

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

*The District has designated the Bonds as "qualified tax-exempt obligations" for purposes of the calculation of interest expense by financial institutions which may own the Bonds. See "TAX EXEMPTION -- Qualified Tax-Exempt Obligations."*

**NEW ISSUE  
BOOK-ENTRY ONLY  
CUSIP Base No. 666412**

**RATINGS: (S&P's-AGM) "AA" (stable outlook)  
(Moody's-AGM) "A2" (stable outlook)  
(See "BOND INSURANCE" herein)  
(Moody's-underlying) "Baa3" (stable outlook)**

## **NORTHGATE CROSSING MUNICIPAL UTILITY DISTRICT NO. 1**

**(A political subdivision of the State of Texas located within Harris County, Texas)**

**\$6,650,000**

### **UNLIMITED TAX AND REVENUE BONDS, SERIES 2017**

**Bonds Dated: November 1, 2017**

**Due: December 1, as shown on inside cover**

The \$6,650,000 Unlimited Tax and Revenue Bonds, Series 2017 (the "Bonds") are obligations solely of Northgate Crossing Municipal Utility District No. 1 (the "District") and are not obligations of the State of Texas; Harris County, Texas; the City of Houston, Texas; or any other political subdivision or agency. See "THE BONDS--Source of and Security for Payment."

Interest on the Bonds will accrue from November 1, 2017, and will be payable June 1, 2018 and each December 1 and June 1 thereafter, and will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds are issuable only in fully registered form in the principal denominations of \$5,000 or integral multiples thereof initially registered solely in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"), acting as securities depository for the Bonds, until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only. So long as Cede & Co. is the registered owner of the Bonds, as nominee for DTC, the Bonds shall be payable to Cede & Co., which will in turn, remit such amount to DTC participants for subsequent disbursement to the beneficial owners of the Bonds. See "THE BONDS--Book-Entry-Only System."

Principal of and the redemption price for the Bonds are payable by UMB Bank n.a., Austin, Texas (the "Paying Agent/Registrar"), or any successor paying agent/registrars. Interest on the Bonds will be payable by check mailed on or before the interest payment date to registered owners shown on the records of the Paying Agent/Registrar on the fifteenth (15<sup>th</sup>) day of the month preceding each interest payment date or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and the registered owner at the risk and expense of the registered owner. See "THE BONDS--Description."

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by ASSURED GUARANTY MUNICIPAL CORP.



SEE INSIDE COVER PAGE FOR MATURITY SCHEDULE

The Bonds, when issued, will constitute valid and legally binding obligations of the District and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District, and from the Net Revenues (hereinafter defined) of the District's waterworks and sewer system. See "THE BONDS--Source of and Security for Payment." The Bonds are subject to special investment considerations described herein. See "RISK FACTORS." **Neither the State of Texas, Harris County, Texas, the City of Houston, Texas, nor any political subdivision other than the District shall be obligated to pay the principal of and interest on the Bonds.**

The Bonds will be delivered when, as and if issued by the District and accepted by the winning bidder for the Bonds (the "Underwriter"), subject among other things to the approval of the initial Bonds by the Attorney General of the State of Texas and by the approval of certain legal matters by Sanford Kuhl Hagan Kugle Parker Kahn LLP, Houston, Texas, Bond Counsel. Certain legal matters will be passed upon for the District by Orrick, Herrington & Sutcliffe LLP, Houston, Texas, Disclosure Counsel. Delivery of the Bonds is expected on or about November 16, 2017, in Austin, Texas.

## MATURITY SCHEDULE

**Bonds Dated: November 1, 2017**

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

<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Initial Yield(a)</u>	<u>CUSIP (b)</u>	<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Initial Yield(a)</u>	<u>CUSIP (b)</u>
2019	\$115,000	7.500%	1.550%	666412 CT6	2029(c)	\$210,000	2.750%	3.000%	666412 DD0
2020	110,000	7.500%	1.750%	666412 CU3	2030(c)	215,000	3.000%	3.150%	666412 DE8
2021	110,000	7.500%	1.950%	666412 CV1	2031(c)	215,000	3.000%	3.200%	666412 DF5
2022	105,000	7.500%	2.100%	666412 CW9	2032(c)	220,000	3.125%	3.250%	666412 DG3
2023	105,000	7.500%	2.200%	666412 CX7	2033(c)	825,000	3.125%	3.300%	666412 DH1
2024	100,000	7.500%	2.350%	666412 CY5	2034(c)	855,000	3.250%	3.350%	666412 DJ7
2025(c)	95,000	4.000%	2.400%	666412 CZ2	2035(c)	885,000	3.250%	3.400%	666412 DK4
2026(c)	200,000	2.250%	2.550%	666412 DA6	2036(c)	920,000	3.250%	3.450%	666412 DL2
2027(c)	205,000	2.500%	2.750%	666412 DB4	2037(c)	955,000	3.375%	3.500%	666412 DM0
2028(b)	205,000	2.500%	2.950%	666412 DC2					

(a) Initial yield represents the initial reoffering yield to the public which has been established by the Underwriter for public offerings and which subsequently may be changed. The initial yields indicated above represent the lower of the yields resulting when priced to maturity or to the first call date. Accrued interest from November 1, 2017 is to be added to the price.

(b) CUSIP Numbers have been assigned to the Bonds by CUSIP Global Services and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Underwriter shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.

(c) Bonds maturing on or after December 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 December 1, 2024, or on any date thereafter, at par plus accrued interest from the most recent interest payment date to the date fixed for redemption. See “THE BONDS–Optional Redemption.”

**Assured Guaranty Municipal Corp. (“AGM”) makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM 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 AGM supplied by AGM and presented under the heading “BOND INSURANCE” and “APPENDIX B–Specimen Municipal Bond Insurance Policy.”**

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## **USE OF INFORMATION IN OFFICIAL STATEMENT**

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

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

All of the summaries of the statutes, orders, contracts, audited financial statements, engineering and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from the District, c/o Sanford Kuhl Hagan Kugle Parker Kahn LLP, 1980 Post Oak Blvd, Suite 1380, Houston, Texas 77056-3899 upon payment of duplication costs.

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

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 offering document.

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

### **Prices and Marketability**

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

SUBJECT TO THE "HOLD-THE-OFFERING-PRICE-RULE" REQUIREMENTS DESCRIBED IN THE OFFICIAL NOTICE OF SALE, THE PRICES AND OTHER TERMS RESPECTING THE OFFERING AND SALE OF THE BONDS MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER AFTER THE BONDS ARE RELEASED FOR SALE, AND, SUBJECT TO CERTAIN RESTRICTIONS, IF APPLICABLE, THE BONDS MAY BE OFFERED AND SOLD AT PRICES OTHER THAN THE INITIAL OFFERING PRICES, INCLUDING SALES TO DEALERS WHO MAY SELL THE BONDS INTO INVESTMENT ACCOUNTS. IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH

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

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

### **Securities Laws**

No registration statement relating to the Bonds has been filed with the 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 jurisdictions.

### **Underwriter**

After requesting competitive bids for the Bonds, the District accepted the bid resulting in the lowest net interest cost, which bid was tendered by SAMCO Capital Markets, Inc. bearing the interest rates shown on the inside cover page hereof, at a price of 97.00% of the par value thereof plus accrued interest to the date of delivery which resulted in a net effective interest rate of 3.4987875% as calculated pursuant to Chapter 1204, Texas Government Code, as amended (the "IBA" method).

Subject to the "hold-the-offering-price-rule" requirements described in the OFFICIAL NOTICE OF SALE, the Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into unit investment trusts) and others at prices lower than the public offering price stated on the inside cover page hereof. The initial offering price may be changed from time to time by the Underwriter within the guidelines prescribed by applicable laws and regulations of the SEC.

### **Municipal Bond Rating**

In connection with the sale of the Bonds, the District made application to Moody's Investors Service, Inc. ("Moody's"), which has assigned a rating of "Baa3" to the Bonds. An explanation of the significance of such rating may be obtained from Moody's. The rating reflects only the view of Moody's and the District makes no representation as to the appropriateness of such rating.

S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P") is expected to assign its municipal rating of "AA" (stable outlook) to the Bonds and Moody's is expected to assign its municipal rating of "A2" (stable outlook) to the Bonds, both as a result of a municipal bond insurance policy to be issued by Assured Guaranty Municipal Corp. at the time of delivery of the Bonds (see "BOND INSURANCE" and "APPENDIX B-Specimen Municipal Bond Insurance Policy"). An explanation of the significance of such ratings may be obtained from S&P and Moody's. The ratings reflect only the views of S&P and Moody's and the District makes no representation as to the appropriateness of such ratings.

The District can make no assurance that the Moody's or S&P ratings will continue for any period of time or that such ratings will not be revised downward or withdrawn entirely by Moody's or S&P, if in the sole judgment of either,

circumstances so warrant. Any such downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

### **Texas Ethics Commission Form 1295 and Certification of Filing**

Pursuant to Texas Government Code § 2252.908 (the "Interested Party Disclosure Act" or the "Act"), the District may not award the Bonds to an bidder/underwriter unless the bidder/underwriter and each syndicate member have provided to the District a completed, signed and notarized Texas Ethics Commission Form 1295 ("TEC Form 1295") which has been assigned a Bond number by the Texas Ethics Commission (the "TEC"). The Underwriter has submitted a TEC Form 1295 in conformity with the Act, and the District has acknowledged the Underwriter's TEC Form 1295 in conformity with the Act.

### **SUMMARY**

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

#### **- The District -**

Issuer/Description	Northgate Crossing Municipal Utility District No. 1 (the "District") is a political subdivision of the State of Texas, created in 1985 by the 69 <sup>th</sup> Texas Legislature, effective June 15, 1985. The District operates pursuant to Article XVI, Section 59 of the Texas Constitution and Chapters 49 and 54 of the Texas Water Code, as amended. At the time of creation, the District contained approximately 318.300 acres of land. A 2015 annexation increased the area to 319.414 acres. See "THE DISTRICT-Description."
Location	The District is located approximately 25 miles north of the central downtown business district of the City of Houston, Texas in Harris County. The District lies wholly within the exclusive extraterritorial jurisdiction of the City of Houston and within the boundaries of the Spring Independent School District. Access to the District is provided by the Hardy Toll Road to Northgate Crossing Boulevard. The District lies north of the Hardy Toll Road just east of its intersection with Interstate Highway 45. See "THE DISTRICT-Description."
Authority	The rights, powers, privileges, authority and functions of the District are established by the general laws of the State of Texas pertaining to municipal utility districts, including particularly Chapters 49 and 54 of the Texas Water Code, as amended. See "THE DISTRICT-Description."
Development Within The District	Approximately 157.52 acres within the District have been developed as 388 single-family residential lots, two office buildings, three apartment complexes, a hotel and a commercial facility. As of September 1, 2017, there were 416 active connections to the District's system. Of the remaining acreage, approximately 33.06 acres are for a detention pond, water and lift station sites and open spaces; and approximately 128.83 acres lie outside of the levee in the floodplain and are not developable. See "DEVELOPMENT OF THE DISTRICT-Current Status of Development."

**- The Bonds -**

Authority for Issuance	The Bonds are the fourth installment of \$18,890,000 unlimited tax and revenue bonds authorized at an election held within and for the District on August 10, 1985 (the "Election"), \$440,000 of which will remain authorized but unissued following the issuance of the Bonds. The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution; Chapters 49 and 54, Texas Water Code, as amended; an order (the "Bond Order") adopted by the Board of Directors of the District; the Election; and an order of the Texas Commission on Environmental Quality ("TCEQ"). See "THE BONDS--Authority for Issuance."
Description	The Bonds are dated November 1, 2017 and bear interest from such date at the rates per annum set forth on the inside cover page hereof, which interest is payable June 1, 2018 and each December 1 and June 1 thereafter until the earlier of maturity or redemption. The Bonds mature serially on December 1 in the years 2019 through 2037, inclusive, in the principal amounts set forth on the inside cover page hereof. The Bonds maturing on and after December 1, 2025, are subject to redemption at the option of the District on any date on or after December 1, 2024 at a price of par plus accrued interest to the date of redemption. See "THE BONDS — Description" and " — Optional Redemption."
Source of Payment	Principal of and interest on the Bonds are payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District and from the Net Revenues (hereinafter defined) of the District's waterworks and sewer system. The Bonds are obligations of the District and are not obligations of Harris County, Texas; the State of Texas; the City of Houston, Texas; or any political subdivision other than the District. See "THE BONDS — Source of and Security for Payment."
Use of Proceeds	Proceeds of the Bonds will provide funds to pay for the District's pro-rata share of (a) Water Well No. 2 rehabilitation, Water Plant No. 1 recoating, Water Plant No. 3 improvements and the expansion of the Wastewater Treatment Plant; (b) water and wastewater capacity advanced by the developers; (c) engineering and geotechnical fees related to the aforementioned projects; (d) developer interest; and (e) costs of issuance of the Bonds. See "THE BONDS — Use of Proceeds."
Payment Record	The District has never defaulted on the payment of its bonded indebtedness.
Qualified Tax-Exempt Obligations	The District has designated the Bonds as "qualified tax-exempt obligations" pursuant to Section 265(b) of the Internal Revenue Code of 1986, as amended, and represents that the total amount of tax-exempt bonds (including the Bonds) issued by it during the calendar year 2017 is not reasonably expected to exceed \$10,000,000. See "TAX EXEMPTION--Qualified Tax-Exempt Obligations."
Book-Entry Only System	The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the Book-Entry Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 of principal amount or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal and interest on the Bonds will be payable by UMB Bank n.a., Austin, Texas, the initial paying agent/registrar to Cede & Co. and Cede & Co. will make distribution of the amounts so paid to the beneficial owners of the Bonds (see "THE BONDS--Book-Entry Only System").



Legal Opinions	Sanford Kuhl Hagan Kugle Parker Kahn LLP, Houston, Texas. See “LEGAL MATTERS.”
Financial Advisor	Blitch Associates, Inc., Houston, Texas.
Bond Counsel	Sanford Kuhl Hagan Kugle Parker Kahn LLP, Houston, Texas.
Disclosure Counsel	Orrick, Herrington & Sutcliffe LLP, Houston, Texas.
Municipal Bond Rating	Moody’s Investors Service, Inc. assigned a rating of “Baa3” to the Bonds. See “SALE AND DISTRIBUTION OF THE BONDS--Municipal Bond Rating.”
Municipal Bond Rating and Municipal Bond Insurance	S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”) is expected to assign a municipal rating of “AA” (stable outlook) and Moody’s is expected to assign a municipal rating of “A2” (stable outlook) to the Bonds,” each as a result of a municipal bond insurance policy to be issued by Assured Guaranty Municipal Corp. See “SALE AND DISTRIBUTION OF THE BONDS–Municipal Bond Rating,” “BOND INSURANCE” and “APPENDIX B–Specimen Municipal Bond Insurance Policy.”

### **RISK FACTORS**

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

**- Financial Highlights -  
(Unaudited)**

2017 Taxable Assessed Valuation (100% of Market Value)	\$189,462,974	(a)
Direct Debt		
Outstanding Bonds (As of September 1, 2017)	\$7,485,000	
The Bonds	<u>6,650,000</u>	
Total Direct Debt	\$14,135,000	
Estimated Overlapping Debt	<u>11,265,506</u>	(b)
Direct and Estimated Overlapping Debt	<u>\$25,400,506</u>	
Direct Debt Ratios:		
Direct Debt to Value	7.46%	
Direct & Estimated Overlapping Debt to Value	13.41%	
2017 Tax Rate per \$100 of Assessed Value		
Debt Service	\$0.512	
Maintenance	<u>0.488</u>	
Total	\$1.000	
	<u><i>Current</i></u>	<u><i>Total</i></u>
2016 Tax Collection Percentage	99.58%	99.79%
Five-Year Average (2012/2016) Collection Percentage	99.59%	99.84%
Average Annual Debt Service Requirements (2018/37)		\$968,162
Maximum Annual Debt Service Requirements (2019)		\$993,105
Tax Rate Required to pay such Requirements at 98% Collection		
Average (2018/2037)		\$0.522
Maximum (2019)		\$0.536
Fund Balances as of September 14, 2017 (Cash & Investments)		
General Fund	\$1,849,977	
Debt Service Fund	\$1,304,137	(c)
Capital Projects Fund	\$1,447,875	

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

**NORTHGATE CROSSING MUNICIPAL UTILITY DISTRICT NO. 1**  
**\$6,650,000**  
**UNLIMITED TAX AND REVENUE BONDS, SERIES 2017**

This Official Statement of Northgate Crossing Municipal Utility District No. 1 (the "District") is provided to furnish certain information with respect to the sale by the District of its \$6,650,000 Unlimited Tax and Revenue Bonds, Series 2017 (the "Bonds").

