the Board of Directors, consisting of five directors which has control over and management supervision of all affairs of the District. Directors serve four-year staggered terms and elections are held within the District on the third Saturday in May in even numbered years. The current members and officers of the Board, along with their terms of office, are listed below. All of the Directors currently reside within the District or own property within the District subject to taxation.

<u>Name</u>	<u>Position</u>	<u>Term Expires May</u>
Melanie Mueller	President	2018
John Eberlan	Vice President	2016
Loretta Evans	Secretary	2018
Vera Weatherspoon	Assistant Secretary	2018
Chris Johnson	Director	2016

The District has contracted with following companies and individuals to operate its utilities and recreational facilities:

Bookkeeper - The District has engaged Myrtle Cruz, Inc. as the District's Bookkeeper. Such firm currently serves more than 200 districts as bookkeeper.

Tax Assessor/Collector - The District's Tax Assessor/Collector is Wheeler & Associates, Inc., who is employed under a year-to-year contract, and acts as tax assessor/collector for more than 100 utility districts.

Engineer - The District has engaged the firm of Jones & Carter, Inc., Houston, Texas, as the District's consulting engineer.

Auditor - The District engaged McCall Gibson Swedlund Barfoot PLLC to audit its financial statements for the fiscal year ended October 31, 2015. A copy of the District's audited financial statements for the fiscal year ended October 31, 2015, is included as "APPENDIX A" to this Official Statement.

Utility System Operator - The District's operator is Municipal Operations & Consulting. Such firm acts as operator for more than 40 utility districts.

Bond and General Counsel - The District has engaged the law firm of Bacon & Wallace, L.L.P., Attorneys at Law, Houston, Texas, as general counsel and as Bond Counsel in connection with the issuance of the Bonds. Payment to Bond Counsel by the District is contingent on the issuance, sale and delivery of the Bonds. See "LEGAL MATTERS."

Financial Advisor - The District has engaged the firm of Robert W. Baird & Co. Incorporated as financial advisor to the District. Payment to the Financial Advisor by the District is contingent upon the issuance, sale and delivery of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement.

DEVELOPMENT OF THE DISTRICT

History of Development within the District

In 1972, Williamsburg Development Corporation (WDC) was formed to develop Williamsburg, a 2,600 acre tract comprised of 7 municipal utility districts including the District. Such land was owned by various general partnerships, all of which were related to WDC. WDC no longer owns any property within the District.

Status of Development

Of the approximately 529 acres of land located within the District, approximately 243 acres within the District have been developed with waterworks, sewer system and drainage facilities. Approximately 195 acres have been developed as approximately 1,240 lots in the single-family residential subdivisions of Williamsburg Colony, Sections 1, 2, 3, & 4 and Williamschase, Sections 1, 2 & 3. Substantially all of the lots developed within the District have been improved with completed homes, of which approximately 11 homes are unoccupied. Approximately 48 acres have been developed as commercial acreage on which two gas stations and two commercial office buildings have been constructed and additional commercial office buildings are under construction. Approximately 144 acres within the District are currently planned to be developed for commercial use and are in varying stages of design and/or construction, including a Kroger Marketplace Center which is currently under construction. See "DEVELOPERS AND PRINCIPAL LANDOWNERS" below. The remaining 142 acres within the District are undevelopable and primarily consist of detention and drainage facilities and Harris County road right of way.

DEVELOPERS AND PRINCIPAL LANDOWNERS

The Role of a Developer

In general, the activities of a developer in a municipal utility district, such as the District, include the following: acquiring the land within the district, designing the subdivision, the utilities and streets to be constructed in the subdivision, and any community facilities to be built; defining a marketing program and building schedule; securing necessary governmental approvals and permits for development; arranging for the construction of roads and the installation of utilities; and selling improved lots and commercial reserves to builders and other developers or other third parties. Pursuant to the rules of the TCEQ, a developer can be required to pay up to 30% of the cost of constructing certain water, wastewater and drainage facilities in a municipal utility district. The relative success or failure of a developer to perform such activities in the development of property within a municipal utility district may have a profound effect on the security of the bonds issued by a district. A developer is generally under no obligation to a municipal utility district to develop the property that it owns in a district. Furthermore, there is no restriction on a developer's right to sell any or all of the land that the developer owns within a municipal utility district.

The Developers and Principal Landowners

The developers and principal landowners within the District include the following entities.

- Riddle -

Riddle Holdings, Ltd. ("Riddle") originally purchased approximately 148 acres within the District for the purpose of holding for investment and sale. Riddle has also advanced funds to develop approximately 111 acres within the District with water, wastewater and storm drainage facilities. A portion of such development will be reimbursed with a portion of the proceeds from the Bonds. Riddle has subsequently sold approximately 144.4 acres of such land and currently owns approximately 3.6 acres within the District.

- Peron -

Peron Development, Inc. ("Peron") purchased approximately 10.2 acres within the District for the purpose of constructing regional detention and drainage facilities. Peron has advanced the funds to construct those drainage facilities. A portion of such funds will be reimbursed with a portion of the proceeds from the Bonds.

- NewQuest -

NewQuest Properties and its affiliate NewQuest Croswell ("NewQuest") currently owns approximately 56 acres within the District. On approximately 49 acres, a Kroger Marketplace Center with accompanying pad sites and other in-line commercial retail is currently under construction. Additional development is planned for mixed commercial uses on the remaining acreage. The District makes no representation as to the likelihood of any future development.

- First Industrial -

First Industrial LP, an affiliate of First Industrial Realty Trust, ("First Industrial") currently owns approximately 50 acres within the District. Such acreage is currently under design to be developed as an industrial complex/distribution warehouse currently being marketed under the name "First Grand Parkway Commerce Center." The development is currently planned as two buildings with approximately 420,000 total square footage. The District makes no representation as to the likelihood of any future development.

- Urban -

The Urban Companies and Insite Realty Partners, LP, through affiliated entities, ("Urban/Insite") acquired approximately 58 acres within the District which is currently in the process of being developed as a commercial office project known as "Grandway West." One two-story office building (approximately 84,000 square feet) and a one-story lab building (approximately 10,000 square feet) has been completed. A three story office building (approximately 124,000 square feet) is currently under construction with an expected completion date in March of 2016, as well. According to Urban/Insite, the remaining acreage of Grandway West is currently being marketed, with a potential for at least three additional office buildings to be constructed. The District makes no representation as to the likelihood of any future development.

PBEKES, LLC currently owns approximately 10 acres within the District. Such acreage is currently planned to be developed for mixed commercial uses. The District makes no representation as to the likelihood of any future development.

THE SYSTEM

Description

The District was established to provide a potable water supply, the collection and treatment of wastewater, and drainage of the land within the District. The following is a description obtained from the Engineer for the District.

Regulation

According to the District's Engineer, the District's water, wastewater and storm drainage facilities (the "System") have been designed in conformance with accepted engineering practices and the requirements of certain governmental agencies having regulatory or supervisory jurisdiction over the construction and operation of such facilities including, among others, the Texas Department of Health, Harris County, the Harris County Flood Control District, and the City. According to the District's Engineer, all such facilities constructed to date have been approved by all required governmental agencies.

Operation of the System is subject to regulation by, among others, the United States Environmental Protection Agency, and the TCEQ. In many cases, regulations promulgated by these agencies have become effective only recently and are subject to further development and revision. The total number of equivalent single-family connections currently within the District is approximately 1,613.

Description of the System

- Water -

The district is served by one water plant which consist of a 1,500 gallon per minute ("gpm") well, two (2) 378,000 gallon ground storage tanks, three (3) booster pumps totaling 2,700 gpm capacity, two (2) 15,000 gallon pressure tanks and related appurtenances. According to the Engineer, the water supply facility is adequate to serve 1,800 single-family equivalent connections. Additional water production capacity can be added with the future construction of additional booster pumps and pressure tanks.

- Wastewater Treatment -

The District previously sold bonds to finance the District's pro rata share of costs for the 510,000 gpd capacity the District owns in the joint-use permanent sewage treatment plant (the -Williamsburg Sewage Treatment Plant-) which plant has a total capacity of 3.0 million gpd. See "Agreements with Other Districts."

The waste treatment capacity in the existing 3.0 million gpd Williamsburg Sewage Treatment Plant is owned by the participating districts in the capacities indicated below:

District	Capacity (gpd)
The District	510,000
Harris County MUD 61	480,000
Harris County MUD 62	540,000
Harris County MUD 63	150,000
Harris County MUD 64	450,000
Harris County MUD 65	570,000
West Harris County MUD 5	<u>300,000</u>
Total	3,000,000

According to the Engineer, based upon the actual measured flows of sewage transported from the District to the Williamsburg Sewage Treatment Plant the District currently has sufficient existing capacity to serve approximately 1,889 connections. Additional capacity may be required for the District to be served at full development depending upon the final development plan for remaining vacant acreage in the District. See "Agreements with Other District - Wastewater Facilities."

Agreements with Other Districts

- Wastewater Facilities -

On November 1, 1980, the District and six other municipal utility districts in the Williamsburg development entered into a Regional Sewage Treatment Contract Providing for the creation of the Williamsburg Regional Sewage Authority. This contract was amended on December 14, 1989. Under the subject agreement, a 3,000,000 gpd sewage treatment plant was constructed. The regional sewage treatment and disposal facilities are managed by the board of delegates of the Williamsburg Regional Sewage Authority, which board is comprised of two representatives from each of the seven district participants. The subject contract makes provision for the expansion of the regional sewage treatment and disposal facilities by participating districts, as required. The term of the contract is for a period of forty years.

- Emergency Interconnects -

The District has Emergency Interconnect Agreements with Harris County Municipal Utility District No. 61, Harris County Municipal Utility District No. 62, Harris County Municipal Utility District No. 64, Harris County Municipal Utility District No. 65, and Harris County Municipal Utility District No. 71.

Subsidence and Conversion to Surface Water Supply

The District is within the boundaries of the Harris Galveston Subsidence District (the "Subsidence District") which regulates groundwater withdrawal. The Subsidence District has adopted regulations requiring reduction of groundwater withdrawals through conversion to alternate source water (e.g., surface water) in certain areas within the Subsidence District's jurisdiction, including the area within the District. In 2001, the Texas legislature created the West Harris County Regional Water Authority ("Authority") to, among other things, reduce groundwater usage in, and to provide surface water to, the western portion of Harris County (including the District) and a small portion of Fort Bend County. The Authority has entered into a Water Supply Contract with the City of Houston, Texas ("Houston") to obtain treated surface water from Houston. The Authority has developed a groundwater reduction plan ("GRP") and obtained Subsidence District approval of its GRP. The Authority's GRP sets forth the Authority's plan to comply with Subsidence District regulations, construct surface water facilities, and convert users from groundwater to alternate source water (e.g., surface water). The District's groundwater well is included within the Authority's GRP.

The District's authority to pump groundwater is subject to an annual permit issued by the Subsidence District to the Authority, which permit includes all groundwater wells that are included in the Authority's GRP. The provisions of the Authority's Rate Order allow the District, subject to groundwater reduction requirements imposed by the Authority, the terms of the GRP, and any limitations imposed by the Subsidence District, the right to pump from its groundwater well(s) the amount of groundwater reasonably determined by the District to be needed by the District, for itself or for its customers, to provide water in accordance with at least the minimum regulatory requirements for pressure and supply, including during an emergency requiring immediate use of groundwater (such as for firefighting purposes) so long as the District is not committing waste.