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

This Official Statement includes descriptions of the Bonds, the Bond Order and certain other information about the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document, copies of which may be obtained by contacting the District, c/o Sanford Kuhl Hagan Kugle Parker Kahn LLP, located at 1980 Post Oak Blvd, Suite 1380, Houston, Texas 77056-3899.

**THE BONDS**

**Description**

The following is a description of some of the terms and conditions of the Bonds, which description is qualified in its entirety by reference to the Bond Order. A copy of the Bond Order may be obtained upon request to the District and payment of the applicable copying charges.

The Bonds will mature on December 1 of the years and in principal amounts, and will bear interest from November 1, 2017, at the rates per annum, set forth on the inside cover page of this Official Statement. Interest on the Bonds will be payable on June 1, 2018, and semiannually thereafter on each December 1 and June 1 until the earlier of maturity or redemption. Principal of and interest on the Bonds will be payable to Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC"), by the paying agent/registrar, initially UMB Bank n.a., Austin, Texas (the "Paying Agent/Registrar"). Cede & Co. will make distribution of the principal and interest so paid to the beneficial owners of the Bonds. For so long as DTC shall continue to serve as securities depository for the Bonds, all transfers of beneficial ownership interest will be made by book-entry only and no investor or other party purchasing, selling or otherwise transferring beneficial ownership of the Bonds is to receive, hold or deliver any Bond certificate.

If at any time, DTC ceases to hold the Bonds as securities depository, then principal of the Bonds will be payable to the registered owner at maturity or redemption upon presentation and surrender at the principal payment office of the Paying Agent/Registrar. Interest on the Bonds will be payable by check, dated as of the interest payment date, and mailed by the Paying Agent/Registrar to the registered owners as shown on the records of the Paying Agent/Registrar at the close of business on the 15<sup>th</sup> day of the month next preceding the interest payment date (the "Record Date").

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

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

## Use of Proceeds

Proceeds of the Bonds will provide funds to pay for the District's pro-rata share of (a) Water Well No. 2 rehabilitation, Water Plant No. 1 recoating, Water Plant No. 3 improvements and the expansion of the Wastewater Treatment Plant; (b) water and wastewater capacity advanced by the developers; (c) engineering and geotechnical fees related to the aforementioned projects; (d) developer interest; and (e) costs of issuance of the Bonds.

The costs outlined below have been provided by Edminster, Hinshaw, Russ and Associates, Inc., Houston, Texas, the District's consulting engineer (the "Engineer"), and reflect those costs approved by the TCEQ. The TCEQ initially approved a bond issue of \$7,090,000, which included one year's capitalized interest. However, the District determined such capitalized interest was not necessary and instead will sell the lesser amount of \$6,650,000 as shown below. *Amounts indicated may not add due to rounding.*

	<b>As Approved by TCEQ</b>	<b>Unused TCEQ Authorization</b>	<b>The Bonds</b>
<b>Construction Costs</b>			
Purchase of Water Capacity	\$122,296		\$122,296
Lease of Wastewater Capacity	268,000		268,000
Water Well 2 Rehabilitation	54,124		54,124
Water Plant 1 Improvements	133,479		133,479
Water Plant 3 Improvements	1,868,750		1,868,750
Wastewater Treatment Plant Expansion	2,457,000		2,457,000
Contingencies	439,249		439,249
Engineering	<u>742,890</u>		<u>742,890</u>
Total Construction Costs	\$6,085,788		\$6,085,788
<b>Non Construction Costs</b>			
Bond Counsel (2.00%)	\$141,800	(\$8,800)	\$133,000
Financial Advisor	93,400	(4,400)	89,000
Bond Discount (3.00%)	212,700	(13,200)	199,500
One Year's Capitalized Interest (5.00%)	389,950	(389,950)	0
Developer Interest (5.00%)	40,352	0	40,352
Attorney General (0.10%)	7,090	(440)	6,650
TCEQ Fee (0.25%)	17,725	(1,100)	16,625
Bond Application Report	47,613	0	47,613
Costs of Issuance	<u>53,582</u>	<u>(22,110)</u>	<u>31,472</u>
Total Non-Construction Costs	<u>\$1,004,212</u>		<u>\$564,212</u>
<b>The Bonds</b>	<u>\$7,090,000</u>	<u>(\$440,000)</u>	<u>\$6,650,000</u>

In the instance that approved estimated amounts exceed actual costs, the difference comprises a surplus which may be expended for uses approved by the TCEQ. In the instance that actual costs exceed previously approved estimated amounts and contingencies, additional TCEQ approval and the issuance of additional bonds may be required. The Engineer has advised the District that the proceeds of the sale of the Bonds should be sufficient to pay the costs of the above-described facilities; however, the District cannot and does not guarantee the sufficiency of such funds for such purposes.

### **Book-Entry-Only System**

*This section describes how ownership of the Bonds are to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by DTC, while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District 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.*

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

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

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

of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

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

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

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

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

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

### **Optional Redemption**

The District reserves the right, at its option, to redeem the Bonds maturing on or after December 1, 2025, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof on December 1, 2024, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. If less than all of the Bonds are to be redeemed, the Paying Agent/Registrar shall select by lot those Bonds to be redeemed.

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

### **Ownership**

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

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

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

**Net Revenues:** The Bonds are further payable from and secured by a pledge of and lien on certain Net Revenues, if any, of the District's System (herein defined). "Net Revenues" are defined in the Bond Order as all income or increment which may grow out of the ownership and operation of the District's System, less such funds as reasonably may be required to provide for the administration, efficient operation and adequate maintenance of the District's plants, facilities and improvements. It is not expected that the Net Revenues from the District's System will ever be used to pay debt service on the Bonds. The Net Revenues are entirely dependent upon the sale of water and sewer services to users in the District.

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

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

### **Authority for Issuance**

At a bond election held within the District on August 10, 1985, the voters of the District authorized the issuance of a total of \$18,890,000 principal amount of unlimited tax and revenue bonds. See "Issuance of Additional Debt," below.

The Bonds are issued pursuant to (i) the Bond Order, (ii) Chapters 49 and 54 of the Texas Water Code, as amended, and Article XVI, Section 59 of the Texas Constitution, (iii) an approving order of the TCEQ, and (iv) the aforementioned bond election.

### **Outstanding Debt**

The District has previously issued and has outstanding its \$5,164,998 Unlimited Tax Refunding Bonds, Series 2012 (the “Series 2012 Bonds”) and its \$3,500,000 Unlimited Tax and Revenue Bonds, Series 2014 (the “Series 2014 Bonds”). As of September 1, 2017, \$3,985,000 of the Series 2012 Bonds and \$3,500,000 of the Series 2014 Bonds remain outstanding (herein, the “Outstanding Bonds”). The District has timely made payments due on the Outstanding Bonds.

### **Issuance of Additional Debt**

The District’s voters have authorized the issuance of \$18,890,000 principal amount of unlimited tax and revenue bonds for the purpose of constructing and/or acquiring water, sewer and drainage facilities and after issuance of the Bonds, the District will have \$440,000 principal amount of unlimited tax and revenue bonds for water, sewer and drainage facilities authorized but unissued.

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

The Bond Order imposes no limitation on the amount of additional bonds which may be issued by the District. Any additional bonds issued by the District may be on a parity with the Bonds, and may dilute the security of the Bonds.

### **Defeasance**

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

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

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

### **Annexation and Consolidation**

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



Effective December 1, 2017, certain areas, including the District, can be annexed by the City only by approval of a majority of registered voters in the District at an election. If more than fifty percent (50%) of the land in the District is not owned by registered voters in the District, the City also would be required to receive consent through a petition signed by more than fifty percent (50%) of the landowners in the District. If the City annexes the District without the consent of every landowner, the City must (1) provide a list of services to be provided on or after the effective date of annexation; (2) mail notice of the proposed annexation to each resident and property owner in the District; and (3) hold hearings during and after the petition or election period. If the petition or election failed to meet the given threshold, the City could not annex the District and could not attempt annexation again for another year.

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

### **Strategic Partnership**

The District entered into a Strategic Partnership Agreement (“SPA”) with the City of Houston (the “City”) dated December 13, 2010, whereby the tracts of land containing commercial development were annexed into the City for the limited purpose of applying certain of the City’s Planning, Zoning, Health and Safety Ordinances to the commercial businesses. The City imposes a Sales and Use Tax within the annexed tracts on the receipts from the sales and use at retail of taxable items at the rate of one percent or such other rate as may be imposed by the City from time to time. Under the SPA, one-half (½), or 50%, of the sales tax revenue generated by the commercial business from the City imposed Sales and Use Tax will be paid to the District, and the District can use the sales tax revenue to (1) accelerate the development of water, wastewater and drainage system in the District, (2) accelerate reimbursement to developers for eligible infrastructure development, (3) lower the overall property tax rate to encourage additional development, and (4) perform other District functions that might otherwise be diminished, curtailed, abbreviated or delayed by financial limitations.

The Comptroller of Public Accounts of the State of Texas remits the sales revenues to the City and the City then disburses to the District its share of the tax revenues. See “THE SYSTEM—Historical Operations of the General Operating Fund.”

Neither the District nor any owner of taxable property in the District is liable for any present or future debts of the City and current and future ad valorem taxes levied by the City will not be levied on taxable property in the District.

Under the SPA the City has agreed that it will not annex all or part of the District for full proposes for a period of thirty years.

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

The District may, without the consent of or notice to any registered owners of the Bonds (the “Registered Owners”), amend the Bond Order in any manner not detrimental to the interests of the Registered Owners, including the curing of any ambiguity, inconsistency or formal defect or omission therein. In addition, the District may, with the written consent of the Registered Owners of a majority in aggregate principal amount of the Bonds then outstanding affected thereby, amend, add to or rescind any of the provisions of the Bond Order; provided that, without the consent of the Registered Owners of all of the Bonds affected, no such amendment, addition or rescission may (a) extend the time or times of payment of the principal of and interest (or accrual of interest) on the Bonds, or reduce the principal amount thereof or the rate of interest thereon or in any other way modify the terms of payment of the principal of or interest on the Bonds, (b) give preference of any Bond over any other Bond, or (c) extend any waiver of default to subsequent defaults. In

addition, a state, consistent with federal law, may in the exercise of its police power make such modifications in the terms and conditions of contractual covenants relating to the payment of indebtedness of a political subdivision as are reasonable and necessary for attainment of an important public purpose.

### **Registered Owners' Remedies and Effects of Bankruptcy**

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

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

The enforceability of the rights and remedies of the Registered Owners may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. Subject to the requirements of Texas law, the District may voluntarily proceed under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. Sections 901-946, if the District: (1) is generally authorized to file for federal bankruptcy protection by State law; (2) is insolvent or unable to meet its debts as they mature; (3) desires to effect a plan to adjust such debt; and (4) has either obtained the agreement of or negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiation is impracticable. Under Texas law, a water control and improvement 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 decides in the future to proceed voluntarily under the Federal Bankruptcy Code, the District would develop and file a plan for the adjustment of its debts, and the Bankruptcy Court would confirm the District's plan if: (1) the plan complies with the applicable provisions of the Federal Bankruptcy Code; (2) all payments to be made in connection with the plan are fully disclosed and reasonable; (3) the District is not prohibited by law from taking any action necessary to carry out the plan; (4) administrative expenses are paid in full; and (5) the plan is in the best interests of creditors and is feasible. If such a plan were confirmed by the bankruptcy court, it could, among other things, affect a Registered Owner by reducing or eliminating the amount of indebtedness, deferring or rearranging the debt service schedule, reducing or eliminating the interest rate, modifying or abrogating collateral or security arrangements, substituting (in whole or in part) other securities, and otherwise compromising and modifying the rights and remedies of such Registered Owner's claim against the District.

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

Pursuant to Chapter 1201, Texas Government Code, and Section 49.186 Texas Water Code, the Bonds, whether rated or unrated, are (a) legal investments for banks, trust companies, building and loan associations, savings and loan

associations, insurance companies of all kinds and types, fiduciaries, and trustees, and (b) legal investments and lawful security for the public funds of the State, and all agencies, subdivisions, and instrumentalities of the State, including all counties, cities, towns, villages, school districts, and other political subdivisions or public agencies of the State of Texas. The Bonds are also eligible under the Public Funds Collateral Act, Chapter 2257, Texas Government Code, to secure deposits of public funds of the State of Texas or any political subdivision or public agency of the State of Texas and are lawful and sufficient security for those deposits to the extent of their market value.

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

## **BOND INSURANCE**

### **Bond Insurance Policy**

Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. ("AGM") 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 Appendix B 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.

### **Assured Guaranty Municipal Corp.**

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO." AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM's financial strength is rated "AA" (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), "AA+" (stable outlook) by Kroll Bond Rating Agency, Inc. ("KBRA") and "A2" (stable outlook) by Moody's Investors Service, Inc. ("Moody's"). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM 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 relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

### *Current Financial Strength Ratings*

On June 26, 2017, 2015, S&P issued a research update report in which it affirmed AGM's financial strength rating of "AA" (stable outlook). AGM can give no assurance as to any further rating actions that S&P may take.

On December 14, 2016, KBRA issued a financial guaranty surveillance report in which it affirmed AGM's insurance financial strength rating of "AA+" (stable outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

On August 8, 2016, Moody's published a credit opinion affirming its existing insurance financial strength rating of "A2" (stable outlook) on AGM. AGM can give no assurance as to any further ratings action that Moody's may take.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

### *Capitalization of AGM*

At June 30, 2017:

- The policyholders surplus of AGM was approximately \$2,222 million.
- The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. ("MAC") (as described below) were approximately \$1,289 million. Such amount includes 100% of AGM's contingency reserve and 60.7% of MAC's contingency reserve.
- The net unearned premium reserves of AGM and its subsidiaries (as described below) were approximately \$1,699 million. Such amount set forth above includes (i) 100% of the net unearned premium reserves of AGM and AGM's wholly owned subsidiaries Assured Guaranty (Europe) plc, Assured Guaranty (UK) plc, CIFG Europe S.A. and Assured Guaranty (London) plc (together, the "AGM European Subsidiaries) and (ii) 60.7% of the net unearned premium reserve of MAC.

The policyholders' surplus of AGM and the contingency reserves and net unearned premium reserves of AGM and MAC were determined in accordance with statutory accounting principles. The net unearned premium reserves of the AGM European Subsidiaries were determined in accordance with accounting principles generally accepted in the United States of America.

### *Incorporation of Certain Documents by Reference*

Portions of the following documents filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2016 (filed by AGL with the SEC on February 24, 2017);
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2017 (filed by AGL with the SEC on May 5, 2017); and
- (iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2017 (filed by AGL with the SEC on August 3, 2017).

All consolidated financial statements of AGM and all other information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K after

the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 1633 Broadway, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AGM included herein under the caption "BOND INSURANCE – Assured Guaranty Municipal Corp." or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

#### *Miscellaneous Matters*

AGM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM 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 AGM supplied by AGM and presented under the heading "BOND INSURANCE."

## **THE DISTRICT**

### **Description**

The District is a political subdivision of the State of Texas, created in 1985 by the 69<sup>th</sup> Texas Legislature, effective June 15, 1985. The District, which contains approximately 319.414 acres, lies within the exclusive extraterritorial jurisdiction of the City of Houston, Texas (the "City"). The District is vested with all of the rights, privileges, authority, and functions conferred by the general laws of the State applicable to municipal utility districts, including without limitation those conferred by Chapters 49 and 54, Texas Water Code, as amended. The District is empowered to purchase, construct, operate, acquire, own, and maintain all water and wastewater facilities, improvements and the control and diversion of storm water. The District is additionally empowered to establish, operate and maintain a fire department, independently or with one or more other conservation and reclamation districts, and to issue bonds for such purposes, if approved by District voters and after approval by the City and the TCEQ. The District may also provide for waste collection and disposal service and operate and maintain recreational facilities. The District is subject to the continuing supervisory jurisdiction of the TCEQ.

The District is required to observe certain requirements of the City which limit the purposes for which the District may sell bonds to the acquisition, construction and improvements of waterworks, wastewater and drainage facilities and the refunding of outstanding debt obligations; limit the net effective interest rate on such bonds and other terms of such bonds; require approval by the City of District construction plans; and permit connections only to lots and reserves described in a plat that has been approved by the Planning and Zoning Commission of the City and filed in the real property records of Harris County. Construction and operation of the District's drainage system is subject to the regulatory jurisdiction of additional State of Texas and local agencies. See "THE SYSTEM--Description of the System."

The District owns, operates and maintains certain park and recreational facilities consisting of landscaping, trails, lighting, irrigation and other amenities.

## Management of the District

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

<u>Name</u>	<u>Title</u>	<u>Term Expires May</u>
Jason Williams	President	2018
Shane Holman	Vice President	2020
Tracy Wilkerson	Secretary	2018
Michael Lopez	Assistant Secretary	2018
Kenny Boeckelman	Assistant Secretary	2020

## Consultants and Other Services

The District contracts for the services indicated below:

Auditor - The District's annual financial statements as of December 31, 2016 have been prepared by Roth & Eyring, PLLC, Stafford, Texas. See "APPENDIX A" for a copy of the District's December 31, 2016 audited financial statements.

Bond Counsel - The District employs Sanford Kuhl Hagan Kugle Parker Kahn LLP, Houston, Texas, as Bond Counsel in connection with the issuance of the Bonds. The legal fees to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of Bonds actually issued and sold; and therefore, such fees are contingent on the sale and delivery of the Bonds. See "LEGAL MATTERS."

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

Engineer - The consulting engineer for the District is Edminster, Hinshaw, Russ and Associates, Houston, Texas.

Operator - The District's System is operated by ST Environmental Services, Inc., Houston, Texas.

Tax Assessor/Collector - The District's Tax Assessor/Collector is Bob Leared Interests, Houston, Texas.

## DEVELOPMENT OF THE DISTRICT

### Description of the District

The District is located approximately 25 miles north of the central downtown business district of the City of Houston, Texas in Harris County. The District lies wholly within the extraterritorial jurisdiction of the City of Houston and within the boundaries of the Spring Independent School District. Access to the District is provided by the Hardy Toll Road north to Northgate Crossing Boulevard. The District lies north of the Hardy Toll Road, just east of its intersection with Interstate Highway 45.

### **Current Status of Development**

Development within the District to date is primarily residential in nature and currently includes the subdivisions of Northwood Pines, Sections 1 through 7, comprising 388 completed single family homes. In addition, the following non-residential development has been completed:

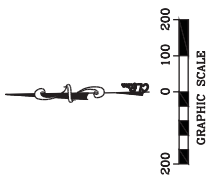
The Park at Northgate Apartments, with 248 units; Homewood Suites Hotel; City Street Residential Apartments, with 307 units; Northgate Town Plaza, a commercial facility; Epoch Luxury Apartments, with 350 units; and two office buildings.

Northcross Partners, LP, owner of one of the office buildings, owns 3.80 acres for future development.

### **Description of the Developers**

The developers of land within the District are Northgate Vertical, LP, Northgate Partners 2010, LLC, Epoch-Houston Crossway Apartments, LLC, Skanska (SCD Spring 2015, LLC) and Northcross Partners, LP (herein, the “Developers”). Other than Skanska and the remaining 3.80 acres of Northcross Partners, LP, the Developers have all completed their development activities within the District. The Developers had advanced funds to purchase water capacity and to lease wastewater capacity and will be reimbursed with proceeds of the Bonds.

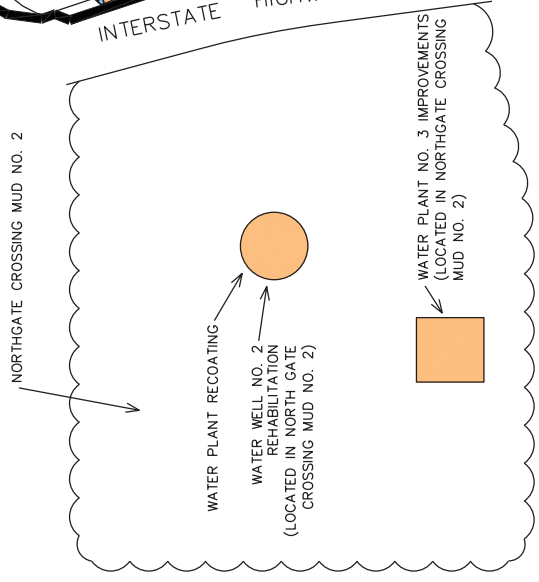
# Map of the District



- 1ST BOND ISSUE
- 2ND BOND ISSUE
- 3RD BOND ISSUE
- 4TH BOND ISSUE



- 1 HOMEWOOD SUITES HOTEL
- 2 SPRING CROSSING OFFICE
- 3 EPOCH LUXURY APARTMENTS
- 4 NORTHCROSS PARTNERS
- 5 NORTHGATE TOWN PLAZA
- 6 CITY STREET RESIDENTIAL APARTMENTS



- BOND ISSUE NO. 1: \$3,450,000**
- WATER PLANT NO. 1
  - INTERIM WASTEWATER TREATMENT PLANT
  - SANITARY SEWER TRUNKLINE & LIFT STATION
  - MITIGATION CHANNEL, PHASE ONE
  - LAND ACQUISITION:
  - WATER PLANT SITE
  - WASTEWATER TREATMENT PLANT SITE
  - LIFT STATION SITE
- BOND ISSUE NO. 2: \$4,850,000**
- NORTHWOOD PINES, SEC. 1 & 2
  - NORTHWOOD PINES, SEC. 3, 4, 5, 6, & 7
  - WASTEWATER TREATMENT PLANT, PHASE I
  - WASTEWATER TREATMENT PLANT, PHASE II
  - WATER PLANT NO. 2
  - STORMWATER PUMP STATION
- BOND ISSUE NO. 3: \$3,500,000**
- STORM WATER PUMP STATION
  - WATER PLANT CAPACITY
  - WASTEWATER TREATMENT PLANT CAPACITY
- BOND ISSUE NO. 4: \$7,090,000**
- WATER PLANT CAPACITY
  - WASTEWATER TREATMENT PLANT CAPACITY
  - WATER WELL NO. 2 REHABILITATION
  - WATER PLANT NO. 1 RECOATING
  - WATER PLANT NO. 3 IMPROVEMENTS
  - WASTEWATER TREATMENT PLANT EXPANSION



NORTHGATE CROSSING MUD NO. 1  
LAND USE MAP



Photographs Taken in the District (September 2017)







## DISTRICT DEBT

### Debt Statement

2017 Taxable Assessed Valuation (100% of Market Value)	\$189,462,974	(a)
Direct Debt		
Outstanding Bonds (As of September 1, 2017)	\$7,485,000	
The Bonds	<u>6,650,000</u>	
Total Direct Debt	\$14,135,000	
Estimated Overlapping Debt	<u>11,265,506</u>	(b)
Direct and Estimated Overlapping Debt	<u>\$25,400,506</u>	
Direct Debt Ratios:		
Direct Debt to Value	7.46%	
Direct & Estimated Overlapping Debt to Value	13.41%	
Average Annual Debt Service Requirements (2018/37)	\$968,162	
Maximum Annual Debt Service Requirements (2019)	\$993,105	
Fund Balances as of September 14, 2017 (Cash & Investments)		
General Fund	\$1,849,977	
Debt Service Fund	\$1,304,137	(c)
Capital Projects Fund	\$1,447,875	

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

(b) See "Estimated Overlapping Debt."

(c) Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the Debt Service Fund.

### Estimated Overlapping Debt

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

<u>Jurisdiction</u>	<u>Debt As Of Sept 1, 2017</u>	<u>Overlapping Percent</u>	<u>Overlapping Amount</u>
Harris County (a)(b)	\$2,571,139,505	0.033%	\$848,476
Harris County Department of Education	6,780,000	0.033%	2,237
Harris County Flood Control District	83,075,000	0.033%	27,415
Harris County Hospital District	61,595,000	0.033%	20,326
Lone Star College System	641,910,000	0.077%	494,271
Northgate Crossing Road Utility District	4,044,998	39.502%	1,597,855
Port of Houston Authority	657,994,397	0.033%	217,138
Spring Independent School District	670,365,000	1.202%	<u>8,057,787</u>
Estimated Overlapping Debt			\$11,265,506
The District (includes the Bonds)			<u>14,135,000</u>
Total Direct & Estimated Overlapping Debt			<u>\$25,400,506</u>

(a) Includes \$276,095,000 Toll Tax and Subordinate Lien Road Bonds, which have historically been paid from revenues and not taxes.

(b) Includes \$507,205,000 Flood Control Contract Bonds, payable from Harris County tax funds.

**Debt Service Schedule**

The following sets forth the debt service requirements on the District's Outstanding Bonds and on the Bonds. (Note: Totals may not add due to rounding)

<u>Year</u>	<u>Outstanding Debt Service</u>	<u>The Bonds Principal</u>	<u>The Bonds Interest</u>	<u>The Bonds Total D/S</u>	<u>Grand Total Debt Service</u>
2017	\$626,955				\$626,955
2018	634,455		\$256,682	\$256,682	891,137
2019	641,168	\$115,000	236,938	351,938	993,105
2020	651,448	110,000	228,313	338,313	989,760
2021	649,760	110,000	220,063	330,063	979,823
2022	661,710	105,000	211,813	316,813	978,523
2023	662,335	105,000	203,938	308,938	971,273
2024	671,898	100,000	196,063	296,063	967,960
2025	675,648	95,000	188,563	283,563	959,210
2026	573,098	200,000	184,763	384,763	957,860
2027	577,220	205,000	180,263	385,263	862,483
2028	580,158	205,000	175,138	380,138	960,295
2029	586,870	210,000	170,013	380,013	966,883
2030	587,370	215,000	164,238	379,238	966,608
2031	591,570	215,000	157,788	372,788	964,358
2032	594,225	220,000	151,338	371,338	965,563
2033	0	825,000	144,463	969,463	969,463
2034	0	855,000	118,681	973,681	973,681
2035	0	885,000	90,894	975,894	975,894
2036	0	920,000	62,131	982,131	982,131
2037	<u>          </u>	<u>955,000</u>	<u>32,231</u>	<u>987,231</u>	<u>987,231</u>
	<u>\$9,965,885</u>	<u>\$6,650,000</u>	<u>\$3,374,307</u>	<u>\$10,024,307</u>	<u>\$19,990,192</u>

Average Annual Debt Service (2018/2037) \$ 968,162  
 Maximum Annual Debt Service (2019) \$ 993,105

## Historical Operations of the Debt Service Fund

The following statement sets forth in condensed form the historical operations of the District's Debt Service Fund. Such information has been prepared based upon information obtained from the District's audited financial statements, reference to which is made for further and complete information.

	<i><b>Fiscal Year Ended December 31,</b></i>				
	<u><b>2016</b></u>	<u><b>2015</b></u>	<u><b>2014</b></u>	<u><b>2013</b></u>	<u><b>2012</b></u>
<b>Revenues</b>					
Ad Valorem Taxes	\$685,849	\$631,971	\$495,357	\$537,023	\$525,544
Penalty & Interest	6,342	3,884	3,406	5,107	15,434
Investment Earnings	<u>2,325</u>	<u>2,106</u>	<u>1,797</u>	<u>3,263</u>	<u>2,763</u>
Total Revenues	\$694,516	\$637,961	\$500,560	\$545,393	\$543,741
<b>Expenditures</b>					
Bond Principal	\$370,000	\$360,000	\$350,000	\$99,998	\$275,000
Bond Interest & Fees	260,350	267,555	181,990	431,209	259,645
Cost of Collections	<u>21,753</u>	<u>17,063</u>	<u>15,897</u>	<u>16,746</u>	<u>16,042</u>
Total Expenses	<u>\$652,108</u>	<u>\$644,618</u>	<u>\$547,887</u>	<u>\$547,953</u>	<u>\$550,687</u>
Net Revenues	\$42,405	(\$6,657)	(\$47,327)	(\$2,560)	(\$6,946)
Fund Balance, August 1	462,763	469,420	507,157	509,717	510,266
Debt Issuance Costs	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>6,397</u>
Fund Balance, July 31	<u>\$505,171</u>	<u>\$462,763</u>	<u>\$469,420</u>	<u>\$507,157</u>	<u>\$509,717</u>
Cash & Inv, July 31	<u>\$1,200,421</u>	<u>\$1,060,082</u>	<u>\$1,049,055</u>	<u>\$1,063,585</u>	<u>\$952,322</u>

## TAX PROCEDURES

### Authority To Levy Taxes

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in sufficient amount to pay the principal of and interest on the District's Outstanding Bonds, the Bonds and any additional bonds payable from taxes which the District may hereafter issue, and to pay the expenses of assessing and collecting such taxes. The Board is also authorized to levy and collect annual ad valorem taxes for the administration, operation and maintenance of the District and its properties and for the payment of certain contractual obligations other than bonds if such taxes are authorized by vote of the District's electors at an election. At an election held within the District, the voters in the District authorized the levy of a maintenance and operation tax without limit as to rate or amount. For the 2017 tax year, a maintenance and operation tax of \$0.488 per \$100 assessed value was levied within the District.

### Exempt Property

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes, and certain categories of intangible personal property with a tax situs in the District

are subject to taxation by the District; however, no effort is expected to be made to levy taxes against tangible or intangible personal property not devoted to commercial or industrial use. Principal categories of exempt real property include property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; non-profit cemeteries; certain household goods, family supplies and personal effects; certain goods, wares and merchandise in transit; certain farm products owned by the producer; certain property owned by qualified charitable, religious, veterans, youth, fraternal, or educational organizations; designated historical sites; and most individually owned automobiles.

A "Freeport Exemption" applies to goods, wares, ores, and merchandise other than oil, gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining petroleum or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A "Goods-in-Transit" Exemption is applicable to the same categories of tangible personal property which are covered by the Freeport Exemption, if, for tax year 2011 and prior applicable years, such property is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation, and the location where said property is detained during that period is not directly or indirectly owned or under the control of the property owner. For tax year 2012 and subsequent years, such Goods-in-Transit Exemption includes tangible personal property acquired in or imported into Texas for storage purposes only if such property is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit 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.

Property owned by a disabled veteran or by the spouse or certain children of a deceased disabled veteran or a veteran who died while on active duty is exempt to between \$5,000 and \$12,000 depending on the disability rating of the veteran. State law further mandates a complete exemption for the residential homestead of disabled veterans determined to be 100% disabled by the U.S. Department of Veterans Affairs. Subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled such exemption on the same property to which the disabled veteran's exemption applied. 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 at no cost to the veteran. Subject to approval of a constitutional amendment by the voters of the State of Texas, effective January 1, 2018, this exemption will also apply to a residence homestead that was donated by a charitable organization at some cost to such veterans. Also, the surviving spouse of a member of the armed forces who was killed in action is entitled to an exemption of the total appraised value of the surviving spouse's residence homestead if the surviving spouse has not remarried since the service member's death and said property was the service member's residence homestead at the time of death. Such exemption may be transferred to a subsequent residence homestead of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

Subject to approval of a constitutional amendment by the voters of the State of Texas, effective January 1, 2018, the surviving spouse of a first responder who is killed or fatally injured in the line of duty is entitled to an exemption of the total appraised value of the surviving spouse's residence homestead if the surviving spouse has not remarried since the first responder's death, and said property was the first responder's residence homestead at the time of death. Such



exemption would be transferrable to a subsequent residence homestead of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

If approved by the Board or through a process of petition and referendum by the District's voters, residence homesteads of certain persons who are disabled or at least 65 years old are exempt to the extent of \$3,000 or such higher amount, as the Board or the District's voters may approve. The District's tax assessor is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District's obligation to pay tax-supported debt incurred prior to adoption of the exemption by the District. The District currently grants a \$10,000 homestead exemption to persons who are 65 years of age or older and to disabled homestead owners.