The Authority, among other powers, has the power to: (i) issue debt supported by the revenues pledged for the payment of its obligations; (ii) establish fees (including fees to be paid by the District for groundwater pumped by the District or for surface water received by the District from the Authority), user fees, rates, charges and special assessments as necessary to accomplish its purposes; and (iii) mandate water users, including the District, to convert from groundwater to surface water. The Authority currently charges the District, and other major groundwater users, \$2.00 per 1,000 gallons based on the amount of groundwater pumped by the District and \$2.45 per 1,000 gallons based on the amount of surface water, if any, received by the District from the Authority. The Authority has issued revenue bonds to fund, among other things, Authority surface water project costs. It is expected that the Authority will continue to issue a substantial amount of bonds by the year 2030 to finance the Authority's project costs, and it is expected that the fees charged by the Authority will increase substantially over such period.

Under the Subsidence District regulations and the GRP, the Authority is required to: (i) limit groundwater withdrawals to no more than 70% of the total water demand of the water users within the Authority's GRP beginning in the year 2010; (ii) limit groundwater withdrawals to no more than 40% of the total water demand of the water users within the Authority's GRP beginning in the year 2025; and (iii) limit groundwater withdrawals to no more than 20% of the total water demand of the water users within the Authority's GRP beginning in the year 2035. If the Authority fails to comply with the above Subsidence District regulations or

its GRP, the Authority is subject to a substantial disincentive fee penalty of \$5.00 per 1,000 gallons (“Disincentive Fees”) imposed by the Subsidence District for any groundwater withdrawn in excess of 20% of the total water demand in the Authority’s GRP. In the event of such Authority failure to comply, the Subsidence District may also seek to collect Disincentive Fees from the District. If the District failed to comply with surface water conversion requirements mandated by the Authority, the Authority would likely impose monetary or other penalties against the District.

The District cannot predict the amount or level of fees and charges, which may be due the Authority in the future, but has, to date, passed such fees through to its customers through supplemental charges to its water and sewer customers.

Historical Operations of the System

The following is a summary of the District’s Operating Fund for the last 5 years. The figures for the fiscal years ending October 31, 2011 through October 31, 2015, were obtained from the District’s annual financial reports, reference to which is hereby made. The District is required by statute to have a certified public accountant prepare and file an annual audit of its financial records with the TCEQ.

	Fiscal Year Ended October 31,				
	2015	2014	2013	2012	2011
REVENUES:					
Property Taxes	\$ 307,207	\$ 216,278	\$ 211,065	\$ 219,982	\$ 186,628
Water Service	278,942	282,100	297,777	240,058	254,833
Wastewater Service	479,257	483,914	474,786	473,368	472,468
Regional Water Authority Fees	195,778	183,168	199,437	172,945	206,506
Penalty and Interest	29,132	29,788	30,183	28,218	31,401
Tap Connection and Inspection Fees	84,433	-0-	-0-	-0-	-0-
Investment Revenues	4,212	3,822	4,312	5,064	5,815
Regional Water Authority Credits	55,836	55,836	55,836	55,836	55,836
Miscellaneous Revenues	<u>33,020</u>	<u>31,405</u>	<u>20,868</u>	<u>22,813</u>	<u>19,931</u>
TOTAL REVENUES	\$1,467,817	\$1,286,311	\$1,294,264	\$1,218,284	\$1,233,418
EXPENDITURES:					
Professional Fees	\$ 113,192	\$ 105,663	\$ 74,104	\$ 64,803	\$ 50,805
Contracted Services	309,672	308,234	295,101	290,951	299,821
Purchased Wastewater Service	191,075	153,473	173,768	156,883	228,971
Utilities	58,218	51,214	50,066	48,219	62,351
Regional Water Authority Assessment	260,224	228,200	199,451	173,247	208,983
Repairs and Maintenance	226,996	290,576	308,249	186,258	282,874
Other	158,043	126,186	105,700	190,491	106,168
Capital Outlay	<u>11,928</u>	<u>35,744</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
TOTAL EXPENDITURES	\$1,329,348	\$1,299,290	\$1,206,439	\$1,110,852	\$1,239,973
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 138,469</u>	<u>\$ (12,979)</u>	<u>\$ 87,825</u>	<u>\$ 107,432</u>	<u>\$ (6,555)</u>

Drainage

The District’s internal storm water drainage facilities consist entirely of concrete curb-and-gutter streets which drain directly to an underground storm sewer system which carries the water to Harris County Flood Control District Unit T101-08-00 which ultimately outfalls into Buffalo Bayou.

100-Year Floodplain

All of the developed and undeveloped land within the District’s boundaries is located in Zone X, outside of the determined 100-year floodplain.

INVESTMENT CONSIDERATIONS

General

The Bonds, which are obligations of the District and not of the State of Texas, Harris County, Texas, the City of Houston, Texas, or any political subdivision other than the District, will be secured by an annual ad valorem

tax, without legal limitation as to rate or amount, on all taxable property located within the District. See "THE BONDS - Source of Payment." The ultimate security for payment of the principal of and interest on the Bonds depends upon the ability of the District to collect from the property owners within the District taxes levied against all taxable property located within the District or, in the event taxes are not collected and foreclosure proceedings are instituted by the District, upon the value of the taxable property with respect to taxes levied by the District and by other taxing authorities. The District makes no representations that over the life of the Bonds the property within the District will maintain a value sufficient to justify continued payment of taxes by the property owners. The potential increase in taxable valuation of District property is directly related to the economics of the residential housing industry, not only due to general economic conditions, but also due to the particular factors discussed below.

Economic Factors Affecting Taxable Values and Tax Payments

Economic Factors: A substantial percentage of the assessed valuation of the property located within the District is attributable to the current market value of (i) single-family residences that have been constructed within the District, and (ii) the commercial buildings that have been constructed within the District. The market value of such homes is related to general economic conditions affecting the demand for residences. Decreased levels of the construction of new commercial buildings and significant vacancy rates of commercial buildings located within the District would restrict the growth of property values in the District. Further declines in the price of oil could adversely affect job stability, wages and salaries, thereby negatively affecting the demand for housing. Were the District to experience a significant number of residential foreclosures, the value of all homes within the District could be adversely affected. Although, as is described in this Official Statement under the caption "DEVELOPMENT OF THE DISTRICT," the District contains a total of 1,240 single-family residential lots on substantially all of which single-family homes have been constructed and approximately 48 acres of commercial development within the District, the District cannot predict the pace or magnitude of any future residential or commercial development or home construction or the construction of future commercial buildings in the District other than that which has occurred to date. Moreover, the District makes no representation as to the occupancy levels of any commercial properties that have been or might be constructed within the District.

Credit Markets and Liquidity in the Financial Markets: Interest rates and the availability of development funding have a direct impact on commercial development activity and the construction of commercial buildings, particularly short-term interest rates at which developers are able to obtain financing for development costs and at which commercial developers are able to finance new commercial buildings.

Interest rate levels may affect the ability of a developer with undeveloped property to undertake and complete development activities within the District and of commercial developers to initiate the construction of new commercial buildings. 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 development or the construction of new commercial buildings within the District. In addition, since the District is located approximately 26 miles west of 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 downturn in the economic conditions of Houston or decline in real estate and financial markets in the United States could adversely affect development and homebuilding plans or the construction of new commercial buildings in the District and restrain the growth of the District's property tax base.

Developers and Principal Landowners Obligation to the District: The District's tax base is concentrated in a small number of taxpayers. As reflected in this Official Statement under the caption "TAX DATA - Principal Taxpayers," the District's ten principal taxpayers in 2015 owned property located in the District, the aggregate assessed valuation of \$43,601,853 which comprised approximately 25.24% of the District's total assessed valuation. The District cannot represent that its tax base will in the future be (i) distributed among a significantly larger number of taxpayers, or (ii) less concentrated in property owned by a relatively small number of property owners, than it is currently. Failure by one or more of the District's principal property owners to make full and timely payments of taxes due may have an adverse effect on the investment quality or security of the Bonds. If any one or more of the principal taxpayers did not pay taxes due, the District might need to levy additional taxes or use other debt service funds available to meet its debt service requirements.

Location and Access: The District is located in an outlying area of the Houston metropolitan area, approximately 26 miles west of the central business district of the City of Houston, 1.5 miles north of I-10. As a result, particularly during times of increased competition, the sale of homes within the District may be at a competitive disadvantage to the sale of homes in other projects located closer to major urban centers, which could adversely affect the value of homes within the District. See “THE DISTRICT” and “DEVELOPMENT WITHIN THE DISTRICT.”

Maximum Impact on District Tax Rates: Assuming no further development, the value of the land and commercial or multi-family improvements currently within the District will be the major determinant of the ability or willingness of property owners to pay their taxes. The 2015 Certified Assessed Valuation of property located within the District (see “TAX DATA”) is \$172,743,965. After issuance of the Bonds, the maximum annual debt service requirement on the Remaining Outstanding Bonds and the Bonds will be \$429,919 (2021) and the average annual debt service requirements will be \$200,358 (2016-2040, inclusive). Assuming no increase to nor decrease from the 2015 Certified Assessed Valuation, tax rates of \$0.27 and \$0.13 per \$100 of Assessed Valuation at a 95% tax collection rate would be necessary to pay the maximum annual debt service requirement and the average annual debt service requirements, respectively.

Increases in the District's tax rate to rates substantially higher than the levels discussed above may have an adverse impact upon future development of the District, and the ability of the District to collect, and the willingness of owners of property located within the District to pay ad valorem taxes levied by the District.

Tax Collections and Foreclosure Remedies

The District's ability to make debt service payments may be adversely affected by difficulties in collecting 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 judicial foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time consuming and expensive collection procedures; (b) a bankruptcy court's stay of tax collection proceedings against a taxpayer; or (c) market conditions affecting the marketability of taxable property within the District and limiting the proceeds from a foreclosure sale of such property.

Moreover, the proceeds of any sale of property within the District available to pay debt service on the Bonds may be limited by the existence of other tax liens on the property (see “TAX DATA--Estimated Overlapping Taxes”), by the current aggregate tax rate being levied against the property, and by other factors (including the taxpayers' right to redeem property after foreclosure). Finally, a bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes assessed against such taxpayer.

Registered Owners' Remedies

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. 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. Subject to the holdings of several recent Texas Supreme Court cases discussed below, 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. 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. 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. In addition, the Texas Supreme Court has ruled that a waiver of sovereign immunity must be provided for by statute in clear and unambiguous language and that certain statutory language previously relied upon by lower courts to support a finding that sovereign immunity had been waived did not constitute a clear and unambiguous waiver of sovereign immunity. Neither the remedy of mandamus nor any other type of injunctive relief was considered in these recent Supreme Court cases; and, in general, Texas courts have held that a writ of mandamus may be issued to require a public official to perform ministerial acts that clearly pertain to their duties, such as a legal duty that leaves nothing to the exercise of discretion or judgment. Texas courts have also held that mandamus may

be used to require a public official to perform legally-imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party, including the payment of monies due under a contract.

The District is also eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bond holders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bond Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, including rights afforded to creditors under the Bankruptcy Code. See "THE BONDS - Registered Owners' Remedies."

Future Debt

The District has reserved in the Bond Order the right to issue the remaining \$15,310,000 in bonds authorized but unissued for waterworks, sanitary sewer and drainage facilities (see "THE BONDS - Issuance of Additional Debt"), the refunding bonds that remain unissued following the issuance of the Bonds, and such additional bonds as may hereafter be approved by both the Board of Directors and voters of the District. The District has also reserved the right to issue certain other additional bonds, special project bonds, and other obligations described in the Bond Order. All of the remaining bonds authorized for waterworks, sanitary sewer and drainage facilities, and for refunding purposes which have heretofore been authorized by the voters of the District may be issued by the District from time to time as needed. The District's Engineer estimates that the \$15,310,000 authorized bonds which remain unissued will be adequate to finance the construction of all water, sewer and drainage facilities to provide service to all of the currently undeveloped portions of the District.