The Board also may exempt up to 20% of the market value of residential homesteads from ad valorem taxation. Such exemption would be in addition to any other applicable exemptions provided by law. However, if ad valorem taxes have previously been pledged for the payment of debt and the granting of the homestead exemption would impair the obligation or the contract by which the debt was created, then the Board may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged. The Board grants a 20% homestead exemption effective with the 2017 tax year.

Harris County may designate all or part of the area within the District as a reinvestment zone, and the District, Lone Star College System, Harris County or Spring Independent School District may thereafter enter into tax abatement agreements with owners of real property within the zone. The tax abatement agreements may exempt from ad valorem taxation by the applicable taxing jurisdiction, for a period of up to ten (10) years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with a comprehensive plan. None of the area within the District has been designated as a reinvestment zone to date.

### **Appraisal of Taxable Property**

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

### **Assessment and Levy**

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

The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraised values. The plan must provide for appraisal of all real property in the Appraisal District at least once every

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

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

On August 26, 2017, Hurricane Harvey made landfall on the Texas Gulf Coast, severely impacting the entire region and resulting in a disaster declaration by the Governor of the State of Texas. See "RISK FACTORS – Hurricane Harvey." When requested by a local taxing unit, such as the District, the Appraisal District is required to complete a reappraisal as soon as practicable of all property damaged in an area that the Governor declares a disaster area. For reappraised property, the taxes are pro-rated for the year the disaster occurred. The taxing unit assesses taxes prior to the date the disaster occurred based upon market value as of January 1. Beginning on the date of the disaster and for the remainder of the year, the taxing unit applies its tax rate to the reappraised market value of the property. The District has no plans to request a reappraisal due to Hurricane Harvey.

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

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

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

### **Collection**

Taxes are due on receipt of the tax bill and become delinquent after January 31 of the following year. However, a person over 65 years of age is entitled by law to pay current taxes on his residence homestead in installments or to defer taxes without penalty during the time he owns and occupies the property as his residence homestead. The date of the

delinquency of a tax bill may be postponed if the tax bill is mailed after January 10. Delinquent taxes are subject to a 6% penalty for the first month of delinquency, 1% for each month thereafter to June 30 and 12% total if any taxes are unpaid on July 1. Delinquent taxes also accrue interest at the rate of 1% per month during the period they remain outstanding. In addition, if the District engages an attorney for collection of delinquent taxes, the Board may impose a further penalty not to exceed 20% on all taxes, penalty and interest unpaid on July 1.

The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, may be rejected. Further, a person who is 65 years of age or older or disabled is entitled by law to pay current taxes on his residential homestead in installments or to receive a deferral or abatement of delinquent taxes without penalty during the time he owns or occupies his property as his residential homestead. Effective January 1, 2018, property owners affected by a disaster may pay property taxes in four equal installments following the disaster. In addition, effective September 1, 2017, certain classes of disabled veterans may receive a deferral or abatement of delinquent taxes without penalty during the time he owns or occupies his property as his residential homestead.

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

The District's tax collector is required to enter into an installment payment agreement with any person who is delinquent on the payment of tax on a residence homestead if the person (1) has been granted an exemption under Section 11.13, Property Tax Code, (2) requests an installment agreement and (3) has not entered into an installment agreement with the collector in the preceding 24 months. The installment agreement must provide for payments to be made in monthly installments and must extend for a period of at least 12 months and no more than 36 months.

## **TAX DATA**

### **General**

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

## Tax Collection History

The following table indicates the collection history for taxes assessed by the District:

<u>Tax Year</u>	<u>Taxable Valuation</u>	<u>D/S Tax Rate</u>	<u>M&amp;O Tax Rate</u>	<u>Total Tax Rate</u>	<u>Tax Levy</u>	<u>Percent Current</u>	<u>Percent Total</u>	<u>Yr End Sep 30</u>
2003	\$35,349,740	\$0.931	\$0.250	\$1.181	\$417,535	98.50%	98.55%	2004
2004	45,873,800	1.031	0.212	1.243	570,544	98.78%	100.19%	2005
2005	55,105,208	0.896	0.350	1.246	686,786	97.49%	98.20%	2006
2006	64,883,943	0.772	0.496	1.268	822,930	97.81%	99.89%	2007
2007	70,594,664	0.725	0.570	1.295	913,922	99.42%	100.99%	2008
2008	72,869,636	0.715	0.517	1.232	897,712	99.50%	100.15%	2009
2009	66,179,270	0.789	0.503	1.292	861,325	99.57%	99.93%	2010
2010	63,811,502	0.825	0.500	1.325	846,332	99.86%	101.06%	2011
2011	64,998,562	0.815	0.510	1.325	861,818	99.17%	99.20%	2012
2012	66,407,050	0.790	0.535	1.325	896,144	99.76%	100.51%	2013
2013	71,009,826	0.700	0.545	1.245	897,732	99.82%	99.99%	2014
2014	84,551,790	0.760	0.485	1.245	1,051,636	99.62%	99.69%	2015
2015	105,626,675	0.650	0.480	1.130	1,202,514	99.58%	99.79%	2016
2016	140,468,707	0.700	0.400	1.100	1,545,156	99.81%	100.48%	2017(a)

(a) Collections through September 10, 2017 only.

## Tax Rate Calculations

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 of assessed valuation which would be required to meet certain debt service requirements if no growth in the District's tax base occurs beyond the 2017 Taxable Value (\$189,462,974). The calculations assume collection of 98% of taxes levied and the sale of no additional bonds (other than the Bonds) by the District.

Average Annual Debt Service Requirements (2018/2037)	\$968,162
Tax Rate of \$0.522 on the 2017 Taxable Value produces	\$968,901
Maximum Annual Debt Service Requirements (2019)	\$993,105
Tax Rate of \$0.5636 on the 2017 Taxable Value produces	\$994,887

## Principal Taxpayers

<u>Name of Taxpayer</u>	<u>Type of Property</u>	<u>2017 Taxable Ass'd Value</u>	<u>% of Total</u>	<u>2016 Taxable Ass'd Value</u>	<u>% of Total</u>
Northgate Vertical LP	Apartments	\$36,700,029	19.37%	\$10,346,593	7.37%
Epoch-Houston Luxury Apts	Apartments	23,243,543	12.27%	9,420,091	6.71%
Apartment REIT Park at No	Apartments	16,523,354	8.72%	17,521,637	12.47%
Northgate 2013 Hotel II LLC	Hilton Garden	15,850,334	8.37%	5,330,459	3.79%
Northgate 2013 Hotel I LLC	Hampton Inn	11,367,151	6.00%	9,158,690	6.52%
Northcross Partners LP	Office Building	10,256,053	5.47%	10,238,008	7.29%
SCD Spring 2014 LLC	Acreage	9,019,885	4.76%	6,600,000	4.70%
Sonorous Five LLC	Homewood Suites	8,674,075	4.58%	10,255,009	7.30%
Northgate Partners 2010 L	Acreage	3,145,390	1.66%	3,145,390	2.24%
Centerpoint Energy	Electric Utility	667,480	0.35%	(a)	
Swire Oilfield Services	Personal Prop	(a)		1,295,451	0.92%
Totals		<u>\$135,447,294</u>	<u>71.49%</u>	<u>\$83,311,328</u>	<u>59.31%</u>

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

(b) As shown above, the top ten taxpayers in the District account for over 70% of the Defined Area's tax base, and the top four taxpayers account for almost 49% of the District's tax base. Adverse commercial or retail economic conditions could adversely impact businesses in the District and tax values in the District resulting in less local tax revenues. If any major taxpayer were to default in the payment of taxes, the ability of the District to make timely debt service payments will depend on its ability to enforce its tax lien, which is a time consuming process. See "RISK FACTORS--Tax Collection Limitations."

## Estimated Overlapping Taxes

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

<u><i>Taxing Entities</i></u>	<u><i>2016 Tax Rates Per \$100 A/V</i></u>
Harris County	\$0.416560
Harris County Department of Education	0.005200
Harris County Emergency Services District No.7	0.100000
Harris County Emergency Services District No. 11	0.039870
Harris County Flood Control District	0.028290
Harris County Hospital District	0.171790
Lone Star College System	0.107800
Northgate Crossing Road Utility District	0.150000
Port of Houston Authority	0.013340
Spring Independent School District	<u>1.469960</u>
Overlapping Taxes	\$2.502810
The District (2017 tax rate)	<u>1.000000</u>
Total Direct & Overlapping Taxes	<u><u>\$3.502810</u></u>

## Analysis of Tax Base

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

	<u>2017 Amount</u>	<u>2017 %'s</u>	<u>2016 Amount</u>	<u>2016 %'s</u>
Land	\$53,180,192	24.95%	\$52,761,527	32.60%
Improvements	153,051,674	71.81%	104,316,661	64.45%
Personal Property	<u>6,912,966</u>	3.24%	<u>4,769,058</u>	2.95%
Subtotal	\$213,144,832		\$161,847,246	
Less: Tax Exempt	(17,759,284)		(17,583,793)	
20% Homestead	(7,355,519)		0	
Disabled Veterans	(624,658)		(531,387)	
Over 65 & Disabled	(342,300)		(349,000)	
Other	<u>(2,216,029)</u>		<u>(2,914,359)</u>	
Total Taxable Value	<u>\$184,847,042</u>		<u>\$140,468,707</u>	
	<u>2015 Amount</u>	<u>2015 %'s</u>	<u>2014 Amount</u>	<u>2014 %'s</u>
Land	\$45,450,862	34.96%	\$37,244,490	
Improvements	80,675,422	62.05%	65,224,275	
Personal Property	<u>3,882,586</u>	2.99%	<u>3,311,659</u>	
Subtotal	\$130,008,870		\$105,780,424	
Less: Tax Exempt	(17,578,168)		(15,928,100)	
20% Homestead	0		0	
Disabled Veterans	(253,008)		(186,802)	
Over 65 & Disabled	(319,000)		(319,000)	
Other	<u>(6,232,019)</u>		<u>(4,794,732)</u>	
Total Taxable Value	<u>\$105,626,675</u>		<u>\$84,551,790</u>	

Note: Values shown above may reflect original certified amounts and may differ from those shown elsewhere herein.

## THE SYSTEM

### Regulation

The water, wastewater and storm drainage facilities serving land within the District (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 TCEQ, Harris County Engineering Department, Harris County Flood Control District and the City of Houston. During construction, facilities are subject to inspection by the District's Engineer and the foregoing governmental agencies.

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

### **Description of the System**

According to the District's Engineer, (a) the total number of connections projected for the District at full development of approximately 319.4 acres is 1,822 equivalent connections, and (b) the remaining authorized but unissued bonds should be sufficient in amount to finance improvements to the System required to serve the District at current projected build-out. A description of the primary components of the System follows.

Proceeds of the sale of the District's Outstanding Bonds were used to finance the construction or acquisition of underground water supply, water distribution lines, wastewater collection lines, wastewater treatment plant, and stormwater drainage facilities to serve an aggregate of 388 fully developed single-family lots in the District, currently developed and served by such utilities. Approximately 168.43 acres of land within the District are designated for plant sites, public use, flood plain, rights-of-way, easements and other land not considered as developable. See "THE DISTRICT."

#### ***- Water System -***

Water supply within the District is provided by a 1,000 gallons per minute ("gpm") water plant ("Water Plant No. 1") consisting of 3,000 gpm of booster pump capacity, a 20,000 gallon hydropneumatic tank and a 500,000 gallon ground storage tank. A second 1,200 gpm water plant ("Water Plant No. 2") includes a 20,000 gallon hydropneumatic tank, 200,000 gallons of ground storage capacity and 2,500 gpm of booster pump capacity. Water Plant No. 1 and Water Plant No. 2 are jointly owned by the District and Northgate Crossing Municipal Utility District No. 2 ("MUD 2"). Due to the pending development within the District and the resulting capacity needs, the District and MUD 2 entered into that certain Fourth Amendment to Fifth Amended and Restated Joint Facilities Agreement, dated April 30, 2014 (the "Amended JFA"), whereby the District agreed to purchase additional water plant capacity from MUD 2. Pursuant to the Amended JFA, the District now owns approximately 44% of Water Plant No. 1 and 44% of Water Plant No. 2, with MUD 2 owning the remaining 56% of each plant. See "THE BONDS—Use of Proceeds," "DEVELOPMENT OF THE DISTRICT" and "Agreements with Northgate Crossing Municipal Utility District No. 2."

#### ***- Wastewater System -***

Wastewater treatment for the development occurring within the District is provided by a 750,000 gallons per day ("gpd") permanent wastewater treatment plant (the "Plant"), which serves 2,500 equivalent single family connections. The Plant serves the District and MUD 2, with the District's share at 40.7%.

The Engineer has indicated that the District's share of capacity in the Plant, 305,170 gpd or 1,017 equivalent connections, is not sufficient to serve the pending development within the District. As such, certain proceeds of the Bonds will be used to expand the Plant, or, in the interim, construct a temporary package plant to serve such development. In addition, the District and MUD 2 have entered into that certain Lease of Wastewater Treatment Capacity, dated April 30, 2014 (the "Lease"), whereby MUD 2 agreed to lease to the District 125,000 gpd of wastewater treatment capacity from MUD 2's share of the overall capacity of the Plant, which capacity is sufficient to serve the proposed development. See "THE BONDS – Use of Proceeds," "DEVELOPMENT OF THE DISTRICT" and "Agreements with Northgate Crossing Municipal Utility District No. 2."

#### ***-Conversion to Surface Water-***

The District is located within the boundaries of the Harris-Galveston Subsidence District ("Subsidence District") and the North Harris County Regional Water Authority ("NHCRWA"). The NHCRWA was created to provide for conversion of the area within its boundaries from groundwater usage to alternative sources of water supply (e.g., surface water). The NHCRWA covers an area located in northern Harris County and adjacent to the City of Houston. Pursuant to an order of the Subsidence District and the NHCRWA's Groundwater Reduction Plan (as approved by the Subsidence



District), the area within the boundaries of the NHCRWA was converted to at least 30% alternate source (e.g., surface) water use by 2010, and must be converted to 70% alternate source water use by 2020, and 80% alternate source water use by 2030. To implement the required conversion to alternate source water use in accordance with such schedule, the NHCRWA has designed and plans to construct and operate a network of transmission and distribution lines, storage tanks, and pumping stations to transport and distribute water within the NHCRWA (the “NHCRWA System”). In addition, the NHCRWA has entered into a water supply contract to secure a long-term supply of treated surface water from the City of Houston.

The District is subject to the NHCRWA’s Groundwater Reduction Plan. Accordingly, the District must pay a capital contribution to the NHCRWA to cover the District’s proportionate share of the costs associated with the acquisition and construction of the NHCRWA System (including the costs associated with the acquisition of alternate sources of water supply). (The District may also elect to pay its share of such costs over time through payment of higher fees to the NHCRWA.) Payment of such costs will entitle the District to participate in the NHCRWA surface water conversion project and to purchase water from or through the facilities of the NHCRWA. Noncompliance with the NHCRWA’s Groundwater Reduction Plan and nonparticipation in the NHCRWA’s surface water conversion project could result in the District’s exclusion from the NHCRWA’s Groundwater Reduction Plan and assessment of the Subsidence District’s disincentive fee (currently \$8.46 per 1,000 gallons) against groundwater pumped from wells located within the District.

Groundwater pumped from wells located with the District is not currently subject to the Subsidence District’s groundwater disincentive fee. However, groundwater pumped from wells located with the District is subject to a \$2.90 per 1,000 gallon pumpage fee (the “Pumpage Fee”), that is assessed and collected by the NHCRWA pursuant to the NHCRWA’s Groundwater Reduction Plan. The Pumpage Fee may increase in the future. The issuance of additional bonds by the District in an undetermined amount may be necessary at some time in the future to finance the acquisition and construction of surface water infrastructure (whether such costs are incurred directly by the District or through projects undertaken by the NHCRWA). The NHCRWA has issued several series of Senior Lien Revenue Bonds, currently outstanding in the aggregate principal amount of \$708,530,000, to finance costs related to the design, acquisition and construction of Phase I of the Surface Water Facilities. The NHCRWA bonds are secured by revenues of the NHCRWA, including the pumpage fee. The pumpage fee may increase in the future.

#### ***- Stormwater Drainage -***

The stormwater drainage system is designed to drain into a tributary of Spring Creek in accordance with the requirements of the City, the Harris County Engineer and the Harris County Flood Control District for residential areas. According to the Engineer, all of the land within the District lies above the 100 year flood plain due to protection by the levee, except for a 2.12 acre tract for which there are no current plans for development.

#### ***-Flood Protection-***

The District constructed a levee system, stormwater detention and stormwater pump station (herein collectively, the “Levee System”) to serve the District as well as MUD 2. The Levee System was constructed to remove approximately 142 acres from the existing 100-year flood plain. In 1994, the area surrounding Northgate Crossing experienced a flood event that exceeded a 100-year event and a large portion of the property located within the District was flooded. Subsequent to that event, the District made certain improvements to the levee, including but not limited to raising the levee elevation to a height that exceeds the 500-year flood elevation. In addition, the District applied for and received a letter of map revision from the Federal Emergency Management Agency which indicates that the property lying inside the Levee System is not now in Flood Zone X, which indicates that the improvements constructed thereon would not be required to be protected in any other manner from a 100-year flood. The Levee System serves the District and MUD 2, with the District’s share at 55%.

#### **Agreements with Northgate Crossing Municipal Utility District No. 2**

To provide adequate water capacity to serve the pending development, the District entered into that certain Amended JFA, whereby the District purchased from MUD 2 14% of MUD 2’s capacity in Water Plant No. 1, and 11% of MUD

2's capacity in Water Plant No. 2. To provide adequate wastewater capacity to serve the pending development, the District entered into that certain Lease with MUD 2, whereby the District agreed to lease from MUD 2 125,000 gpd of wastewater treatment capacity. The Amended JFA secures the water capacity required to serve the pending development. Certain proceeds of the Bonds have been designated to reimburse the Developers for the of this water capacity from MUD 2. The Lease provides the District adequate wastewater capacity to serve the pending development. The terms thereof provide that the District will lease the required capacity from MUD 2 for a term of four years. At such time as the Lease expires, or the value on the ground allows, whichever occurs first, the District will expand the Plant, or, in the interim, construct a temporary package plant. Certain proceeds of the Bonds have been designated for this purpose. The District and MUD 2 have agreed to extend the Lease for an additional three years. See "THE BONDS – Use of Proceeds" and "DEVELOPMENT OF THE DISTRICT."

**Rate Order**

The District's current utility rate order, which was amended on June 11, 2015, is subject to change from time to time by the Board and the rates for various categories of customers is summarized in part below:

*-Water Rates-*

<u>Amount</u>	<u>Residential</u>	<u>Commercial</u>	<u>Apartments (a)</u>
First 10,000 gallons	\$12.50 minimum	\$75.00 minimum	\$17.50 minimum
Next 10,000 gallons	\$1.50/1000 gallons	\$2.50/1000 gallons	\$2.00/1000 gallons
Over 20,000 gallons	\$1.75/1000 gallons	\$3.50/1000 gallons	\$2.50/1000 gallons

[Plus 110% of the fee imposed by the NHCRWA for surface water fees, currently set at \$2.90 per 1,000 gallons of water pumped]

(a) For Apartments served by a master meter, the total number of gallons metered is divided by the number of apartments to determine average usage per unit, rounded to the nearest 1,000 gallons, to determine the amount of average water billing. Such billing will be multiplied by the number of apartment units to determine the total amount to be charged.

*-Sewer Rates-*

<u>Amount</u>	<u>Residential</u>	<u>Commercial(a)</u>	<u>Apartments (b)</u>
First 20,000 gallons	\$45.00 minimum	\$75.00 minimum	\$30.00 Flat Rate
Over 20,000 gallons	\$2.50/1000 gallons	\$2.50/1000 gallons	

(a) In addition, a flat rate inspection fee of \$65.00 for each grease trap installed will be charged monthly.

(b) For Apartments served by a master meter, the total number of apartments will be multiplied by the flat rate to determine the total amount to be charged.

## Historical Operations of the General Operating Fund

The following statement sets forth in condensed form the historical operations of the District's General Operating Fund. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Such information has been prepared based upon information obtained from the District's audited financial statements (except for the 8-month period ended August 31, 2017, which was taken from District records), reference to which is made for further and complete information.

	<i>1/1/2017 to</i>		<i>Fiscal Year Ended December 31,</i>			
	<u>8/31/17(a)</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>Revenues</b>						
Water & Sewer Service	\$351,087	\$488,304	\$439,801	\$409,579	\$370,272	\$319,507
Maintenance Tax	557,471	506,261	402,245	386,588	363,471	328,865
Surface Water Fees	124,967	150,683	109,614	115,110	111,173	104,634
Tap Connections	0	19,357	490,420	151,005	0	0
Sales & Use Tax	1,978	21,356	0	0	0	0
Interest & Other	<u>6,389</u>	<u>41,957</u>	<u>37,811</u>	<u>30,406</u>	<u>26,240</u>	<u>24,791</u>
Total Revenues	\$1,041,892	\$1,227,918	\$1,479,891	\$1,092,688	\$871,156	\$777,797
<b>Expenses</b>						
Purchased Services	\$293,605	\$424,438	\$342,167	\$265,984	\$255,237	\$257,310
Professional Fees	110,603	142,633	140,986	181,727	173,409	101,373
Contracted Services	40,152	60,928	52,290	46,606	43,827	43,285
Sewer Capacity Lease	0	67,000	67,000	67,000	0	0
Garbage & Security	95,636	149,766	142,902	130,749	128,812	128,087
Repairs & Maintenance	44,521	117,682	62,775	96,537	203,923	50,721
Administrative	<u>63,335</u>	<u>72,997</u>	<u>57,377</u>	<u>62,415</u>	<u>63,371</u>	<u>59,520</u>
Total Expenditures	\$647,852	\$1,035,444	\$865,497	\$851,018	\$868,579	\$640,296
Net Revenue	<u>\$394,041</u>	<u>\$192,474</u>	<u>\$614,394</u>	<u>\$241,670</u>	<u>\$2,577</u>	<u>\$137,501</u>
Developer Advances		117,296	103,000	103,000	0	0
Bond Issuance Costs		(9,296)	(900)	(9,000)	0	0
Capital Outlay	(402,192)	(85,738)	(235,070)	(211,943)	(53,733)	(51,712)
Transfer from Other Fund	107,767	0	0	0	0	0
Fund Balance, Jan 1		<u>1,484,032</u>	<u>1,010,708</u>	<u>886,981</u>	<u>938,137</u>	<u>852,348</u>
Fund Balance, Dec 31		<u>\$1,698,768</u>	<u>\$1,484,032</u>	<u>\$1,010,708</u>	<u>\$886,981</u>	<u>\$938,137</u>
Cash/Inv., Dec 31 (b)		<u>\$1,987,505</u>	<u>\$2,211,333</u>	<u>\$1,756,758</u>	<u>\$850,249</u>	<u>\$986,339</u>
Cash as % of Expense		191.95%	255.50%	206.43%	97.89%	154.04%
Customers at Dec 31		415	410	405	402	405

(a) Unaudited 8-month statement, compiled from District records.

(b) Exclusive of customer deposits.

## RISK FACTORS

### General

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

### Factors Affecting Taxable Values and Tax Payments

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

**Maximum Impact on District Rates:** Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of District property owners to pay their taxes. The 2017 Taxable Valuation is \$189,462,974. See "TAX DATA." After issuance of the Bonds, the maximum annual debt service requirement (2019) is \$993,105 and the average annual debt service requirement (2018/2037) is \$968,162. Assuming no increase or decrease from the 2017 Taxable Valuation and no use of funds other than tax collections, tax rates of \$0.536 and \$0.522 per \$100 assessed valuation at a 98% collection rate against the 2017 Assessed Valuation, respectively, would be necessary to pay such debt service requirements. The Board levied a tax rate of \$0.512 for debt service purposes and a tax rate of \$0.488 for maintenance and operation purposes for 2017. See "DISTRICT DEBT--Debt Service Schedule" and "TAX DATA--Tax Rate Calculations."

### Overlapping Tax Rates

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

### Tax Collection Limitations

The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other state and local taxing authorities on the property against which taxes are levied, and such lien may be enforced by foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by (a) collection procedures, (b) a bankruptcy court's stay of tax collection procedures against a taxpayer, or (c) market conditions limiting the proceeds from a foreclosure sale of taxable property. While the District has a lien on taxable

property within the District for taxes levied against such property, such lien can be foreclosed only in a judicial proceeding. Because ownership of the land within the District may become highly fragmented among a number of taxpayers, attorney's fees and other costs of collecting any such taxpayer's delinquencies could substantially reduce the net proceeds to the District from a tax foreclosure sale. Finally, any bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes against such taxpayer. The District's tax collector is required to enter into an installment payment agreement with any person who is delinquent on the payment of tax on a residence homestead if the person (1) has been granted an exemption under Section 11.13, Property Tax Code, (2) requests an installment agreement and (3) has not entered into an installment agreement with the collector in the preceding 24 months. The installment agreement must provide for payments to be made in monthly installments and must extend for a period of at least 12 months and no more than 36 months.

### **Registered Owners' Remedies**

In the event of default in the payment of principal of or interest on the Bonds, the registered owners may seek a writ of mandamus requiring the District to levy adequate taxes to make such payments. Except for the remedy of mandamus, the Bond Order does not specifically provide for remedies to a registered owner in the event of a District default, nor does it provide for the appointment of a trustee to protect and enforce the interests of the registered owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Although the registered owners could obtain a judgment against the District, such a judgment could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on the property of the District or sell property within the District in order to pay the principal of or interest on the Bonds. The enforceability of the rights and remedies of the registered owners may be further 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. For example, a Chapter IX bankruptcy proceeding by the District could delay or eliminate payment of principal or interest to the registered owners.

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

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

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

### **Conversion to Surface Water**

The District is within the boundaries of the Harris-Galveston Subsidence District (the "Subsidence District") which regulates groundwater withdrawal. The District's authority to pump groundwater from its well is subject to annual permits issued by the Subsidence District. On April 14, 1999 the Subsidence District adopted a District Regulatory Plan

(the "1999 Plan") to reduce groundwater withdrawal through conversion to surface water in areas within the Subsidence District's jurisdiction. Under the 1999 Plan, entities, including the District, were required to submit to the Subsidence

District by January 2003 a groundwater reduction plan and begin construction of a surface water conversion infrastructure by January 2005, or pay a disincentive fee for any groundwater withdrawn in excess of 20% of the District's total water demand. This same disincentive fee would be imposed under the 1999 Plan if the District's groundwater withdrawal exceeded 70% of the District's total water demand beginning January 2010, 30% of the District's total water demand beginning January 2020, and 20% of the District's total water demand beginning January 2030. The Subsidence District adopted a revised regulatory plan on January 9, 2013, as amended on May 8, 2013 (the "2013 Plan"), changing the conversion dates and percentages for Regulatory Area Three in which the District is located. Under the 2013 Plan, the conversion schedule was revised to 30% surface water by 2010, 60% by 2025, and 80% by 2035. The issuance of additional bonds by the District in an undetermined amount may be necessary at some time in the future in order to develop surface water conversion infrastructure or to participate in a regional surface water conversion effort. In addition, if the District does not meet the Subsidence District's requirements as described above, the District may be required to pay the disincentive fees adopted by the Subsidence District.

The District is also located within the boundaries of the NHCRWA. The NHCRWA was created to accomplish the conversion to surface water of Area 3. To implement the required conversion to surface water in accordance with the Subsidence District's Regulatory Plan, the NHCRWA has adopted a ground water reduction plan providing for the design, construction and operation of a network of surface water transmission lines, storage tanks and pumping stations to transport and distribute surface water to the areas within the NHCRWA's boundaries (the "Surface Water Facilities"). The NHCRWA has contracted with the City of Houston to secure a long-term supply of surface water. To obtain funding to accomplish its purposes, the NHCRWA is, as of April 1, 2017, assessing a groundwater pumpage fee in the amount of \$2.90 per 1,000 gallons of water to water well permittees in its boundaries, including the District. The NHCRWA charges \$3.35 per 1,000 gallons of water for surface water delivery. The NHCRWA has issued several series of Senior Lien Revenue Bonds, currently outstanding in the aggregate principal amount of \$708,530,000, to finance costs related to the design, acquisition and construction of Phase I of the Surface Water Facilities. Such bonds are secured by revenues of the NHCRWA, including the pumpage fee. The pumpage fee may increase in the future.

The District is required to pay for its share of the cost to acquire, design, construct and operate the Surface Water Facilities. The District's share of the cost of the Phase I Surface Water Facilities was paid from bond proceeds of its Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2003. For future phases of the Surface Water Facilities, the District may again elect to pay for its share of the costs of the Surface Water Facilities through the issuance of bonds.

No representation is made that the NHCRWA will continue in existence or will build the Surface Water Facilities to meet the Subsidence District's Regulatory Plan. If such event occurs, the District would be subject to the Subsidence District's disincentive fee and would be required to proceed with preparing and implementing its own groundwater reduction plan.

### **Proposed Tax Legislation**

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

### **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; and
- Requiring remedial action to prevent or mitigate pollution.

Sanctions against a municipal utility 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 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 2008 as a severe ozone nonattainment area under the 1997 “eight hour” ozone standards (“the 1997 Ozone Standards”). In December 2015, the EPA determined that the HGB area has reached attainment under the 1997 Ozone Standards, and in May 2016, the EPA issued a proposed rule approving Texas’s redesignation substitute demonstration for the HGB area. However, until the EPA issues a final ruling, the HGB area is still subject to anti-backsliding obligations and nonattainment new source review requirements associated with the 1997 Ozone Standards.

In 2008, the EPA lowered the ozone standard from 80 parts per billion (“ppb”) to 75 ppb (“the 2008 Ozone Standard”), and designated the HGB area as a marginal ozone nonattainment area, effective July 20, 2012. Such nonattainment areas are required to demonstrate progress in reducing ozone concentrations each year until the EPA’s 2008 Ozone Standard is met. The HGB area did not reach attainment under the 2008 Ozone Standard by the 2016 deadline, and on September 21, 2016, the EPA proposed to reclassify the HGB area from marginal to moderate under the 2008 Ozone Standard. If reclassified, the HGB area’s 2008 Ozone Standard attainment deadline must be met as expeditiously as practicable, but in any event no later than July 20, 2018. If the HGB area fails to demonstrate progress in reducing ozone concentration or fails to meet the EPA’s 2008 Ozone Standard, the EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects, as well as severe emissions offset requirements on new major sources of air emissions for which construction has not already commenced.

On October 1, 2015, the EPA lowered the ozone standard from 75 parts per billion to 70 ppb (“the 2015 Ozone Standard”). On August 3, 2016, the TCEQ recommended to the EPA that all counties designated as nonattainment for the 2008 Ozone Standard be designated nonattainment for the 2015 Ozone Standard as well, which will impose additional ozonereduction obligations on the HGB area. This could make it more difficult for the HGB area to demonstrate progress in reducing ozone concentration. The EPA intends to release the final 2015 Ozone Standard attainment designations by October 1, 2018.