Following the issuance of the Bonds, the District will still owe developers within the District approximately \$8,000,000 for the reimbursable expenditures advanced to develop land, including water, sewer, and road improvements within the District on behalf of the District. See "THE SYSTEM" and "DEVELOPMENT WITHIN THE DISTRICT."

The District anticipates submitting a bond application later this year in an amount yet to be determined with a corresponding bond sale anticipated in 2017.

Proposed Legislation

From time to time, there are Presidential proposals, proposals of various federal committees, and legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to herein or adversely affect the marketability or market value of the Bonds or otherwise prevent holders of the Bonds from realizing the full benefit of the tax exemption of interest on the Bonds. Further, such proposals may impact the marketability or market value of the Bonds simply by being proposed. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value, marketability or tax status of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds would be impacted thereby.

Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The disclosures and opinions expressed herein are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds, and no opinion is expressed as of any date subsequent thereto or with respect to any proposed or pending legislation, regulatory initiatives or litigation

Competitive Nature of Houston Residential and Commercial Real Estate Market

The housing and commercial real estate industry in the Houston area is very competitive, and the District can give no assurance that the building programs which are planned by the Developer will be continued or completed. The respective competitive positions of the Developer and any of the homebuilders are affected by most of the factors discussed in this section, and such competitive positions are directly related to tax revenues received by the District and the growth and maintenance of taxable values in the District.

Bond Insurance

In the event of default of the payment of principal or interest with respect to the Bonds when all or some becomes due, any owner of the Bonds shall have a claim under the applicable Bond Insurance Policy (the "Policy") for such payments. Under most circumstances, default of payment of principal and interest does not obligate acceleration of the obligations of the bond insurer without appropriate consent. The bond insurer may direct and must consent to any remedies and the bond insurer's consent may be required in connection with amendments to any applicable bond documents.

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

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

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

Neither the District nor the Initial Purchaser has made independent investigation into the claims paying ability of the bond insurer and no assurance or representation regarding the financial strength or projected financial strength of the bond insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest on the Bonds and the claims paying ability of the bond insurer, particularly over the life of the investment.

Environmental Regulations

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

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

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

Air Quality/Greenhouse Gas Issues. Air quality control measures required by the United States Environmental Protection Agency (the "EPA") and the Texas Commission on Environmental Quality ("TCEQ") may impact new industrial, commercial and residential development in the Houston area. Under the Clean

Air Act (“CAA”) Amendments of 1990, the eight-county Houston Galveston area (“HGB area”)—Harris, Galveston, Brazoria, Chambers, Fort Bend, Waller, Montgomery and Liberty counties—was designated by the EPA in 2007 as a severe ozone nonattainment area. Such areas are required to demonstrate progress in reducing ozone concentrations each year until the EPA “8-hour” ozone standards are met. The EPA granted the governor’s request to voluntarily reclassify the HGB ozone nonattainment area from a moderate to a severe nonattainment area for the 1997 eight-hour ozone standard, effective October 31, 2008. The HGB area’s new attainment deadline for the 1997 eight-hour ozone standard must be attained as expeditiously as practicable, but no later than June 15, 2019. If the HGB area fails to demonstrate progress in reducing ozone concentration or fails to meet 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.

On November 25, 2014, the EPA proposed revising the ozone standard from its current level of 75 ppb to a level between 65 and 70ppb. This could make it more difficult for the HGB Area to demonstrate progress in reducing ozone concentration. The EPA will make a final decision about its ozone standard by October 1, 2015.

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

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

Texas Pollutant Discharge Elimination System (“TPDES”) permits set limits on the type and quantity of discharge, in accordance with state and federal laws and regulations. Moreover, the Clean Water Act (“CWA”) and Texas Water Code require municipal wastewater treatment plants to meet secondary treatment effluent limitations and must establish the total maximum allowable daily load (“TMDL”) of certain pollutants into the water bodies. The TMDLs that utility districts may discharge may have an impact on the utility district’s ability to obtain and maintain TPDES permits.

On May 27, 2015, the EPA and the United States Army Corps of Engineers (“USACE”) jointly issued a final version of the Clean Water Rule (“CWR”), which expands the scope of the federal government’s CWA jurisdiction over intrastate water bodies and wetlands. The final rule will become effective 60 days after it is published in the Federal Register. District operations are potentially subject to restrictions and requirements under the CWR provisions implemented by the USACE if construction or maintenance activities require the dredging, filling or other physical alteration of jurisdictional waters of the United States or associated wetlands. The CWR expands the federal definition of what is a jurisdictional water, which could negatively impact development in the District.

Operations of municipal utility districts, including the District, are also subject to numerous stormwater discharge permitting requirements under the CWA, EPA and TCEQ regulations. The TCEQ reissued the Texas Pollutant Discharge Elimination System Construction General Permit (TXR150000) on February 19, 2013. The permit became effective on March 5, 2013, and is a general permit authorizing the discharge of stormwater runoff associated with small and large construction sites and certain nonstormwater discharges into surface water in the state. It has a 5-year permit term, then subject to renewal.

The District’s stormwater discharges currently maintain permit coverage through the Municipal Separate Storm System Permit (the “Current Permit”) issued to the Storm Water Management Joint Task Force consisting of Harris County, Harris County Flood Control District, the City of Houston, and the Texas Department of Transportation. In the event that at any time in the future the District is not included in the Current Permit, it may be required to seek independent coverage under the TCEQ’s General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the “MS4 Permit”), which authorizes the discharge of

stormwater to surface water in the state from small municipal separate storm sewer systems. If the District's inclusion in the MS4 Permit were required at a future date, the District could incur substantial costs to develop and implement the necessary plans as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff in order to comply with the MS4 Permit.

Marketability of the Bonds

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

Bankruptcy Limitation to Registered Owners' Rights

Subject to the requirements of Texas law, the District may voluntarily proceed under Chapter 9. Under Texas law, the District must obtain the approval of the TCEQ prior to filing bankruptcy. The rights and remedies of the Registered Owners could be adjusted in accordance with the confirmed plan of adjustment of the District's debt.

Continuing Compliance with Certain Covenants

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

Approval of the Bonds

The Attorney General of Texas must approve the legality of the Bonds prior to their delivery. The Attorney General of Texas, however, does not pass upon or guarantee the safety of the Bonds as an investment or the adequacy or accuracy of the information contained in this Official Statement. TCEQ approval of the Bonds is not required and, therefore, no engineering report or bond application has been submitted to the TCEQ and neither the Bonds, the project, nor the feasibility of the District will be reviewed, considered or approved by the TCEQ.

LEGAL MATTERS

Legal Opinions

Delivery of the Bonds will be accompanied by the approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the District under the Constitution and laws of the State of Texas, payable from the proceeds of an annual ad valorem tax levied, without limit as to rate or amount, upon all taxable property within the District, and, based upon their examination of a transcript of certified proceedings relating to the issuance and sale of the Bonds, the approving legal opinion of Bacon & Wallace, L.L.P., Bond Counsel, to a like effect and to the effect that (i) interest on the Bonds is excludable from gross income of the holders for federal tax purposes under existing law, and (ii) interest on the Bonds will not be subject to the alternative minimum tax on individuals and corporations, except for certain alternative minimum tax consequences for corporations.

Bond Counsel has reviewed the information appearing in this Official Statement under "THE BONDS" (except for information under the subheading "Book-Entry-Only System"), "THE DISTRICT - Authority" and Management of the District - Bond and General Counsel," "TAXING PROCEDURES," "THE SYSTEM - Contractual Agreements," "LEGAL MATTERS," "TAX MATTERS," and "CONTINUING DISCLOSURE OF INFORMATION" solely to determine whether such information, insofar as it relates to matters of law, is true and correct and whether such information fairly summarizes matters of law, the provisions of the documents referred to therein and conforms to the provisions of the Order of the Commission approving the Bonds. 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 information contained herein.

No-Litigation Certificate

The District will furnish the Initial Purchaser a certificate, executed by both the President and Secretary of the Board, and dated as of the date of delivery of the Bonds, to the effect that no litigation of any nature is pending or threatened, either in state, or federal courts, contesting or attacking the Bonds; restraining or enjoining the levy, assessment and collection of ad valorem taxes to pay the interest on or the principal of the Bonds; in any manner questioning the authority or proceedings for the issuance, execution or delivery of the Bonds; or affecting the validity of the Bonds or the title of the present officers of the District.

No Material Adverse Change

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

Securities Laws

No registration statement relating to the offer and sale of the Bonds has been filed with the United States Securities and Exchange Commission (the "SEC") 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 jurisdiction.

TAX MATTERS

Opinion

On the date of initial delivery of the Bonds, Bacon & Wallace, L.L.P., Houston, Texas, Bond Counsel, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof, and (2) the Bonds will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds.

In rendering its opinion, Bond Counsel will rely upon (1) certain information and representations of the District, including information and representations contained in the District's federal tax certificate, and (2) covenants of the District contained in the Bond documents relating to certain matters, including arbitrage and the use of proceeds of the Bonds and the property financed or refinanced therewith. Failure by the District to observe the aforementioned representations or covenants could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel is conditioned on compliance by the District with such requirements, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds. Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinion is not a guarantee of a result.

Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that Existing Law

or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds.

A ruling was not sought from the Internal Revenue Service by the District with respect to the Bonds or the property financed or refinanced with proceeds of the Bonds. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the District as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

Federal Income Tax Accounting Treatment of Original Issue Discount

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

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

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

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

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

Federal Income Tax Accounting Treatment of Original Issue Premium

The issue price of all of the Bonds exceeds the stated redemption price payable at maturity of such Bonds. Such Bonds (the "Premium Bonds") are considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis of a Premium Bond in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Bond in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale

or other taxable disposition of a Premium Bond by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Bond that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined using the yield to maturity on the Premium Bond based on the initial offering price of such Bond.

The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Premium Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Premium Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of amortized bond premium upon the redemption, sale or other disposition of a Premium Bond and with respect to the federal, state, local, and foreign tax consequences of the purchase, ownership, and sale, redemption or other disposition of such Premium Bonds.

Collateral Federal Income Tax Consequences

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on Existing Law, which is subject to change or modification, retroactively.

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

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

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

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation. Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a “market discount” and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to “market discount bonds” to the extent such gain does not exceed the accrued market discount of such bonds; although for this purpose, a de minimis amount of market discount is ignored. A “market discount bond” is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the “revised issue price” (i.e., the issue price plus accrued original issue discount). The “accrued market discount” is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

State, Local and Foreign Taxes

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

Qualified Tax-Exempt Obligations

Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a “financial institution,” on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer’s taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a “financial institution” allocable to tax-exempt obligations, other than “private activity

bonds," that are designated by a "qualified small issuer" as "qualified tax-exempt obligations." A "qualified small issuer" is any governmental issuer (together with any "on-behalf of" and "subordinate" issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term "financial institution" as any "bank" described in Section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to "qualified tax-exempt obligations" provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a "bank," as defined in Section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase "qualified tax-exempt obligations" shall be reduced by twenty-percent (20%) as a "financial institution preference item."