In order to comply with the EPA’s ozone standards for the HGB area, the TCEQ has established a state implementation plan (“SIP”) setting emission control requirements, some of which regulate the inspection and use of automobiles. These types of measures could impact how people travel, what distances people are willing to travel, where people choose to live and work, and what jobs are available in the HGB area. It is possible that additional controls will be necessary to allow the HGB area to reach attainment by the EPA’s attainment deadlines. These additional controls could have a negative impact on the HGB area’s economic growth and development.

***Water Supply & Discharge Issues:*** Water supply and discharge regulations that 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 the TCEQ’s Water Supply Division, a municipal utility district’s provision of water for human consumption is subject to extensive regulation as a public water system. Municipal utility districts must generally provide treated water that meets the primary and secondary drinking water quality standards adopted by the TCEQ, the applicable disinfectant residual and inactivation standards, and the other regulatory action levels established under the agency’s rules. The 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. The TCEQ reissued the TPDES Construction General Permit (TXR150000) on February 19, 2013. The TPDES Construction General Permit became effective on March 5, 2013, and is a general permit authorizing the discharge of stormwater runoff associated with small and large construction sites and certain nonstormwater discharges into surface water in the state. It has a 5year permit term, and is then subject to renewal. 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 municipal utility districts may discharge may have an impact on the municipal 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 became effective on August 28, 2015. On October 9, 2015, the United States Court of Appeals for the Sixth Circuit (“Sixth Circuit”) put the CWR on hold nationwide. On June 27, 2017, the EPA and the USACE released a proposed rule rescinding the CWR and reinstating language in place before 2015 changes which broadened the EPA’s jurisdiction. The proposed rule will be published in the Federal Register and is then subject to a 30day public comment period prior to final publication. If the CWR is not rescinded, operations of municipal utility districts, including the District, are potentially subject to additional restrictions and requirements, including permitting requirements, if construction or maintenance activities require the dredging, filling or other physical alteration of jurisdictional waters of the United States or associated wetlands that are within the “waters of the United States.”

The TCEQ renewed the General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the “MS4 Permit”) on December 11, 2013. The MS4 Permit authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems (“MS4s”). The renewed MS4 Permit impacts a much greater number of MS4s that were not previously subject to the MS4 Permit and contains more stringent requirements than the standards contained in the previous MS4 Permit. The District, along with all other Sienna Plantation districts, applied for authorization under the renewed MS4 Permit in accordance with the June 11, 2014 deadline, and the District’s Notice of Intent and draft plan is currently under review by the TCEQ. It is anticipated that the District could incur substantial costs to develop and implement the required 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 renewed MS4 Permit.

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

On May 27, 2015, the EPA and the United States Army Corps of Engineers (“USACE”) jointly issued a final version of the Clean Water Rule (“CWR”), which expands the scope of the federal government’s CWA jurisdiction over intrastate water bodies and wetlands. The final rule became effective August 28, 2015. 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 waterway, which could



negatively impact development in the District. Challenges to the CWR have been filed in ten federal district courts, including the Southern District of Texas.

There are areas within the District that have potential jurisdictional wetlands that may be submitted to USACE for individual permits. Additionally, there are areas within the District where a habitat management plan is being developed. Any failure to obtain such permits, adverse permit conditions or delay by the USACE to obtain necessary permits could negatively affect development of the District.

### **Future Debt**

After the sale of the Bonds, the District will have \$440,000 in authorized but unissued unlimited tax and revenue bonds. The District has the right to issue such bonds and such additional bonds as may hereafter be approved by both the Board and voters of the District. The remaining authorized but unissued bonds may be issued by the District from time to time as needed. The District has no plans to issue additional debt within the next twelve months. The District may consider holding a bond election within the next year.

### **Continuing Compliance with Certain Covenants**

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

### **Marketability**

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

### **Production of Net Revenues**

The Net Revenues, if any, to be derived from the operation of the System are entirely dependent upon sales of water and sewer services to current and future residents and users of the System and related operating expenses. The District does not expect that the operation of the System will produce Net Revenues sufficient to make a significant contribution, if any, to the District’s debt service requirements. An audit of the District’s accounts for the fiscal year ended December 31, 2016, is included as “APPENDIX A” to this Official Statement. See “THE SYSTEM—Historical Operations of the General Operating Fund.”

### **Hurricane Harvey**

The Houston area, including Harris County, sustained widespread wind and rain damage and flooding as a result of Hurricane Harvey’s landfall along the Texas gulf coast on August 25, 2017 and historic levels of rainfall during the succeeding four days. According to the District’s operator, the District’s System did not sustain any significant damage and there was no interruption of water and sewer service. Further, there was no significant impact on homes within the District.

On or about August 23, 2017, in anticipation of Harvey’s landfall, Governor Greg Abbott issued a proclamation declaring a state of disaster in numerous counties located along the Texas gulf coast, including Harris County. The Texas Tax Code provides that the governing body of a taxing unit located within an area declared to be a disaster area by the governor of the State of Texas may authorize reappraisal of all property damaged in the disaster at its market value immediately after the disaster. At this time, the Board of Directors of the District has not authorized a reappraisal of property located

within the District. The District is not bound by a reappraisal of property that is authorized by another taxing unit and not authorized by the District.

Hurricane Harvey is expected to have a significant short-term impact on the Houston region's economy. It may also have an adverse long-term impact on business activity and development in the region, especially if further destructive weather events occur in the near term.

The greater Houston area is prone to extreme weather events such as Hurricane Harvey. The District cannot predict the effect that additional extreme weather events may have upon the District. Additional extreme weather events have the potential to cause damage within the District that could have a negative effect on taxable assessed valuations in the District which could cause tax rates to rise to levels significantly in excess of the rates associated with other jurisdictions. See "RISK FACTORS – Overlapping Tax Rates."

## **LEGAL MATTERS**

### **Legal Opinions**

The District will furnish the Underwriter a transcript of certain certified proceedings held incident to the authorization and issuance of the Bonds, including a certified copy of the approving opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Bonds are valid and legally binding obligations of the District, payable from the proceeds of an annual ad valorem tax levied, without limit as to rate or amount, upon all taxable property in the District. The District will also furnish the legal opinion of Sanford Kuhl Hagan Kugle Parker Kahn LLP, Houston, Texas, Bond Counsel, to the effect that, based upon an examination of such transcript, the Bonds are legal, valid and binding obligations of the District payable from the sources and enforceable in accordance with the terms and conditions described therein, except to the extent the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with all general principles of equity, and are payable from annual ad valorem taxes, which are not limited by applicable law in rate or amount, levied against all property within the District which is not exempt from taxation by or under applicable law. Issuance of the Bonds is also subject to the legal opinion of Bond Counsel to the effect that interest on the Bonds is excludable from gross income for federal income tax purposes under existing statutes, regulations, published rulings and court decisions as described below under "TAX EXEMPTION". Such opinions will express no opinions with respect to the sufficiency and security for or the marketability of the Bonds.

In addition to serving as Bond Counsel, Sanford Kuhl Hagan Kugle Parker Kahn LLP also acts as general counsel to the District on matters other than the issuance of bonds.

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

### **Legal Review**

Bond Counsel has reviewed the information appearing in this Official Statement under the captioned sections: "THE BONDS" (except for the subsections "–Book-Entry Only System" and "Bankruptcy Limitations to Registered Owners' Rights"), "TAX PROCEDURES," "LEGAL MATTERS–Legal Opinions," "LEGAL MATTERS–Legal Review," "TAX EXEMPTION" and "CONTINUING DISCLOSURE OF INFORMATION" (except for the subsection "Compliance With Prior Undertakings"), solely to determine whether such information fairly summarizes matters of law with respect to the provisions of the documents referred to therein. Bond Counsel has not, however, independently verified any of the factual information contained in this Official Statement, nor has it conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for, or an expression of opinion of

any kind with regard to, the accuracy or completeness of any of the information contained herein, other than the matters discussed immediately above.

### **No-Litigation Certificate**

The District will furnish the Underwriter a certificate, dated as of the date of delivery of the Bonds, executed by both the President and Secretary of the Board, to the effect that no litigation of any nature is then pending against or, to the best knowledge of the certifying officers, threatened against the District contesting or attacking the Bonds or the Bond Order; restraining or enjoining the authorization, execution or delivery of the Bonds; affecting the provisions made for the payment of or security for the Bonds; in any manner questioning the authority of proceedings for the authorization, execution or delivery of the Bonds; or affecting the validity of the Bonds, the Bond Order, the corporate existence or boundaries of the District or the titles of the then present officers of the Board.

### **No Material Adverse Change**

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

## **TAX EXEMPTION**

The delivery of the Bonds is subject to an opinion of Bond Counsel, to the effect that assuming continuing compliance by the District with the provisions of the Bond Order subsequent to the issuance of the Bonds pursuant to Section 103 of the Internal Revenue Code as amended (the "Code") and existing regulations, published rulings, and court decisions, interest on the Bonds (a) is excludable from the gross income of the owners thereof for federal income tax purposes, and (b) will not be subject to the alternative minimum tax imposed upon individuals or, except to the extent described below, corporations. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change.

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

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

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

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

### **Proposed Tax Legislation**

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

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

The initial public offering price of the Bonds maturing in the years 2026 through 2037, inclusive (the "Discount Bonds"), are less than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bond. A portion of such original issue discount, allocable to the holding period of such Discount Bond by the initial purchaser, will, upon the disposition of such Discount Bond (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes on the same terms and conditions as those for other interest on the Bonds described above under "TAX EXEMPTION." Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest at the yield to maturity on such Discount Bond, and generally will be allocated to an original purchaser in a different amount from the amount of the payment denominated as interest actually received by the original purchaser during the tax year.

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

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination for federal income tax purposes of accrued interest upon disposition of Discount Bonds and with respect to the state and local tax

consequences of owning Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The initial public offering price of the Bonds maturing in the years 2019 through 2025, inclusive (the "Premium Bonds"), are greater than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Discount Bond. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon the sale or other taxable disposition of a Premium Bond. Generally, no corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium, with respect to a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity. Purchasers of Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium with respect to the Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning Premium Bonds.

### **Qualified Tax-Exempt Obligations**

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

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

## **CONTINUING DISCLOSURE OF INFORMATION**

The District, in the Bond Order, has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors. This information will be available free of charge from the Municipal Securities Rule Making Board ("MSRB") via the Electronic Municipal Market Access ("EMMA") system at [www.emma.msrb.org](http://www.emma.msrb.org).

### **Annual Reports**

The District will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement under the headings "SUMMARY—Financial Highlights;" "DEVELOPMENT OF THE DISTRICT;" "DISTRICT DEBT—Estimated Overlapping Debt" and

“–Historical Operations of the Debt Service Fund;” “TAX DATA–Tax Collection History,” “–Principal Taxpayers,” “–Estimated Overlapping Taxes,” “–Analysis of Tax Base,” and “–Tax Rate Calculations;” “THE SYSTEM–Historical Operations of the General Operating Fund; and “APPENDIX A–Financial Statements of the District.”

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

The District’s current fiscal year end is December 31. Accordingly, it must provide updated information by June 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 shall notify the MSRB, in a timely manner not in excess of ten business days after the occurrence of the event, of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (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 status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District; (13) the consummation of a merger, consolidation, or acquisition involving the District or the System or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such 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 trustee, if material.

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

### **Availability of Information From EMMA**

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

### **Limitations and Amendments**

The District has agreed to update information and to provide notices of material events only as described above. The District has not agreed to provide other information that may be relevant or material to complete presentation of its

financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

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

### **Compliance with Prior Undertakings**

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

## **PREPARATION OF OFFICIAL STATEMENT**

### **General**

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

### **Consultants**

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

The information contained in this Official Statement relating to assessed valuations of property generally and, in particular, that information concerning historical breakdown of District valuations, principal taxpayers and collection rates contained in the sections captioned "TAX DATA" and "DISTRICT DEBT" has been provided by the Appraisal

District and the District's Tax Assessor/Collector and has been included herein in reliance upon their authority as experts in the field of tax assessing and collecting.

The financial statements contained in "APPENDIX A—Financial Statements of the District" have been included in reliance upon the accompanying report of the District's Auditor.

**Updating the Official Statement**

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

**Certification of Official Statement**

The District, acting through the Board in its official capacity, hereby certifies, as of the date hereof, that the information, statements and descriptions pertaining to the District and its affairs contained herein, to the best of its knowledge and belief, contain no untrue statements of a material fact and do not omit to state any material fact necessary to make the statements herein, in light of the circumstances under which they are made, not misleading. With respect to information included in this Official Statement other than that relating to the District, the Board has no reason to believe that such information contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements herein, in light of the circumstances under which they are made, not misleading; however, the Board can give no assurance as to the accuracy or completeness of the information derived from sources other than the District. This Official Statement is duly certified and approved by the Board of Directors of Northgate Crossing Municipal Utility District No. 1 as of the date specified on the first page hereof.

/s/ Jason Williams  
President, Board of Directors  
Northgate Crossing Municipal  
Utility District No. 1

ATTEST:

/s/ Tracy Wilkerson  
Secretary, Board of Directors  
Northgate Crossing Municipal  
Utility District No. 1



**APPENDIX A—Financial Statements of the District**

NORTHGATE CROSSING  
MUNICIPAL UTILITY DISTRICT NO. 1  
HARRIS COUNTY, TEXAS  
ANNUAL AUDIT REPORT  
DECEMBER 31, 2016

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# Roth & Eyring, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

12702 Century Drive • Suite C2 • Stafford, Texas 77477 • 281-277-9595 • Fax 281-277-9484

April 13, 2017

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Northgate Crossing Municipal  
Utility District No. 1  
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each fund of Northgate Crossing Municipal Utility District No. 1, as of and for the year ended December 31, 2016, which collectively comprise the District's basic financial statements, as listed in the table of contents, and the related notes to the financial statements.

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each fund of Northgate Crossing Municipal Utility District No. 1 as of December 31, 2016, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (Continued)**Other Matters**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on Pages 3 to 8, the Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual, General Fund, on Page 23 and the Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual, Special Revenue Fund, on Page 24 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on Pages 25 to 39 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Except for the portion marked "unaudited," the information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The supplementary information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it. The accompanying supplementary information includes financial data excerpted from prior year financial statements which were audited by our firm.

*North & Cousins, PLLC*

## Management's Discussion and Analysis

### Using this Annual Report

Within this section of the Northgate Crossing Municipal Utility District No. 1 (the "District") annual report, the District's Board of Directors provides narrative discussion and analysis of the financial activities of the District for the fiscal year ended December 31, 2016.

The annual report consists of a series of financial statements plus additional supplemental information to the financial statements as required by its state oversight agency, the Texas Commission on Environmental Quality. In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program. In the District's case, the single governmental program is provision of water and sewer services and the control and diversion of storm water. Other activities, such as security services, are minor activities and are not budgeted or accounted for as separate programs. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented on the left side of the statements, a column for adjustments is to the right of the fund financial statements, and the government-wide financial statements are presented to the right side of the adjustments column. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

#### *Government-Wide Financial Statements*

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

The difference between the District's total assets and total liabilities is labeled as *net position* and this difference is similar to the total owners' equity presented by a commercial enterprise.

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

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

#### *Fund Financial Statements*

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

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

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

Because the focus of the government-wide and fund financial statements are different, there are significant differences between the totals presented in these financial statements. For this reason, there is an analysis in Note 3 of the notes to the financial statements that reconciles the total fund balances to the amount of net position presented in the governmental activities column on the statement of net position. Also, there is an analysis in note 3 of the notes to the financial statements that reconciles the total change in fund balances for all governmental funds to the change in net position as reported in the governmental activities column in the statement of activities.