The District has designated the Bonds as "qualified tax-exempt obligations" within the meaning of section 265(b) of the Code. In furtherance of that designation, the District will covenant to take such action that would assure, or to refrain from such action that would adversely affect the treatment of the Bonds as "qualified tax-exempt obligations." **Potential purchasers should be aware that if the issue price to the public exceeds \$10,000,000, there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of \$10,000,000 is disregarded; however, the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the \$10,000,000 limitation and the Bonds would not be "qualified tax-exempt obligations."**

SOURCES OF INFORMATION

General

The information contained in this Official Statement has been obtained primarily from the District's records, the Harris County Appraisal District and other sources believed to be reliable; however, no representation is made by the District as to the accuracy or completeness of the information contained herein, except as described below under "Certification of Official Statement." The summaries of the statutes, resolutions and engineering and other related reports set forth herein are included 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.

Experts

The information contained in this Official Statement relating to engineering, to the description of the System generally and, in particular, the engineering information included in the section captioned "THE SYSTEM," has been provided by Jones & Carter, Inc., Houston, Texas. Such information has been included herein in reliance upon the authority of said firm as expert 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 valuations contained in the sections captioned "TAX DATA" and "DISTRICT DEBT" has been provided by the Harris County Appraisal District and Barbara Wheeler. The District has included certain information herein in reliance upon Ms. Wheeler's authority as an expert in the field of tax assessing and real property appraisal. The District's audited financial statements for the year ended October 31, 2015, were prepared by McCall Gibson Swedlund Barfoot PLLC, and have been included herein as "APPENDIX A."

Certification as to Official Statement

At the time of payment for and delivery of the Bonds, the District will furnish the Initial Purchaser a certificate, executed by the President and Secretary of the Board of Directors of the District, acting in their official capacities, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the District contained in this Official Statement, on the date thereof and on the date of delivery, were and are true and correct in all material respects; (b) insofar as the District and its affairs, including its financial affairs, are concerned, this Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated herein or necessary to make the statements herein, in the light of the circumstances under which they were made, not misleading; and (c) insofar as the descriptions and statements, including financial data, contained in this Official Statement, of or pertaining to entities other than the District, such statements and data have been obtained

from sources which the District believes to be reliable, and the District has no reason to believe that they are untrue in any material respect.

Updating of Official Statement

If, subsequent to the date of the Official Statement to and including the date the Initial Purchaser is no longer required to provide an Official Statement to potential customers who request the same pursuant to SEC Rule 15c2-12 (the "Rule") (the earlier of (i) 90 days from the "end of the underwriting period" (as defined in the Rule) and (ii) the time when the Official Statement is available to any person from a nationally recognized repository but in no case less than 25 days after the "end of the underwriting period"), the District learns or is notified by the Initial Purchaser of any adverse event which causes any of the key representations in the Official Statement to be materially misleading, the District will promptly prepare and supply to the Initial Purchaser a supplement to the Official Statement which corrects such representation to the reasonable satisfaction of the Initial Purchaser. The obligation of the District to update or change the Official Statement will terminate when the District delivers the Bonds to the Initial Purchaser (the "end of the underwriting period" within the meaning of the Rule), unless the Initial Purchaser provides written notice to the District that less than all of the Bonds have been sold to ultimate customers on or before such date, in which case the obligation to update or change the Official Statement will extend for an additional period of time of 25 days after all of the Bonds have been sold to ultimate customers. In the event the Initial Purchaser provides written notice to the District that less than all of the Bonds have been sold to ultimate customers, the Initial Purchaser agrees to notify the District in writing following the occurrence of the "end of the underwriting period" as defined in the Rule.

CONTINUING DISCLOSURE OF INFORMATION

The offering of the Bonds qualifies for the United States Securities and Exchange Commission's Rule 15c2-12(d)(2) exemption from Rule 15c2-12(b)(5) regarding the District's continuing disclosure obligations because the District does not have 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. As required by the exemption, in the Bond Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access ("EMMA") System.

Annual Reports

The District will provide certain updated financial information and operating data to the MSRB annually.

The information to be updated with respect to the District includes all quantitative financial information and operating data of the general type included in this Official Statement under the heading "APPENDIX A - Financial Statements of the District." The District will update and provide this information within six months after the end of each of its fiscal years ending in or after 2015. The financial information and operating data which will be provided with respect to the District is found in the "APPENDIX A - Financial Statements of the District." The District will update and provide this information within six months after the end of each of its fiscal years ending in or after October 31, 2015.

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 October 31. Accordingly, it must provide updated information by April 30 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

Event Notices

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten days after the occurrence of an event. The District will provide notice

of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other events affecting the tax- exempt status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of the Rule; (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material. The term “material” when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Order makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under “Annual Reports.”

Availability of Information

The District has agreed to provide the foregoing notices to the MSRB. The District is required to file its continuing disclosure information using EMMA, which is the format currently prescribed by the MSRB and has been established by the MSRB to make such continuing disclosure information available to investors free of charge. Investors may access continuing disclosure information filed with the MSRB at www.emma.msrb.org.

Limitations and Amendments

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

The Developer has agreed to provide to the District the information that the District has agreed to provide with respect to the Developer. The Developer has also agreed with the District that it will not assign any of its rights to receive payment from the District out of proceeds of the Bonds (except as collateral), unless the assignee assumes the Developer's agreement to provide such information, but the Developer may sell its property within the District without any such assumption. The District's ability to provide information about the Developer or others, as well as the accuracy and completeness of such information, is completely dependent on such persons' compliance with their contractual agreements with the District.

The District may amend its continuing disclosure agreement 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 operations of the District or the Developer, but only if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments and interpretations of the Rule to the date of such amendment, as well as changed circumstances, and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. The District may also amend or repeal the agreement if the United States Securities and Exchange Commission amends or repeals the applicable provisions of such rule or a court of final jurisdiction determines that such provisions are invalid, but in either case only to the extent that its right to do so would

not prevent the Initial Purchaser from lawfully purchasing the Bonds in the offering described herein. If the District so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance with Prior Undertakings

The District did not timely file all notices of bond insurer downgrades and upgrades during the last five years. On January 17, 2013 Moody's downgraded financial strength of the insurance municipal bond insurance provider, AGM, to "A2" from "Aa3." The notice related to such rating change was due to be filed on January 27, 2013 and was filed on February 5, 2013. On March 18, 2014, S&P upgraded its rating of the financial strength of the municipal bond insurance provider, AGM, to "AA" from "AA-". The notice related to such rating change was filed on February 5, 2016 along with a notice of late filing.

Otherwise, the District has complied in all material respects with its previous continuing disclosure agreements made in accordance with the Rule.

CONCLUDING STATEMENT

The information set forth herein has been obtained from the District's records, audited financial statements and other sources which are considered to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will ever be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such summarized documents for further information. Reference is made to official documents in all respects.

This Official Statement was approved by the Board of Directors of West Harris County Municipal Utility District No. 2 as of the date specified on the first page hereof.

/s/ Melanie Mueller
President, Board of Directors
West Harris County Municipal Utility District No. 2

ATTEST:

/s/ Loretta Evans
Secretary, Board of Directors
West Harris County Municipal Utility District No. 2

**APPENDIX A
FINANCIAL STATEMENTS OF THE DISTRICT**

WEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

OCTOBER 31, 2015

WEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

OCTOBER 31, 2015

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
West Harris County Municipal
Utility District No. 2
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of West Harris County Municipal Utility District No. 2 (the "District"), as of and for the year ended October 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Board of Directors
West Harris County Municipal
Utility District No. 2

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of October 31, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

February 17, 2016

**WEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED OCTOBER 31, 2015**

Management's discussion and analysis of West Harris County Municipal Utility District No. 2's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended October 31, 2015. Please read it in conjunction with the District's financial statements.

USING THIS ANNUAL REPORT

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

FUND FINANCIAL STATEMENTS

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

**WEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED OCTOBER 31, 2015**

FUND FINANCIAL STATEMENTS (Continued)

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

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

NOTES TO THE FINANCIAL STATEMENTS

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. .

OTHER INFORMATION

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities and deferred inflow of resources by \$2,168,353 as of October 31, 2015.

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

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

**WEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED OCTOBER 31, 2015**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	<u>Summary of Changes in the Statement of Net Position</u>		
	<u>2015</u>	<u>2014</u>	<u>Change Positive (Negative)</u>
Current and Other Assets	\$ 3,185,135	\$ 2,906,371	\$ 278,764
Capital Assets (Net of Accumulated Depreciation)	<u>4,020,410</u>	<u>3,187,193</u>	<u>833,217</u>
Total Assets	<u>\$ 7,205,545</u>	<u>\$ 6,093,564</u>	<u>\$ 1,111,981</u>
Due to Developer	\$ 2,042,260	\$ 629,942	\$ (1,412,318)
Long -Term Liabilities	1,612,344	1,899,722	287,378
Other Liabilities	<u>497,059</u>	<u>517,026</u>	<u>19,967</u>
Total Liabilities	<u>\$ 4,151,663</u>	<u>\$ 3,046,690</u>	<u>\$ (1,104,973)</u>
Deferred Inflows of Resources	<u>\$ 885,529</u>	<u>\$ 620,109</u>	<u>\$ (265,420)</u>
Net Position:			
Net Investment in Capital Assets	\$ 144,794	\$ 502,304	\$ (357,510)
Restricted	124,374	140,517	(16,143)
Unrestricted	<u>1,899,185</u>	<u>1,783,944</u>	<u>115,241</u>
Total Net Position	<u><u>\$ 2,168,353</u></u>	<u><u>\$ 2,426,765</u></u>	<u><u>\$ (258,412)</u></u>

The following table provides a summary of the District's operations for the years ended October 31, 2015, and October 31, 2014. The District's net position decreased by \$258,412.

	<u>Summary of Changes in the Statement of Activities</u>		
	<u>2015</u>	<u>2014</u>	<u>Change Positive (Negative)</u>
Revenues:			
Property Taxes	\$ 674,044	\$ 586,660	\$ 87,384
Charges for Services	1,076,352	988,427	87,925
Other Revenues	<u>69,545</u>	<u>75,593</u>	<u>(6,048)</u>
Total Revenues	<u>\$ 1,819,941</u>	<u>\$ 1,650,680</u>	<u>\$ 169,261</u>
Expenses for Services	<u>2,078,353</u>	<u>1,538,557</u>	<u>(539,796)</u>
Change in Net Position	\$ (258,412)	\$ 112,123	\$ (370,535)
Net Position, Beginning of Year	<u>2,426,765</u>	<u>2,314,642</u>	<u>112,123</u>
Net Position, End of Year	<u><u>\$ 2,168,353</u></u>	<u><u>\$ 2,426,765</u></u>	<u><u>\$ (258,412)</u></u>

**WEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED OCTOBER 31, 2015**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of October 31, 2015, were \$1,499,257, an increase of \$61,491 from the prior year.

The General Fund fund balance increased by \$138,469, primarily due to service revenues exceeding operating expenditures.

The Debt Service Fund fund balance decreased by \$21,974, primarily due to the structure of the District's outstanding debt service requirements.

The Capital Projects Fund fund balance decreased by \$55,004, primarily due to the use of surplus bond proceeds received in a prior fiscal year to fund current year expenditures.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the budget during the current fiscal year. Actual revenues were \$28,818 more than budgeted revenues. Actual expenditures were \$33,711 greater than budgeted expenditures.