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

Financial Analysis of the District as a Whole begins with an understanding of how financial resources flow through the District's funds. Resources in the Capital Projects Fund are derived principally from proceeds of the sale of bonds, and expenditures from this fund are subject to the Rules of the Texas Commission on Environmental Quality. Resources in the Debt Service Fund are derived principally from the collection of property taxes and are used for the payment of tax collection costs and bond principal and interest. Resources in the General Fund are derived principally from property taxes and billings for water and sewer services and are used to operate and maintain the system and to pay costs of administration of the District.

Management has financial objectives for each of the District's funds. The financial objective for the Capital Projects Fund is to spend the funds as necessary in accordance with the Rules of the Texas Commission on Environmental Quality. The financial objective for the Debt Service Fund is to levy the taxes necessary to pay the fiscal year debt service requirements plus the cost of levying and collecting taxes, leaving the appropriate fund balance as recommended by the District's financial advisor. The financial objective for the General Fund is to keep the fund's expenditures as low as possible while ensuring that revenues are adequate to cover expenditures and maintaining the fund balance that Management believes is prudent. The financial objective for the Special Revenue Fund is to insure that the expenditures in the fund are billed to the participants in accordance with the contract. Management believes that these financial objectives were met during the fiscal year.

Management believes that the required method of accounting for certain elements of the government-wide financial statements makes the government-wide financial statements as a whole not useful for financial analysis. In the government-wide financial statements, capital assets and depreciation expense have been required to be recorded at historical cost. Management's policy is to maintain the District's capital assets in a condition greater than or equal to the condition required by regulatory authorities, and management does not believe that depreciation expense is relevant to the management of the District. In the government-wide financial statements, certain non-cash costs of long-term debt are capitalized and amortized over the life of the related debt. Management believes that this required method of accounting is not useful for financial analysis of the District and prefers to consider the required cash flows of the debt as reported in the fund statements and the notes to the financial statements. In the government-wide financial statements, property tax revenues are required to be recorded in the fiscal year for which the taxes are levied, regardless of the year of collection. Management believes that the cash basis method of accounting for property taxes in the funds provides more useful financial information.

The following required summaries of the District's overall financial position and operations for the past two years are based on the information included in the government-wide financial statements. For the reasons described in the preceding paragraph, a separate analysis of the summaries is not presented.

Summary of Net Position

	<u>2016</u>	<u>2015</u>	<u>Change</u>
Current and other assets	\$ 5,808,105	\$ 6,841,913	\$ (1,033,808)
Capital assets	4,535,234	4,028,038	507,196
Total assets	<u>10,343,339</u>	<u>10,869,951</u>	<u>(526,612)</u>
Long-term liabilities	7,321,813	7,896,089	(574,276)
Other liabilities	1,015,791	1,691,564	(675,773)
Total liabilities	<u>8,337,604</u>	<u>9,587,653</u>	<u>(1,250,049)</u>
Total deferred inflows of resources	<u>1,538,644</u>	<u>1,145,370</u>	<u>393,274</u>
Net position:			
Invested in capital assets, net of related debt	(3,152,277)	(4,231,312)	1,079,035
Restricted	1,916,809	2,881,560	(964,751)
Unrestricted	1,702,559	1,486,680	215,879
Total net position	<u>\$ 467,091</u>	<u>\$ 136,928</u>	<u>\$ 330,163</u>

Summary of Changes in Net Position

	<u>2016</u>	<u>2015</u>	<u>Change</u>
Revenues:			
Property taxes, including related penalty and interest	\$ 1,200,754	\$ 1,042,872	\$ 157,882
Charges for services	822,537	1,175,440	(352,903)
Other revenues	33,967	9,259	24,708
Total revenues	<u>2,057,258</u>	<u>2,227,571</u>	<u>(170,313)</u>
Expenses:			
Service operations	1,460,492	1,368,692	91,800
Debt service	266,603	271,304	(4,701)
Total expenses	<u>1,727,095</u>	<u>1,639,996</u>	<u>87,099</u>
Change in net position	330,163	587,575	(257,412)
Net position, beginning of year	<u>136,928</u>	<u>(450,647)</u>	<u>587,575</u>
Net position, end of year	<u>\$ 467,091</u>	<u>\$ 136,928</u>	<u>\$ 330,163</u>

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

The District's combined fund balances as of the end of the fiscal year ended December 31, 2016, were \$3,647,439, a decrease of \$751,791 from the prior year.

The General Fund balance increased by \$214,736, in accordance with the District's financial plan.

The Special Revenue Fund balance did not change.

The Debt Service Fund balance increased by \$42,408, in accordance with the District's financial plan.

The Capital Projects Fund balance decreased by \$1,008,935, as authorized expenditures exceeded interest earnings.

#### *General Fund Budgetary Highlights*

The Board of Directors amended the budget during the fiscal year. The original budget adopted by the Board of Directors anticipated an decrease in the fund balance during the year of \$80,034. During the fiscal year, the Board of Directors adopted an amended budget which anticipated a decrease in the fund balance during the year of \$107,534. The changes from the original budget to the final budget were due an increase in projected purchased services expenditures.

The District's budget is primarily a planning tool. Accordingly, actual results varied from the budgeted amounts. A comparison of actual to budgeted amounts is presented on Page 23 of this report. The budgetary fund balance as of December 31, 2016, was expected to be \$1,376,498 and the actual end of year fund balance was \$1,698,768.

### **Capital Asset and Debt Administration**

#### *Capital Assets*

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

	<u>Capital Assets (Net of Accumulated Depreciation)</u>		
	<u>2016</u>	<u>2015</u>	<u>Change</u>
Land	\$ 13,868	\$ 13,868	\$ 0
Construction in progress	38,286	1,049,695	(1,011,409)
Pavilion	77,455	79,770	(2,315)
Water facilities	1,124,851	1,075,181	49,670
Sewer facilities	1,575,440	1,663,319	(87,879)
Drainage facilities	1,705,334	146,205	1,559,129
Totals	<u>\$ 4,535,234</u>	<u>\$ 4,028,038</u>	<u>\$ 507,196</u>

Changes to capital assets during the fiscal year ended December 31, 2016, are summarized as follows:

Additions:		
Improvements at storm water pumping facility		\$ 600,521
Improvements at joint water and sewer facilities		<u>165,282</u>
Total additions to capital assets		765,803
Decreases:		
Depreciation		<u>(258,607)</u>
Net change to capital assets		<u>\$ 507,196</u>

#### *Debt and Commitments*

Changes in the bonded debt position of the District during the fiscal year ended December 31, 2016, are summarized as follows:

Bonded debt payable, beginning of year	\$ 7,855,000
Bonds paid	<u>(370,000)</u>
Bonded debt payable, end of year	<u>\$ 7,485,000</u>

At December 31, 2016, the District had \$7,090,000 of bonds authorized but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage system within the District.



The District's bonds are not rated.

During the fiscal year ended December 31, 2014 the District entered into a four year lease for capacity in the joint sewage treatment plant. The annual payment for this lease is \$67,000. At December 31, 2016, there was one annual payment of \$67,000 due to Northgate Crossing Municipal Utility District No. 2 under the terms of this lease.

Developers within the District have advanced funds for the lease of sewage plant capacity and the purchase of water plant capacity. At December 31, 2016, the amount of the unexpended developer advances held by the District in the General Fund was \$358,628. At this date, developer advances of \$323,296 had been expended and were due to the developers under reimbursement agreements.

## **RELEVANT FACTORS AND WATER SUPPLY ISSUES**

### *Property Tax Base*

The District's tax base increased approximately \$34,300,000 for the 2016 tax year (approximately 32%). This increase was due to the increase in the average assessed valuations on existing property and the addition of taxable property to the tax base.

### *Relationship to the City of Houston*

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston, the District must conform to a City of Houston ordinance consenting to the creation of the District. In addition, the District may be annexed by the City of Houston without the District's consent. If the District is annexed, the City will assume the District's assets and obligations (including the bonded indebtedness) and dissolve the District within ninety (90) days.

Utilizing a provision of Texas law, the City of Houston ("City") and the District entered into a Strategic Partnership Agreement ("SPA") effective as of December 13, 2010. The SPA provides for the limited purpose annexation of certain developed commercial tracts within the District into the City for the limited purposes of imposition of the City's Sales and Use Tax, certain municipal court jurisdictions, and health inspection services and enforcement. No other City services are provided. The properties made subject to the SPA may not be taxed for ad valorem purposes by the City. Additional properties may become subject to the SPA by amending the SPA upon the consent of the City and the District. The SPA provides that the City shall pay to the District one half of all Sales and Use Tax revenues generated within the boundaries of the SPA and received by the City from the Comptroller of Public Accounts of the State of Texas. The term of the SPA is 30 years. During the term of the SPA, the City has agreed not to annex all or part of the District or commence any action to annex all or part of the District for full purposes.

The City has imposed a Sales and Use Tax within the boundaries of the Partial District at the time of the limited-purpose annexation of the Partial District. The Agreement provides that the City shall pay to the District one half of all Sales and Use Tax revenues generated within the boundaries of the Partial District and received by the City from the Comptroller of Public Accounts of the State of Texas.

### *Water Supply Issues*

The District is located within the boundaries of the Harris-Galveston Subsidence District ("Subsidence District") and the North Harris County Regional Water Authority ("NHCRWA"). The NHCRWA was created to provide for conversion of the area within its boundaries from groundwater usage to alternative sources of water supply (e.g., surface water) as required by regulations of the Subsidence District. The NHCRWA covers an area located in northern Harris County and adjacent to the City of Houston. Pursuant to an order of the Subsidence District and the NHCRWA's Groundwater Reduction Plan (as approved by the Subsidence District), the area within the boundaries of the NHCRWA must be converted to at least 30% alternate source (e.g., surface) water use by 2010, 60% alternate source water use by 2025, and 80% alternate source water use by 2035. To implement the required conversion to alternate source water use in accordance with such schedule, the NHCRWA is in the process of designing and constructing and will operate a network of transmission and distribution lines, storage tanks, and pumping stations to transport and distribute water within the NHCRWA (the "NHCRWA System"). In addition, the NHCRWA has entered into a water supply contract to secure a long-term supply of treated surface water from the City of Houston.

The District is subject to the NHCRWA's Groundwater Reduction Plan. The NHCRWA, as part of the plan of financing the NHCRWA System, has elected to allow districts, such as the District, to participate in a pro-rata share of the costs associated with the acquisition and construction of the NHCRWA System (including the costs associated with the acquisition of alternate sources of water supply) by issuing its own debt or using cash on hand, entitling the District to a future credit against pumpage fees due to the NHCRWA. The District has not elected this financing option. As a result, the District has elected to pay its share in the NHCRWA System costs over time through payment of levied pumpage fees to the NHCRWA. The District may be required by the NHCRWA to participate in the groundwater conversion project by converting to surface water some time after January 1, 2010. Noncompliance with the NHCRWA's Groundwater Reduction Plan or nonparticipation in the NHCRWA's surface water conversion project could result in the District's exclusion from the NHCRWA's Groundwater Reduction Plan and assessment of the Subsidence District's disincentive fee against groundwater pumped from wells located within the District.

Groundwater pumped from wells located within the District is not currently subject to the Subsidence District's groundwater disincentive fee. However, groundwater pumped from wells located within the District is subject to a per 1,000 gallon pumpage fee that is assessed and collected by the NHCRWA pursuant to the NHCRWA's Pumpage Fee Order. At December 31, 2016, the pumpage fee was equal to \$2.40 per 1,000 gallons pumped, and is expected to increase in the future. At December 31, 2016, the Authority's surface water usage fee was equal to \$2.85 per 1,000 gallons, and is expected to increase in the future. The issuance of additional bonds by the District in an undetermined amount may be necessary at some time in the future to finance the acquisition and construction of surface water infrastructure (whether such costs are incurred directly by the District or through projects undertaken by the NHCRWA). The NHCRWA has sold four issues of bonds to finance a portion of the costs related to the design, acquisition and construction of the NHCRWA System. The NHCRWA bonds are secured by revenues of the NHCRWA, including the pumpage fee.

NORTHGATE CROSSING MUNICIPAL UTILITY DISTRICT NO. 1

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET

DECEMBER 31, 2016

	<u>General</u>	<u>Special Revenue Fund</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments (Note 3)</u>	<u>Statement of Net Position</u>
<b>ASSETS</b>							
Cash, including interest-bearing accounts, Note 7	\$ 816,298	\$ 14,773	\$ 938,589	\$ 718,880	\$ 2,488,540	\$	\$ 2,488,540
Certificates of deposit, at cost, Note 7	244,580		244,549	240,000	729,129		729,129
Temporary investments, at cost, Note 7	1,005,510		17,283	592,824	1,615,617		1,615,617
Receivables:							
Property taxes	308,955		539,413		848,368		848,368
Accrued penalty and interest on property taxes					0	2,246	2,246
Service accounts	62,162				62,162		62,162
Accrued interest on deposits	198		787	306	1,291		1,291
Other districts		19,422			19,422		19,422
Other	900				900		900
Due from other funds	107,767	16,944			124,711	(124,711)	0
Maintenance taxes collected not yet transferred from other fund	249,141				249,141	(249,141)	0
Prepaid expenditures	6,322				6,322		6,322
Prepaid bond issuance expenditures	4,761				4,761		4,761
Groundwater bank certificates, at cost, Note 13	4,347				4,347		4,347
Operating reserves at joint facilities, Note 9	35,168				35,168	(10,168)	25,000
Capital assets, net of accumulated depreciation, Note 4:							
Capital assets not being depreciated					0	52,154	52,154
Depreciable capital assets					0	4,483,080	4,483,080
<b>Total assets</b>	<b><u>\$ 2,846,109</u></b>	<b><u>\$ 51,139</u></b>	<b><u>\$ 1,740,621</u></b>	<b><u>\$ 1,552,010</u></b>	<b><u>\$ 6,189,879</u></b>	<b><u>4,153,460</u></b>	<b><u>10,343,339</u></b>
<b>LIABILITIES</b>							
Accounts payable	\$ 129,588	\$ 32,652	\$ 1,797		\$ 164,037		164,037
Accrued interest payable					0	20,996	20,996
Customer deposits	78,883				78,883		78,883
Developer advances for construction, Note 5	358,628				358,628		358,628
Due to other district				19,230	19,230		19,230
Due to other funds	16,944			107,767	124,711	(124,711)	0
Maintenance taxes collected not yet transferred to other fund			249,141		249,141	(249,141)	0
Other district equity in joint venture					0	8,319	8,319
Long-term liabilities, Note 5:							
Due within one year					0	365,698	365,698
Due in more than one year					0	7,321,813	7,321,813
<b>Total liabilities</b>	<b><u>584,043</u></b>	<b><u>32,652</u></b>	<b><u>250,938</u></b>	<b><u>126,997</u></b>	<b><u>994,630</u></b>	<b><u>7,342,974</u></b>	<b><u>8,337,604</u></b>
<b>DEFERRED INFLOWS OF RESOURCES</b>							
Property tax revenues	<u>563,298</u>	<u>0</u>	<u>984,512</u>	<u>0</u>	<u>1,547,810</u>	<u>(9,166)</u>	<u>1,538,644</u>
<b>FUND BALANCES / NET POSITION</b>							
<b>Fund balances:</b>							
<b>    Nonspendable:</b>							
Operating reserve at joint facilities, Note 9	35,168				35,168	(35,168)	0
Possible future maintenance expenditures, Note 10	50,000				50,000	(50,000)	0
Groundwater bank certificates, Note 13	4,347				4,347	(4,347)	0
<b>    Assigned to:</b>							
Operating reserve at joint facilities, Note 9		18,487			18,487	(18,487)	0
Debt service			505,171		505,171	(505,171)	0
Capital projects				1,425,013	1,425,013	(1,425,013)	0
Unassigned	1,609,253				1,609,253	(1,609,253)	0
<b>Total fund balances</b>	<b><u>1,698,768</u></b>	<b><u>18,487</u></b>	<b><u>505,171</u></b>	<b><u>1,425,013</u></b>	<b><u>3,647,439</u></b>	<b><u>(3,647,439)</u></b>	<b><u>0</u></b>
<b>Total liabilities, deferred inflows, and fund balances</b>	<b><u>\$ 2,846,109</u></b>	<b><u>\$ 51,139</u></b>	<b><u>\$ 1,740,621</u></b>	<b><u>\$ 1,552,010</u></b>	<b><u>\$ 6,189,879</u></b>		
<b>Net position:</b>							
Invested in capital assets, net of related debt, Note 4						(3,152,277)	(3,152,277)
Restricted for debt service						491,796	491,796
Restricted for capital projects						1,425,013	1,425,013
Unrestricted						1,702,559	1,702,559
<b>Total net position</b>						<b><u>\$ 467,091</u></b>	<b><u>\$ 467,091</u></b>