CAPITAL ASSETS

Capital assets as of October 31, 2015, total \$4,020,410 (net of accumulated depreciation) and includes land as well as the water and wastewater systems. Significant capital asset activity during the current fiscal year included the sanitary sewer rehabilitation, power connection to sanitary sewer lift station no. 3 and insite detention pond lift station, Morton Ranch utility extension phase 2, Riddle Holdings Force Main and facilities to serve Urban Grand Parkway.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2015	2014	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 53,454	\$ 53,454	\$
Construction in Progress	29,382	10,000	19,382
Capital Assets, Net of Accumulated Depreciation:			
Water System	1,461,287	981,025	480,262
Wastewater System	2,476,287	2,142,714	333,573
Total Net Capital Assets	<u>\$ 4,020,410</u>	<u>\$ 3,187,193</u>	<u>\$ 833,217</u>

Additional information on the District's capital assets can be found in Note 6 of this report.

WEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED OCTOBER 31, 2015

LONG-TERM DEBT ACTIVITY

As of October 31, 2015, the District had total bond debt payable of \$1,985,000. The changes in the debt position of the District during the fiscal year ended October 31, 2015, are summarized as follows:

Bond Debt Payable, November 1, 2014	\$ 2,280,000
Less: Bond Principal Paid	<u>295,000</u>
Bond Debt Payable, October 31, 2015	<u>\$ 1,985,000</u>

The Series 2012 Refunding bonds carry an underlying rating of “A” and an insured rating of “AA” by virtue of bond insurance issued by Assured Guaranty Municipal. The above ratings reflect all changes through October 31, 2015.

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to West Harris County Municipal Utility District No. 2, c/o Bacon & Wallace, L.L.P., 6363 Woodway, Suite 800, Houston, Texas 77057-1762.

WEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
OCTOBER 31, 2015

	General Fund	Debt Service Fund
ASSETS		
Cash	\$ 661,268	\$ 119,107
Investments	682,802	2,828
Receivables:		
Property Taxes	413,384	490,411
Penalty and Interest on Delinquent Taxes		5,311
Service Accounts (Net of Allowance for Uncollectible Accounts of \$2,000)	103,305	
Accrued Interest	2,388	
Due from Developer	6,799	
Due from Other Funds		542
Prepaid Costs	6,956	
Regional Water Authority Receivable	9,112	
Advance for Regional Wastewater Treatment Plant Operations	10,000	
Land		
Construction in Progress		
Capital Assets (Net of Accumulated Depreciation)		
TOTAL ASSETS	\$ 1,896,014	\$ 618,199

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

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 8,482	\$ 788,857	\$	\$ 788,857
70,506	756,136		756,136
	903,795		903,795
	5,311		5,311
	103,305		103,305
	2,388		2,388
	6,799		6,799
	542	(542)	
	6,956		6,956
	9,112	592,476	601,588
	10,000		10,000
		53,454	53,454
		29,382	29,382
		<u>3,937,574</u>	<u>3,937,574</u>
<u>\$ 78,988</u>	<u>\$ 2,593,201</u>	<u>\$ 4,612,344</u>	<u>\$ 7,205,545</u>

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

WEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
OCTOBER 31, 2015

	General Fund	Debt Service Fund
LIABILITIES		
Accounts Payable	\$ 134,780	\$
Accrued Interest Payable		
Due to Developers		
Due to Other Funds	542	
Due to Taxpayers		800
Security Deposits	48,116	
Long Term Liabilities:		
Due Within One Year		
Due After One Year		
TOTAL LIABILITIES	\$ 183,438	\$ 800
DEFERRED INFLOWS OF RESOURCES		
Property Taxes	\$ 413,384	\$ 490,411
Penalty and Interest on Delinquent Taxes		5,311
TOTAL DEFERRED INFLOWS OF RESOURCES	\$ 413,384	\$ 495,722
FUND BALANCES		
Nonspendable:		
Prepaid Costs	\$ 6,956	\$
Advance For Regional Wastewater Treatment Plant Operations	10,000	
Restricted for Authorized Construction		
Restricted for Debt Service		121,677
Unassigned	1,282,236	
TOTAL FUND BALANCES	\$ 1,299,192	\$ 121,677
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 1,896,014	\$ 618,199
NET POSITION		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
TOTAL NET POSITION		

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

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$	\$ 134,780	\$	\$ 134,780
		13,363	13,363
600	600	2,041,660	2,042,260
	542	(542)	
	800		800
	48,116		48,116
		300,000	300,000
		1,612,344	1,612,344
<u>\$ 600</u>	<u>\$ 184,838</u>	<u>\$ 3,966,825</u>	<u>\$ 4,151,663</u>
\$	\$ 903,795	\$ (18,266)	\$ 885,529
	5,311	(5,311)	
<u>\$ -0-</u>	<u>\$ 909,106</u>	<u>\$ (23,577)</u>	<u>\$ 885,529</u>
\$	\$ 6,956	\$ (6,956)	\$
	10,000	(10,000)	
78,388	78,388	(78,388)	
	121,677	(121,677)	
	1,282,236	(1,282,236)	
<u>\$ 78,388</u>	<u>\$ 1,499,257</u>	<u>\$ (1,499,257)</u>	<u>\$ - 0 -</u>
<u>\$ 78,988</u>	<u>\$ 2,593,201</u>		
		\$ 144,794	\$ 144,794
		124,374	124,374
		1,899,185	1,899,185
		<u>\$ 2,168,353</u>	<u>\$ 2,168,353</u>

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

**WEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
OCTOBER 31, 2015**

Total Fund Balances - Governmental Funds	\$	1,499,257
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital contributions to the West Harris County Regional Water Authority are not current financial resources and, therefore, are not reported as assets in the governmental funds.		592,476
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Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.		4,020,410
--	--	-----------

Deferred tax revenues and deferred penalty and interest revenues on delinquent taxes for the 2014 and prior tax levies became part of recognized revenue in the governmental activities of the District.		23,577
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Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year end consist of:

Due to Developer	\$ (2,041,660)	
Accrued Interest Payable	(13,363)	
Bonds Payable Within One Year	(300,000)	
Bonds Payable After One Year	<u>(1,612,344)</u>	<u>(3,967,367)</u>
Total Net Position - Governmental Activities		<u>\$ 2,168,353</u>

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

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WEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED OCTOBER 31, 2015

	General Fund	Debt Service Fund
REVENUES		
Property Taxes	\$ 307,207	\$ 360,883
Water Service	278,942	
Wastewater Service	479,257	
Regional Water Authority Fees	195,778	
Penalty and Interest	29,132	7,274
Tap Connection and Inspection Fees	84,433	
Investment Revenues	4,212	399
Regional Water Authority Credits	55,836	
Miscellaneous Revenues	33,020	2,374
	<u>\$ 1,467,817</u>	<u>\$ 370,930</u>
EXPENDITURES/EXPENSES		
Service Operations:		
Professional Fees	\$ 113,192	\$ 3,355
Contracted Services	309,672	28,152
Purchased Wastewater Service	191,075	
Utilities	58,218	
Regional Water Authority Assessment	260,224	
Repairs and Maintenance	226,996	
Depreciation		
Other	158,043	7,047
Capital Outlay	11,928	
Contribution to Harris County		
Debt Service:		
Bond Principal		295,000
Bond Interest		59,350
	<u>\$ 1,329,348</u>	<u>\$ 392,904</u>
TOTAL EXPENDITURES/EXPENSES		
NET CHANGE IN FUND BALANCES	\$ 138,469	\$ (21,974)
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION - NOVEMBER 1, 2014	<u>1,160,723</u>	<u>143,651</u>
FUND BALANCES/NET POSITION - OCTOBER 31, 2015	<u>\$ 1,299,192</u>	<u>\$ 121,677</u>

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 668,090	\$ 5,954	\$ 674,044
	278,942		278,942
	479,257		479,257
	195,778		195,778
	36,406	1,536	37,942
	84,433		84,433
66	4,677		4,677
	55,836	(26,362)	29,474
	35,394		35,394
<u>\$ 66</u>	<u>\$ 1,838,813</u>	<u>\$ (18,872)</u>	<u>\$ 1,819,941</u>
\$ 2,295	\$ 118,842	\$	\$ 118,842
	337,824		337,824
	191,075		191,075
	58,218		58,218
	260,224		260,224
	226,996		226,996
		140,933	140,933
432	165,522		165,522
52,343	64,271	(64,271)	
		508,222	508,222
	295,000	(295,000)	
	59,350	11,147	70,497
<u>\$ 55,070</u>	<u>\$ 1,777,322</u>	<u>\$ 301,031</u>	<u>\$ 2,078,353</u>
\$ (55,004)	\$ 61,491	\$ (61,491)	\$
		(258,412)	(258,412)
<u>133,392</u>	<u>1,437,766</u>	<u>988,999</u>	<u>2,426,765</u>
<u>\$ 78,388</u>	<u>\$ 1,499,257</u>	<u>\$ 669,096</u>	<u>\$ 2,168,353</u>

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

**WEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED OCTOBER 31, 2015**

Net Change in Fund Balances - Governmental Funds	\$	61,491
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied.		5,954
Governmental funds report penalty and interest revenue on property taxes when collected. However, in the Statement of Activities, revenue is recorded when penalties and interest are assessed.		1,536
Payments to be received in future years from the West Harris County Regional Water Authority for capital contributions are recorded as a long-term receivable in the Statement of Net Position.		(26,362)
Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.		(140,933)
Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected.		64,271
In the Statement of Activities, the cost of completed facilities that are conveyed to Harris County is recorded as an expense.		(508,222)
Governmental funds report bond principal payments as expenditures. However, in the Statement of Net Position, bond principal payments are reported as decreases in long-term liabilities.		295,000
Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end.		(11,147)
Change in Net Position - Governmental Activities	<u>\$</u>	<u>(258,412)</u>

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

WEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2015

NOTE 1. CREATION OF DISTRICT

West Harris County Municipal Utility District No. 2, Harris County, Texas was created by the Texas Water Rights Commission, effective October 31, 1975, in accordance with Texas Water Code Chapter 54. The Board of Directors held its first meeting on November 18, 1975, and the first bonds were sold on January 13, 1977. The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply of water; the collection, transportation and treatment of wastewater; and the control and diversion of storm water. The District may provide garbage disposal and collection services. In addition, the District is empowered, if approved by the electorate, the Texas Commission on Environmental Quality (the "Commission") and other governmental entities having jurisdiction, to establish, operate and maintain a fire department, either independently or jointly with certain other Districts.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

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

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

The District has entered into an agreement with West Harris County Municipal Utility District No. 5 and Harris County Municipal Utility District Nos. 61, 62, 63, 64 and 65 for wastewater service through the Williamsburg Regional Sewage Treatment Authority. Additional disclosure concerning this agreement is provided in Note 11.

Financial Statement Presentation

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

WEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2015

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

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

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

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

Government-Wide Financial Statements

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

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

WEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2015

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide Financial Statements (Continued)

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

Fund Financial Statements

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

Governmental Funds

The District has three governmental funds and considers each of them to be major.

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

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

Capital Projects Fund - To account for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

Basis of Accounting

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

WEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2015

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

Property taxes considered available by the District and included in revenue include the 2014 tax levy collections during the period October 1, 2014, to October 31, 2015. In addition, taxes collected from November 1, 2014, to October 31, 2015, for the 2013 and prior tax levies are included in revenue. The 2015 tax levy has been fully deferred.

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis.

Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

	Years
Buildings	40
Water and Wastewater Systems	10-45
Machinery and Equipment	5-20

Budgeting

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

Pensions

The District has not established a pension plan as the District does not have employees. The Internal Revenue Service determined that directors are considered to be “employees” for federal payroll tax purposes only.

WEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2015

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus

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

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

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

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

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

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

Unassigned: all other spendable amounts in the General Fund.

WEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2015

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

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

Accounting Estimates

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

NOTE 3. LONG-TERM DEBT

	<u>Refunding Series 2012</u>
Amount Outstanding – October 31, 2015	\$ 1,985,000
Interest Rates	2.00%-3.00%
Maturity Dates – Serially Beginning/Ending	August 1, 2016/2021
Interest Payment Dates	February 1/ August 1
Callable Dates	Non-Callable

WEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2015

NOTE 3. LONG-TERM DEBT (Continued)

The following is a summary of transactions regarding bonds payable for the year ended October 31, 2015:

	November 1, 2014	Additions	Retirements	October 31, 2015
Bonds Payable	\$ 2,280,000	\$	\$ 295,000	\$ 1,985,000
Unamortized Discounts	(85,278)		(12,622)	(72,656)
Bonds Payable, Net	\$ 2,194,722	\$ -0-	\$ 282,378	\$ 1,912,344
			Amount Due Within One Year	\$ 300,000
			Amount Due After One Year	1,612,344
			Bonds Payable, Net	\$ 1,912,344

As of October 31, 2015, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2016	\$ 300,000	\$ 53,450	\$ 353,450
2017	310,000	47,450	357,450
2018	325,000	41,250	366,250
2019	335,000	31,500	366,500
2020	350,000	21,450	371,450
2021	365,000	10,950	375,950
	\$ 1,985,000	\$ 206,050	\$ 2,191,050

On November 4, 2014, voters approved the increase of authorized bonds in the amount of \$13,600,000. As of October 31, 2015, the District has authorized but unissued bonds in the amount of \$17,210,000 for utilities and \$4,773,149 for refunding bonds.

During the year ended October 31, 2015, the District levied an ad valorem debt service tax rate of \$0.26 per \$100 of assessed valuation, which resulted in a tax levy of \$479,662 on the adjusted taxable valuation of \$184,486,410, for the 2015 tax year. The bond orders require the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. See Note 7 for the maintenance tax levy.

WEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2015

NOTE 3. LONG-TERM DEBT (Continued)

The District's tax calendar is as follows:

Levy Date - October 1, or as soon thereafter as practicable.

Lien Date - January 1.

Due Date - Not later than January 31.

Delinquent Date - February 1, at which time the taxpayer is liable for penalty and interest.

NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS

- A. The bond order states that so long as any of the bonds are outstanding, the District covenants to maintain insurance on such parts of the system as are usually insured by municipal corporations and political subdivisions in Texas operating like properties in similar locations under the same circumstances with a responsible insurance company or companies against risk, accidents or casualties against which and to the extent insurance is usually carried by such municipal corporations and political subdivisions.
- B. The bond order states that the District is required to provide to the state information depository continuing disclosure of annual financial information and operating data with respect to the District. The information is of the general type included in the annual audit report and must be filed within six months after the end of each fiscal year of the District.
- C. The District has covenanted that it will take all necessary steps to comply with the requirement that rebatable arbitrage earnings on the investment of the gross proceeds of the bonds, within the meaning of Section 148(f) of the Internal Revenue Code, be rebated to the federal government. The minimum requirement for determination of the rebatable amount is on the five year anniversary of each issue.

WEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2015

NOTE 5. DEPOSITS AND INVESTMENTS

Deposits

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

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District's deposits was \$1,270,057 and the bank balance was \$1,275,478. Of the bank balance, \$952,417 was covered by federal depository insurance and the balance was covered by collateral pledged in the name of the District and held in a third-party depository.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at October 31, 2015, as listed below:

	Cash	Certificates of Deposit	Total
GENERAL FUND	\$ 661,268	\$ 481,200	\$ 1,142,468
DEBT SERVICE FUND	119,107		119,107
CAPITAL PROJECTS FUND	8,482		8,482
TOTAL DEPOSITS	\$ 788,857	\$ 481,200	\$ 1,270,057

Investments

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

WEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2015

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

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

All investments are recorded at cost, which the District considers to be fair value. The District invests in TexPool an external investment pool that is not SEC-registered. The State Comptroller of Public Accounts of the State of Texas has oversight of TexPool. Federated Investors, Inc. manages the daily operations of the pool under a contract with the Comptroller. The fair value of the District's position in the pools is the same as the value of pool shares.

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

Fund and Investment Type	Fair Value	Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
<u>GENERAL FUND</u>					
TexPool	\$ 201,602	\$ 201,602	\$	\$	\$
Certificates of Deposit	481,200	481,200			
<u>DEBT SERVICE FUND</u>					
TexPool	2,828	2,828			
<u>CAPITAL PROJECTS FUND</u>					
TexPool	70,506	70,506			
TOTAL INVESTMENTS	<u>\$ 756,136</u>	<u>\$ 756,136</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>

WEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2015

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At October 31, 2015, the District's investment in TexPool was rated AAAM by Standard and Poor's.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District considers the investment in TexPool to have a maturity of less than one year due to the fact the share positions can usually be redeemed each day at the discretion of the District, unless there has been a significant change in value.

Restrictions

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

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended October 31, 2015:

	November 1, 2014	Increases	Decreases	October 31, 2015
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 53,454	\$	\$	\$ 53,454
Construction in Progress	10,000	974,150	954,768	29,382
Total Capital Assets Not Being Depreciated	\$ 63,454	\$ 974,150	\$ 954,768	\$ 82,836
Capital Assets Subject to Depreciation				
Water System	\$ 1,375,678	\$ 522,442	\$	\$ 1,898,120
Wastewater System	4,192,572	432,326		4,624,898
Total Capital Assets Subject to Depreciation	\$ 5,568,250	\$ 954,768	\$ - 0 -	\$ 6,523,018
Less Accumulated Depreciation				
Water System	\$ 394,653	\$ 42,180	\$	\$ 436,833
Wastewater System	2,049,858	98,753		2,148,611
Total Accumulated Depreciation	\$ 2,444,511	\$ 140,933	\$ - 0 -	\$ 2,585,444
Total Depreciable Capital Assets, Net of Accumulated Depreciation	\$ 3,123,739	\$ 813,835	\$ - 0 -	\$ 3,937,574
Total Capital Assets, Net of Accumulated Depreciation	\$ 3,187,193	\$ 1,787,985	\$ 954,768	\$ 4,020,410

WEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2015

NOTE 6. CAPITAL ASSETS (Continued)

The District has financed drainage facilities which have been conveyed to other entities for maintenance.

NOTE 7. MAINTENANCE TAX

At an election held August 14, 1976, the voters within the District authorized a maintenance tax not to exceed \$0.25 per \$100 valuation on all property subject to taxation within the District. During the current fiscal year, the District levied an ad valorem maintenance tax rate of \$0.22 per \$100 of assessed valuation, which resulted in a tax levy of \$405,867 on the adjusted taxable valuation of \$184,486,410 for the 2015 tax year. This maintenance tax will be used by the General Fund to pay expenditures of the District.

NOTE 8. RISK MANAGEMENT

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

NOTE 9. UNREIMBURSED COSTS

The District has entered into development financing agreements with Developers within the District. The agreements call for the Developers to fund costs associated with water and sewer facilities and utilities construction until such time as the District can sell bonds. Any reimbursement is contingent upon a future bond sale. The District has recorded a liability in the amount of \$2,041,660 in the Statement of Net Position for completed facilities. Reimbursement to the Developer for these projects is contingent upon approval from the Commission and the future sale of bonds.

NOTE 10. WEST HARRIS COUNTY REGIONAL WATER AUTHORITY

The West Harris County Regional Water Authority was created pursuant to a special act of the State Legislature and Article XVI of the Texas Constitution. The Authority may establish fees, user fees and charges as necessary to implement the "Groundwater Reduction Plan". In

WEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2015

NOTE 10. WEST HARRIS COUNTY REGIONAL WATER AUTHORITY
(Continued)

accordance with this provision, the Authority established a well pumpage fee. The current pumpage fee is \$2.05 per 1,000 gallons. The District's pumpage fees paid to the Authority for the year ended October 31, 2015, were \$260,224. In a prior year, the District entered into a capital contribution contract with the Authority and the District made the payment of \$819,052 to the Authority. The District received credits of \$55,836 including a return of principal of \$26,362. The capital contribution balance is \$592,476.

Future repayments of capital contributions are as follows:

Fiscal Year	Principal	Interest	Total
2016	\$ 27,608	\$ 28,228	\$ 55,836
2017	28,913	26,923	55,836
2018	30,280	25,556	55,836
2019	31,711	24,125	55,836
2020	33,210	22,626	55,836
2021-2025	191,130	88,050	279,180
2026-2030	240,774	38,406	279,180
2031	8,850	456	9,306
	<u>\$ 592,476</u>	<u>\$ 254,370</u>	<u>\$ 846,846</u>

NOTE 11. REGIONAL SEWAGE TREATMENT PLANT

The District is a participant with several other districts and developers in the Williamsburg Regional Sewage Treatment Plant (the "Plant"). Oversight is exercised by the Williamsburg Regional Sewage Authority (the "Sewage Authority"). The Sewage Authority is governed by a Board of Delegates whose members are appointed by the board of directors of the participating districts. Each participating district appoints one delegate. Construction costs are funded by the contribution of funds from each participating district.

Each participant is responsible only for its share of the operating costs of the Sewage Authority which are allocated and billed monthly based upon each participant's equivalent sewer connections serviced by the Sewage Authority. During the year ended October 31, 2015, the District's share of the Sewage Authority's expenditures was \$165,050. The District's share of the Sewage Authority's operating reserve was \$10,000 at October 31, 2015.

Operation of the Plant is governed by the Regional Sewage Treatment Plant Contract Providing for the Creation of the Williamsburg Regional Sewage Authority dated November 1, 1980 (the

WEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2015

NOTE 11. REGIONAL SEWAGE TREATMENT PLANT (Continued)

"Agreement"). During the fiscal year ending October 1, 2010, the Board of Delegates adopted the Fourth and Fifth Amendments to the Agreement to revise the procedures for expanding the Plant and to change the method of designating a President of the Sewage Authority.

The following summary financial data of the Sewage Authority is presented for the fiscal year ending October 31, 2015. Additional financial information can be obtained by contacting the Authority's attorneys, Smith, Murdaugh, Little & Bonham, L.L.P.

Total Assets	\$	120,053
Total Liabilities		<u>50,053</u>
Total Fund Balance	\$	<u>70,000</u>
Total Revenues	\$	862,283
Total Expenses		<u>862,283</u>
Excess Revenues (Expenditures)	\$	- 0 -
Fund Balance - November 1, 2014		<u>70,000</u>
Fund Balance - October 31, 2015	\$	<u><u>70,000</u></u>

NOTE 12. INTERFUND RECEIVABLES AND LIABILITIES

As of October 31, 2015, the General Fund owed the Debt Service Fund \$542 for the over transfer of maintenance tax collections.

NOTE 13. USE OF SURPLUS FUNDS

In accordance with Rule 30 T.A.C. 293.83(c)(3) of the Commission, the District approved the use of surplus Capital Projects Fund monies to fund sanitary sewer rehabilitation and power connections to sanitary sewer lift station no. 3 and detention pond lift station. During the current fiscal year, the District expended \$52,343 of surplus Capital Projects Fund monies on these projects.

WEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2015

NOTE 14. STRATEGIC PARTNERSHIP AGREEMENT

Effective November 13, 2012, the District entered into a Strategic Partnership Agreement with the City of Houston, Texas, since amended on November 13, 2013, and December 12, 2014. The agreement provides that in accordance with Subchapter F of the Chapter 43 of the Local Government Code and the Act, the City annexed a tract of land defined as the “Tract” for the limited purpose of imposing and collecting sales and use tax on qualified businesses within the Tract. The District and the City agreed to divide equally all revenue from such taxation. The District will continue to develop, to own, and to operate and maintain a water, wastewater and drainage system in the District. All taxable property within the District shall not be liable for any present or future debts of the City, and current and future taxes levied by the City shall not be levied on taxable property within the District. The District’s assets, liabilities, indebtedness, and obligations will remain the responsibility of the District during the period of this agreement.

The City agrees that it will not annex the District for full purposes or commence any action to annex the District for full purposes during the term of this Agreement. The term of this Agreement is 30 years from the effective date of the agreement. During the current fiscal year, the District did not record any sales tax revenue as a result of this Agreement.

NOTE 15. PENDING BOND SALE – SUBSEQUENT EVENT

On November 23, 2015, subsequent to year end, the Commission approved the sale of bonds in the amount of \$1,900,000. Proceeds of the bond sale will be used to reimburse a Developer for construction and engineering costs of the Morton Ranch Road Waterline Extensions, Phase I, the Morton Ranch Road Utility Extensions, Phase II, the Riddle Holdings Force Main, and the East Grand Parkway Clearing and Grubbing. In addition, the District will use proceeds of the bond sale to fund various cleaning and televising and wastewater rehabilitation projects throughout the District. The District is expected to close on the sale of the bonds on March 17, 2016.

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WEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2

REQUIRED SUPPLEMENTARY INFORMATION

OCTOBER 31, 2015

WEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED OCTOBER 31, 2015

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Property Taxes	\$ 304,363	\$ 307,207	\$ 2,844
Water Service	323,000	278,942	(44,058)
Wastewater Service	515,600	479,257	(36,343)
Regional Water Authority Fee	194,400	195,778	1,378
Penalty and Interest	31,700	29,132	(2,568)
Tap Connection and Inspection Fees		84,433	84,433
Investment Revenues	3,800	4,212	412
Regional Water Authority Credits	55,836	55,836	
Miscellaneous Revenues	<u>10,300</u>	<u>33,020</u>	<u>22,720</u>
TOTAL REVENUES	\$ 1,438,999	\$ 1,467,817	\$ 28,818
EXPENDITURES			
Services Operations:			
Professional Fees	\$ 99,500	\$ 113,192	\$ (13,692)
Contracted Services	317,780	309,672	8,108
Purchased Wastewater Service	236,607	191,075	45,532
Utilities	40,000	58,218	(18,218)
Regional Water Authority Assessment	203,700	260,224	(56,524)
Repairs and Maintenance	268,900	226,996	41,904
Other	129,150	158,043	(28,893)
Capital Outlay		<u>11,928</u>	<u>(11,928)</u>
TOTAL EXPENDITURES	\$ 1,295,637	\$ 1,329,348	\$ (33,711)
NET CHANGE IN FUND BALANCE	\$ 143,362	\$ 138,469	\$ (4,893)
FUND BALANCE - NOVEMBER 1, 2014	<u>1,160,723</u>	<u>1,160,723</u>	
FUND BALANCE - OCTOBER 31, 2015	\$ 1,304,085	\$ 1,299,192	\$ (4,893)

See accompanying independent auditor's report.

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WEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2

SUPPLEMENTARY INFORMATION – REQUIRED BY THE

WATER DISTRICT FINANCIAL MANAGEMENT GUIDE

OCTOBER 31, 2015

**WEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
 SERVICES AND RATES
 FOR THE YEAR ENDED OCTOBER 31, 2015**

1. SERVICES PROVIDED BY THE DISTRICT DURING THE FISCAL YEAR:

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

2. RETAIL SERVICE PROVIDERS

a. RETAIL RATES FOR A 5/8” METER (OR EQUIVALENT):

Based on the rate order approved December 17, 2014.

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons over Minimum Use</u>	<u>Usage Levels</u>
WATER:	\$ 17.00	8,000	N	\$ 1.25 \$ 1.50 \$ 2.00	8,001 to 10,000 10,001 to 15,000 15,001 and over
WASTEWATER:	\$ 33.00	50,000	N	\$ 0.75	50,001 and over
SURCHARGE:					
Regional Water Authority Fees				\$ 2.05	Per 1,000

District employs winter averaging for wastewater usage?

Yes No

Total monthly charges per 10,000 gallons usage: Water: \$19.50 Wastewater: \$33.00 Surcharge: \$20.50

See accompanying independent auditor's report.

WEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
SERVICES AND RATES
FOR THE YEAR ENDED OCTOBER 31, 2015

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered			x 1.0	
≤¾"	1,245	1,233	x 1.0	1,233
1"	2	2	x 2.5	5
1½"			x 5.0	
2"	6	6	x 8.0	48
3"			x 15.0	
4"			x 25.0	
6"			x 50.0	
8"			x 80.0	
10"			x 115.0	
Total Water Connections	<u>1,253</u>	<u>1,241</u>		<u>1,286</u>
Total Wastewater Connections	<u>1,242</u>	<u>1,230</u>	x 1.0	<u>1,230</u>

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

Gallons pumped into system:	127,039,000	Water Accountability Ratio: 98% (Gallons billed/Gallons pumped)
Gallons billed to customers:	97,683,000	
Total Gallons Purchased:	31,903,000	<u>From: Harris County Municipal Utility</u> <u>District No. 61</u>
Total Gallons Sold:	56,820,000	<u>To: Harris County Municipal Utility</u> <u>District No. 61</u>
Leaks and Flushing:	1,250,000	

See accompanying independent auditor's report.

**WEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
SERVICES AND RATES
FOR THE YEAR ENDED OCTOBER 31, 2015**

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

Does the District have Debt Service standby fees? Yes No

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

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes No

County or Counties in which District is located:

Harris County, Texas

Is the District located within a city?

Entirely Partly Not at all

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

Entirely Partly Not at all

ETJ's in which District is located:

City of Houston, Texas.

Are Board Members appointed by an office outside the District?

Yes No

See accompanying independent auditor's report.

WEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED OCTOBER 31, 2015

PROFESSIONAL FEES:	
Auditing	\$ 9,300
Engineering	51,218
Legal	<u>52,674</u>
TOTAL PROFESSIONAL FEES	<u>\$ 113,192</u>
 PURCHASED SERVICES FOR RESALE:	
Purchased Wastewater Service	<u>\$ 191,075</u>
 CONTRACTED SERVICES:	
Bookkeeping	\$ 16,530
Operations and Billing	<u>77,711</u>
TOTAL CONTRACTED SERVICES	<u>\$ 94,241</u>
 UTILITIES:	
Electricity	\$ 56,577
Telephone	<u>1,641</u>
TOTAL UTILITIES	<u>\$ 58,218</u>
 REPAIRS AND MAINTENANCE	 <u>\$ 226,996</u>
 ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 15,300
Dues	565
Election Costs	1,422
Insurance	9,093
Office Supplies and Postage	50,515
Payroll Taxes	1,150
Travel and Meetings	7,698
Other	<u>2,910</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 88,653</u>
 CAPITAL OUTLAY:	
Capitalized Assets	\$ 11,928
Expenditures Not Capitalized	<u> </u>
TOTAL CAPITAL OUTLAY:	<u>\$ 11,928</u>

See accompanying independent auditor's report.

WEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED OCTOBER 31, 2015

TAP CONNECTIONS	\$ <u>40,551</u>
SOLID WASTE DISPOSAL	\$ <u>215,431</u>
OTHER EXPENDITURES:	
Chemicals	\$ 12,905
Laboratory Fees	8,814
Permit Fees	2,679
Inspection Fees	655
Regulatory Assessment	3,786
Regional Water Authority Assessment	<u>260,224</u>
TOTAL OTHER EXPENDITURES	\$ <u>289,063</u>
TOTAL EXPENDITURES	\$ <u>1,329,348</u>

See accompanying independent auditor's report.

WEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
INVESTMENTS
OCTOBER 31, 2015

<u>Funds</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at End of Year</u>
<u>GENERAL FUND</u>					
TexPool	XXXX0003	Varies	Daily	\$ 201,602	\$
Certificate of Deposit	XXXX2686	0.80%	12/27/15	240,000	1,620
Certificate of Deposit	XXXX1350	0.75%	05/29/16	<u>241,200</u>	<u>768</u>
TOTAL GENERAL FUND				<u>\$ 682,802</u>	<u>\$ 2,388</u>
<u>DEBT SERVICE FUND</u>					
TexPool	XXXX0001	Varies	Daily	<u>\$ 2,828</u>	<u>\$ -0-</u>
<u>CAPITAL PROJECTS FUND</u>					
	XXXX0002	Varies	Daily	<u>\$ 70,506</u>	<u>\$ -0-</u>
TOTAL - ALL FUNDS				<u>\$ 756,136</u>	<u>\$ 2,388</u>

See accompanying independent auditor's report.

WEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED OCTOBER 31, 2015

	Maintenance Taxes		Debt Service Taxes	
TAXES RECEIVABLE -				
NOVEMBER 1, 2014	\$ 282,781		\$ 334,746	
Adjustments to Beginning				
Balance	<u>25,090</u>	\$ 307,871	<u>28,844</u>	\$ 363,590
Original 2015 Tax Levy	\$ 405,867		\$ 479,662	
Adjustment to 2015 Tax Levy		<u>405,867</u>		<u>479,662</u>
TOTAL TO BE				
ACCOUNTED FOR		\$ 713,738		\$ 843,252
TAX COLLECTIONS:				
Prior Years	\$ 300,354		\$ 352,841	
Current Year		<u>300,354</u>		<u>352,841</u>
TAXES RECEIVABLE -				
OCTOBER 31, 2015		<u>\$ 413,384</u>		<u>\$ 490,411</u>
TAXES RECEIVABLE BY				
YEAR:				
2015		\$ 405,867		\$ 479,662
2014		4,596		5,395
2013		913		1,553
2012		650		1,107
2011		461		819
2010		601		1,243
2009		293		625
2008		<u>3</u>		<u>7</u>
TOTAL		<u>\$ 413,384</u>		<u>\$ 490,411</u>

See accompanying independent auditor's report.

WEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED OCTOBER 31, 2015

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
PROPERTY VALUATIONS:				
Land	\$ 59,276,059	\$ 32,384,400	\$ 29,673,467	\$ 27,089,543
Improvements	128,187,097	95,187,019	81,383,664	81,563,787
Personal Property	3,577,230	2,697,499	2,235,391	2,021,725
Exemptions	<u>(6,553,976)</u>	<u>(6,246,493)</u>	<u> </u>	<u> </u>
TOTAL PROPERTY VALUATIONS	<u>\$ 184,486,410</u>	<u>\$ 124,022,425</u>	<u>\$ 113,292,522</u>	<u>\$ 110,675,055</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.26	\$ 0.27	\$ 0.315	\$ 0.315
Maintenance	<u>0.22</u>	<u>0.23</u>	<u>0.185</u>	<u>0.185</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.48</u>	<u>\$ 0.50</u>	<u>\$ 0.500</u>	<u>\$ 0.50</u>
ADJUSTED TAX LEVY*	<u>\$ 885,529</u>	<u>\$ 620,109</u>	<u>\$ 566,460</u>	<u>\$ 553,373</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>0.00 %</u>	<u>98.39 %</u>	<u>99.56 %</u>	<u>99.68 %</u>

* Based upon adjusted tax at time of audit for the period in which the tax was levied.

Maintenance Tax – Maximum tax rate of \$0.25 per \$100 of assessed valuation approved by voters on August 14, 1976.

See accompanying independent auditor's report.

WEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
LONG-TERM DEBT SERVICE REQUIREMENTS
OCTOBER 31, 2015

SERIES - 2012 REFUNDING

Due During Fiscal Years Ending October 31	Principal Due August 1	Interest Due February 1/ August 1	Total
2016	\$ 300,000	\$ 53,450	\$ 353,450
2017	310,000	47,450	357,450
2018	325,000	41,250	366,250
2019	335,000	31,500	366,500
2020	350,000	21,450	371,450
2021	365,000	10,950	375,950
	<u>\$ 1,985,000</u>	<u>\$ 206,050</u>	<u>\$ 2,191,050</u>

See accompanying independent auditor's report.

WEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
CHANGE IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED OCTOBER 31, 2015

Description	Original Bonds Issued	Bonds Outstanding November 1, 2014
West Harris County Municipal Utility District No. 2 Unlimited Tax Refunding Bonds - Series 2012	<u>\$ 2,755,000</u>	<u>\$ 2,280,000</u>
Bond Authority:	Tax Bonds	Refunding Bonds
Amount Authorized by Voters	\$ 25,500,000	\$ 8,000,000
Amount Issued	<u>8,290,000</u>	<u>3,226,851</u>
Remaining to be Issued	<u>\$ 17,210,000</u>	<u>\$ 4,773,149</u>
Debt Service Fund cash, investments and cash with paying agents balance as of October 31, 2015:		<u>\$ 121,935</u>
Average annual debt service payment (principal and interest) for remaining term of all debt:		<u>\$ 365,175</u>

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

See accompanying independent auditor's report.

<u>Current Year Transactions</u>				<u>Bonds Outstanding October 31, 2015</u>	<u>Paying Agent</u>
<u>Bonds Sold</u>	<u>Retirements</u>				
	<u>Principal</u>	<u>Interest</u>			
<u>\$ - 0 -</u>	<u>\$ 295,000</u>	<u>\$ 59,350</u>	<u>\$ 1,985,000</u>	The Bank of New York Mellon Trust Company, N.A. Dallas, TX	

See accompanying independent auditor's report.

WEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS

	Amounts		
	2015	2014	2013
REVENUES			
Property Taxes	\$ 307,207	\$ 216,278	\$ 211,065
Water Service	278,942	282,100	297,777
Wastewater Service	479,257	483,914	474,786
Regional Water Authority Fees	195,778	183,168	199,437
Penalty and Interest	29,132	29,788	30,183
Tap Connection and Inspection Fees	84,433		
Investment Revenues	4,212	3,822	4,312
Regional Water Authority Credits	55,836	55,836	55,836
Miscellaneous Revenues	<u>33,020</u>	<u>31,405</u>	<u>20,868</u>
TOTAL REVENUES	<u>\$ 1,467,817</u>	<u>\$ 1,286,311</u>	<u>\$ 1,294,264</u>
EXPENDITURES			
Professional Fees	\$ 113,192	\$ 105,663	\$ 74,104
Contracted Services	309,672	308,234	295,101
Purchased Wastewater Service	191,075	153,473	173,768
Utilities	58,218	51,214	50,066
Regional Water Authority Assessment	260,224	228,200	199,451
Repairs and Maintenance	226,996	290,576	308,249
Other	158,043	126,186	105,700
Capital Outlay	<u>11,928</u>	<u>35,744</u>	
TOTAL EXPENDITURES	<u>\$ 1,329,348</u>	<u>\$ 1,299,290</u>	<u>\$ 1,206,439</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 138,469</u>	<u>\$ (12,979)</u>	<u>\$ 87,825</u>
OTHER FINANCING SOURCES (USES)			
Transfers Out	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ (11,264)</u>
NET CHANGE IN FUND BALANCE	\$ 138,469	\$ (12,979)	\$ 76,561
BEGINNING FUND BALANCE	<u>1,160,723</u>	<u>1,173,702</u>	<u>1,097,141</u>
ENDING FUND BALANCE	<u>\$ 1,299,192</u>	<u>\$ 1,160,723</u>	<u>\$ 1,173,702</u>

See accompanying independent auditor's report.

		Percentage of Total Revenue				
2012	2011	2015	2014	2013	2012	2011
\$ 219,982	\$ 186,628	20.9 %	17.0 %	\$ 16.40 %	18.0 %	15.2 %
240,058	254,833	19.0	21.9	23.0	19.7	20.7
473,368	472,468	32.7	37.6	36.7	38.9	38.3
172,945	206,506	13.3	14.2	15.4	14.2	16.7
28,218	31,401	2.0	2.3	2.3	2.3	2.5
		5.8				
5,064	5,815	0.3	0.3	0.3	0.4	0.5
55,836	55,836	3.8	4.3	4.3	4.6	4.5
22,813	19,931	2.2	2.4	1.6	1.9	1.6
<u>\$ 1,218,284</u>	<u>\$ 1,233,418</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 64,803	\$ 50,805	7.7 %	8.2 %	5.7 %	5.3 %	4.1 %
290,951	299,821	21.1	24.0	22.8	23.9	24.3
156,883	228,971	13.0	11.9	13.4	12.9	18.6
48,219	62,351	4.0	4.0	3.9	4.0	5.1
173,247	208,983	17.7	17.7	15.4	14.2	16.9
186,258	282,874	15.5	22.6	23.8	15.3	22.9
190,491	106,168	10.8	9.8	8.2	15.6	8.6
		0.8	2.8			
<u>\$ 1,110,852</u>	<u>\$ 1,239,973</u>	<u>90.6 %</u>	<u>101.0 %</u>	<u>93.2 %</u>	<u>91.2 %</u>	<u>100.5 %</u>
<u>\$ 107,432</u>	<u>\$ (6,555)</u>	<u>9.4 %</u>	<u>(1.0) %</u>	<u>6.8 %</u>	<u>8.8 %</u>	<u>(0.5) %</u>
<u>\$ 10,189</u>	<u>\$ - 0 -</u>					
\$ 117,621	\$ (6,555)					
<u>979,520</u>	<u>986,075</u>					
<u>\$ 1,097,141</u>	<u>\$ 979,520</u>					

See accompanying independent auditor's report.

WEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FIVE YEARS

	Amounts		
	2015	2014	2013
REVENUES			
Property Taxes	\$ 360,883	\$ 368,412	\$ 376,506
Penalty and Interest	7,274	8,782	9,135
Interest on Investments	399	535	572
Miscellaneous Revenues	2,374	9,111	126
TOTAL REVENUES	\$ 370,930	\$ 386,840	\$ 386,339
EXPENDITURES			
Tax Collection Expenditures	\$ 38,054	\$ 34,323	\$ 33,029
Debt Service Principal	295,000	285,000	275,000
Debt Service Interest and Fees	59,850	65,550	75,759
Bond Issuance Costs			
TOTAL EXPENDITURES	\$ 392,904	\$ 384,873	\$ 383,788
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (21,974)	\$ 1,967	\$ 2,551
OTHER FINANCING SOURCES (USES)			
Transfer to Refunding Escrow Agent	\$	\$	\$
Long-Term Debt Issued			
Transfer In			11,264
TOTAL OTHER FINANCING SOURCES (USES)	\$ - 0 -	\$ - 0 -	\$ 11,264
NET CHANGE IN FUND BALANCE	\$ (21,974)	\$ 1,967	\$ 13,815
BEGINNING FUND BALANCE	143,651	141,684	127,869
ENDING FUND BALANCE	\$ 121,677	\$ 143,651	\$ 141,684
TOTAL ACTIVE RETAIL WATER CONNECTIONS	1,241	1,233	1,232
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	1,230	1,222	1,221

See accompanying independent auditor's report.

		Percentage of Total Revenue				
2012	2011	2015	2014	2013	2012	2011
\$ 389,398	\$ 385,724	97.3 %	95.2 %	97.5 %	97.2 %	97.7 %
10,345	7,580	2.0	2.3	2.4	2.6	1.9
721	996	0.1	0.1	0.1	0.2	0.3
	554	0.6	2.4			0.1
<u>\$ 400,464</u>	<u>\$ 394,854</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 28,171	\$ 32,868	10.3 %	8.9 %	8.5 %	7.0 %	8.3 %
285,000	220,000	79.5	73.7	71.2	71.2	55.7
98,292	150,735	16.1	16.9	19.6	24.5	38.2
49,711					12.4	
<u>\$ 461,174</u>	<u>\$ 403,603</u>	<u>105.9 %</u>	<u>99.5 %</u>	<u>99.3 %</u>	<u>115.1 %</u>	<u>102.2 %</u>
\$ (60,710)	\$ (8,749)	<u>(5.9) %</u>	<u>0.5 %</u>	<u>0.7 %</u>	<u>(15.1) %</u>	<u>(2.2) %</u>
\$(2,705,289)	\$					
2,755,000						
<u>\$ 49,711</u>	<u>\$ - 0 -</u>					
\$ (10,999)	\$ (8,749)					
<u>138,868</u>	<u>147,617</u>					
<u>\$ 127,869</u>	<u>\$ 138,868</u>					
<u>1,220</u>	<u>1,229</u>					
<u>1,209</u>	<u>1,216</u>					

See accompanying independent auditor's report.

WEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
OCTOBER 31, 2015

District Mailing Address - West Harris County Municipal Utility District No. 2
c/o Bacon & Wallace L.L.P.
6363 Woodway, Suite 800
Houston, TX 77057-1762

District Telephone Number - (713) 739-1060

Board Members	Term of Office (Elected or Appointed)	Fees of Office for the year ended October 31, 2015	Expense Reimbursements for the year ended October 31, 2015	Title
Melanie Mueller	05/14 05/18 (Elected)	\$ 1,800	\$ -0-	President
John Eberlan	05/12 05/16 (Elected)	\$ 1,950	\$ 357	Vice President
Loretta Evans	05/14 05/18 (Elected)	\$ 5,250	\$ 2,184	Secretary
Vera Weatherspoon	05/14 05/18 (Elected)	\$ 3,750	\$ 2,117	Assistant Secretary
Christopher Johnson	12/12 05/16 (Appointed)	\$ 3,000	\$ 989	Director

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

Submission date of most recent District Registration Form (TWC Sections 36.054 and 49.054): January 26, 2016.

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

See accompanying independent auditor's report.

WEST HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
OCTOBER 31, 2015

Consultants:	<u>Date Hired</u>	<u>Fees for the year ended October 31, 2015</u>	<u>Title</u>
Bacon & Wallace, L.L.P.	10/26/81	\$ 53,567	Attorney
McCall Gibson Swedlund Barfoot PLLC	10/15/14	\$ 9,300	Auditor
Myrtle Cruz, Inc.	07/17/78	\$ 18,344	Bookkeeper
Jones & Carter, Inc.	05/04/94	\$ 58,673	Engineer
Perdue, Brandon, Fielder, Collins & Mott, L.L.P.	02/23/15	\$ 2,191	Delinquent Tax Attorney
Bacon & Wallace, L.L.P.	06/15/91	\$ 332	Prior Delinquent Tax Attorney
Robert W. Baird, L.L.P.	03/18/15	\$ -0-	Financial Advisor
Municipal Operations & Consulting, Inc.	2002	\$ 327,118	Operator
Wheeler & Associates	06/23/76	\$ 30,754	Tax Assessor/ Collector

See accompanying independent auditor's report.

APPENDIX B

SPECIMEN MUNICIPAL BOND INSURANCE POLICY



MUNICIPAL BOND
INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

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

Effective Date: _____

Risk Premium: \$ _____
Member Surplus Contribution: \$ _____
Total Insurance Payment: \$ _____

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

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

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

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

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

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

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

SPECIAL MEMBER

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

1 World Financial Center, 27th floor

200 Liberty Street

New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN