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

NORTHGATE CROSSING MUNICIPAL UTILITY DISTRICT NO. 1

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES

FOR THE YEAR ENDED DECEMBER 31, 2016

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments (Note 3)	Statement of Activities
<b>REVENUES</b>							
Property taxes	\$ 506,261		\$ 685,849		\$ 1,192,110	\$ 2,504	\$ 1,194,614
Water service	165,064				165,064		165,064
Sewer service	323,240				323,240		323,240
Surface water fees, Note 11	150,683				150,683		150,683
Billings to participants in joint facilities		279,032			279,032	(150,110)	128,922
Penalty, interest and other revenues	35,271		6,342		41,613	(202)	41,411
Tap connection and inspection fees	19,357				19,357		19,357
Sales and Use Taxes, Note 12	21,356				21,356		21,356
Interest on deposits and investments	6,686	18	2,325	3,582	12,611		12,611
<b>Total revenues</b>	<b>1,227,918</b>	<b>279,050</b>	<b>694,516</b>	<b>3,582</b>	<b>2,205,066</b>	<b>(147,808)</b>	<b>2,057,258</b>
<b>EXPENDITURES / EXPENSES</b>							
Service operations:							
Purchased services, Note 9	424,438				424,438	(150,110)	274,328
Professional fees	142,633	18,033	1,859		162,525		162,525
Contracted services	60,928	3,900	16,219		81,047		81,047
Utilities	2,857	6,090			8,947		8,947
Sewer plant capacity lease, Note 9	67,000				67,000		67,000
Repairs, maintenance and other operating expenditures	117,682	167,700			285,382		285,382
Security service	85,682	70,490			156,172		156,172
Garbage disposal	64,084				64,084		64,084
Administrative expenditures	70,140	12,837	3,675		86,652		86,652
Depreciation					0	258,607	258,607
Capital outlay / non-capital outlay	85,738			1,012,517	1,098,255	(1,091,803)	6,452
Debt service:							
Principal retirement			370,000		370,000	(370,000)	0
Interest and fees	9,296		260,355		269,651	6,248	275,899
<b>Total expenditures / expenses</b>	<b>1,130,478</b>	<b>279,050</b>	<b>652,108</b>	<b>1,012,517</b>	<b>3,074,153</b>	<b>(1,347,058)</b>	<b>1,727,095</b>
Excess (deficiency) of revenues over expenditures	97,440	0	42,408	(1,008,935)	(869,087)	1,199,250	330,163
<b>OTHER FINANCING SOURCES (USES)</b>							
Developer advances, Note 5	117,296				117,296	(117,296)	0
<b>Total other financing sources (uses)</b>	<b>117,296</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>117,296</b>	<b>(117,296)</b>	<b>0</b>
<b>Net change in fund balances / net position</b>	<b>214,736</b>	<b>0</b>	<b>42,408</b>	<b>(1,008,935)</b>	<b>(751,791)</b>	<b>1,081,954</b>	<b>330,163</b>
Beginning of year	1,484,032	18,487	462,763	2,433,948	4,399,230	(4,262,302)	136,928
<b>End of year</b>	<b>\$ 1,698,768</b>	<b>\$ 18,487</b>	<b>\$ 505,171</b>	<b>\$ 1,425,013</b>	<b>\$ 3,647,439</b>	<b>\$ (3,180,348)</b>	<b>\$ 467,091</b>

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

NORTHGATE CROSSING MUNICIPAL UTILITY DISTRICT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016

NOTE 1: REPORTING ENTITY

Northgate Crossing Municipal Utility District No. 1 (the "District") was created by Acts of the 69th Legislature, State of Texas, effective June 15, 1985, and operates in accordance with Texas Water Code Chapters 49 and 54. The District is a political subdivision of the State of Texas, governed by an elected five member Board of Directors. The Board of Directors held its first meeting on July 9, 1985 and the first bonds were sold on December 20, 1988. The District is subject to the continuing supervision of the Texas Commission on Environmental Quality.

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. In addition, the District is empowered, if approved by the electorate, the Texas Commission on Environmental Quality and other governmental entities having jurisdiction, to establish, operate and maintain a fire department, either independently or jointly with certain other districts.

In evaluating how to define the District for financial reporting purposes, the Board of Directors of the District has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities.

As further described in Note 9, the District has contracted with Northgate Crossing Municipal Utility District No. 2 ("No. 2") for the construction and operation of joint storm water detention and pumping facilities (the "Storm Water Facilities"). The District is the manager of the Storm Water Facilities. Oversight of the Storm Water Facilities is exercised by the Board of Directors of the District and financial activity of the Storm Water Facilities has been included in the financial statements of the District. The Storm Water Facilities' operations have been reported as the Special Revenue Fund of the District.

As further described in Note 9, the District has contracted with No. 2 for the construction and operation of joint water supply and wastewater treatment facilities (the "Water and Sewer Joint Facilities"). Oversight of the Water and Sewer Joint Facilities is exercised by the Board of Directors of No. 2. Based on the criteria described above, the Water and Sewer Joint Facilities' financial activity has not been included in the District's financial statements as a component unit of the District. Transactions with this joint venture are described in Note 9.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES**

The District's financial statements are prepared in accordance with generally accepted accounting principles ("GAAP"). The Governmental Accounting Standards Board (the "GASB") is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989 (when applicable), that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the District are discussed below.

Basic Financial Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and governmental fund financial statements (reporting the District's funds). Because the District is a single-program government as defined by the GASB, the District has combined the government-wide statements and the fund financial statements using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column on the face of the financial statements. An additional reconciliation between the fund and the government-wide financial data is presented in Note 3.

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. The effect of interfund activity has been removed from these statements. The District's net position is reported in three parts – invested in capital assets, net of related debt; restricted net position; and unrestricted net position. The government-wide statement of activities reports the components of the changes in net position during the reporting period.

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for in a separate set of self-balancing accounts that comprises its assets, liabilities, fund balances, revenues and expenditures and changes in fund balances. The District's fund balances are reported as nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balances are either not in spendable form or are contractually required to remain intact. Restricted fund balances include amounts that can only be used for the specific purposes stipulated by constitutional provisions, external resource providers or enabling legislation. Committed fund balances include amounts that can only be used for the specific purposes determined by formal action of the District's Board of Directors. Assigned fund balances are intended for a specific purpose but do not meet the criteria to be classified as restricted or committed. Unassigned fund balance is the residual classification for the District's General Fund and includes all spendable amounts not contained in the other classifications. The transactions of the District are accounted for in the following funds:

General Fund -- To account for all revenues and expenditures not required to be accounted for in other funds.

Special Revenue Fund -- To account for all revenues and expenditures of the general operations of the joint storm water pumping facilities.

Debt Service Fund – To account for the accumulation of financial resources for, and the payment of, bond principal and interest, paid principally from property taxes levied by the District.

Capital Projects Fund – To account for financial resources designated to construct or acquire capital assets. Such resources are derived principally from proceeds of the sale of bonds.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### Basis of Accounting

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting which recognizes all long-term assets and receivables as well as long-term debt and obligations. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Ad valorem property taxes are recognized as revenues in the fiscal year for which they have been levied and related penalties and interest are recognized in the fiscal year in which they are imposed. An allowance for uncollectibles is estimated for delinquent property taxes and reported separately in the financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred except for principal and interest on bonds payable which are recorded only when payment is due.

### Interfund Activity

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is reported as interfund receivables or payables, as appropriate, as are all other outstanding balances between funds. Operating transfers between funds represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

### Receivables

Service accounts receivable as reported are considered collectible. The District uses the direct write off method for uncollectible service accounts. Unbilled water and sewer revenues are not material and are not recorded at year end. The District considers service accounts revenues to be available if they are to be collected within 60 days after the end of the fiscal year.

In the fund financial statements, ad valorem taxes and penalties and interest are reported as revenues in the fiscal year in which they become available to finance expenditures of the fiscal year for which they have been levied. Property taxes which have been levied and are not yet collected (or have been collected in advance of the fiscal year for which they have been levied) are recorded as deferred inflow of resources. Property taxes collected after the end of the fiscal year are not included in revenues.

### Capital Assets

Capital assets, which include property, plant, equipment, and immovable public domain or "infrastructure" assets are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 (including installation costs, if any, and associated professional fees) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed by the District. Donated capital assets are recorded at historical cost. Additions, improvements and other capital outlays that significantly extend the useful life of an asset or increase the value of an asset are capitalized. Costs incurred for repairs and maintenance are expensed as incurred.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

Plant and equipment	10-45 years
Underground lines	45 years

Long-term Liabilities

Long-term debt and other long-term obligations are reported in the government-wide financial statements. Bond premiums and discounts, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable premium or discount. If bonds are refunded and the carrying amount of the new debt is different than the net carrying amount of the old debt, the difference is netted against the new debt and amortized using the effective interest method over the shorter of the remaining life of the refunded debt or the life of the new debt issued.

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

**NOTE 3: RECONCILIATION OF FUND TO GOVERNMENT-WIDE FINANCIAL STATEMENTS**

Reconciliation of year end fund balances to net position:

Total fund balances, end of year		\$ 3,647,439
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Total capital assets, net		4,535,234
Some long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:		
Bonds payable	\$ (7,485,000)	
Less: Deferred charge on refunding (to be amortized as interest expense)	5,462	
Less: Issuance discount net of premium (to be amortized as interest expense)	115,323	
Due to developers	<u>(323,296)</u>	(7,687,511)
The assets in the Special Revenue Fund are owned by the District and other participants in the joint venture:		
The District's equity	(10,168)	
Other participants' equity	<u>(8,319)</u>	(18,487)
Some receivables that do not provide current financial resources are not reported as receivables in the funds:		
Accrued penalty and interest on property taxes receivable	2,246	
Uncollected property taxes	<u>9,166</u>	11,412
Some liabilities that do not require the use of current financial resources are not reported as liabilities in the funds:		
Accrued interest		<u>(20,996)</u>
Net position, end of year		<u>\$ 467,091</u>



NOTES TO THE FINANCIAL STATEMENTS (Continued)

Reconciliation of net change in fund balances to change in net position:

Total net change in fund balances		\$ (751,791)
<p>The funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:</p>		
Capital outlay	\$ 1,091,803	
Depreciation	<u>(258,607)</u>	833,196
<p>The issuance of long-term debt provides current financial resources to the funds, while the repayment of the principal of long-term debt consumes the current financial resources of the funds. Neither transaction, however, has any effect on net position. The effect of these differences in the treatment of long-term debt:</p>		
Developer advances	(117,296)	
Principal reduction	<u>370,000</u>	252,704
<p>The funds report the effect of bond premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of these items:</p>		
Refunding charges	(1,023)	
Issuance discount net of premium	<u>(5,842)</u>	(6,865)
<p>Some revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in the funds:</p>		
Accrued penalty and interest on property taxes receivable	(202)	
Uncollected property taxes	<u>2,504</u>	2,302
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds:</p>		
Accrued interest		<u>617</u>
Change in net position		<u>\$ 330,163</u>

NOTE 4: CAPITAL ASSETS

At December 31, 2016, "Invested in capital assets, net of related debt" was \$(3,152,277). This amount was negative primarily because not all expenditures from bond proceeds (such as bond issuance costs) were for the acquisition of capital assets. Within Harris County, the county government assumes the maintenance and other incidents of ownership of most storm sewer facilities constructed by the District. Accordingly, these assets are not recorded in the financial statements of the District. In addition, some expenditures from bond proceeds were for the acquisition of capital assets beneath the capitalization threshold of \$5,000 (see Note 2) and some authorized expenditures were not for capital assets.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Capital asset activity for the fiscal year ended December 31, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 13,868	\$	\$	\$ 13,868
Construction in progress	<u>1,049,695</u>	<u>638,807</u>	<u>1,650,216</u>	<u>38,286</u>
Total capital assets not being depreciated	<u>1,063,563</u>	<u>638,807</u>	<u>1,650,216</u>	<u>52,154</u>
Depreciable capital assets:				
Pavilion	86,405			86,405
Water system	2,109,930	126,996		2,236,926
Sewer system	2,879,583			2,879,583
Drainage system	<u>956,603</u>	<u>1,650,216</u>		<u>2,606,819</u>
Total depreciable capital assets	<u>6,032,521</u>	<u>1,777,212</u>	<u>0</u>	<u>7,809,733</u>
Less accumulated depreciation for:				
Pavilion	(6,635)	(2,315)		(8,950)
Water system	(1,034,749)	(77,325)		(1,112,074)
Sewer system	(1,216,264)	(87,879)		(1,304,143)
Drainage system	<u>(810,398)</u>	<u>(91,088)</u>		<u>(901,486)</u>
Total accumulated depreciation	<u>(3,068,046)</u>	<u>(258,607)</u>	<u>0</u>	<u>(3,326,653)</u>
Total depreciable capital assets, net	<u>2,964,475</u>	<u>1,518,605</u>	<u>0</u>	<u>4,483,080</u>
Total capital assets, net	<u>\$ 4,028,038</u>	<u>\$ 2,157,412</u>	<u>\$ 1,650,216</u>	<u>\$ 4,535,234</u>
Changes to capital assets:				
Capital outlay		\$ 1,091,803	\$	
Assets transferred to depreciable assets		1,650,216	1,650,216	
Decrease in liability for purchase of water plant capacity		(326,000)		
Less depreciation expense for the fiscal year		<u>(258,607)</u>		
Net increases / decreases to capital assets		<u>\$ 2,157,412</u>	<u>\$ 1,650,216</u>	

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 5: LONG-TERM LIABILITIES AND CONTINGENT LIABILITIES

Long-term liability activity for the fiscal year ended December 31, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Bonds payable	\$ 7,855,000	\$	\$ 370,000	\$ 7,485,000	\$ 375,000
Add (less) deferred amounts:					
For issuance					
(discounts) net of premiums	(121,165)		(5,842)	(115,323)	(8,475)
For refunding	<u>(6,485)</u>		<u>(1,023)</u>	<u>(5,462)</u>	<u>(827)</u>
Total bonds payable	<u>7,727,350</u>	<u>0</u>	<u>363,135</u>	<u>7,364,215</u>	<u>365,698</u>
Due to developers for advances (see below)	206,000	117,296		323,296	-----
Due to other district for water plant capacity (see below)	<u>326,000</u>		<u>326,000</u>	<u>0</u>	<u>-----</u>
Total due to developers	<u>532,000</u>	<u>117,296</u>	<u>326,000</u>	<u>323,296</u>	<u>0</u>
Total long-term liabilities	<u>\$ 8,259,350</u>	<u>\$ 117,296</u>	<u>\$ 689,135</u>	<u>\$ 7,687,511</u>	<u>\$ 365,698</u>

Developer Construction Commitments and Liabilities

Developers within the District have advanced \$681,924 for the lease of sewage plant capacity and the purchase of water plant capacity described in the following paragraphs. \$117,296 of these advances were used for capacity payments during the year. As of December 31, 2016, \$323,296 of the advances had been expended and the amount of the unexpended developer advances held by the District in the General Fund was \$358,628.

During the fiscal year ended December 31, 2014, the District entered into a four year lease for capacity in the joint sewage treatment plant. The annual payment for this lease is \$67,000. At December 31, 2016, there was one annual payment of \$67,000 due under the terms of this lease. As this lease is considered an operating lease, no liability for the future payments has been recorded.

During the fiscal year ended December 31, 2014, the District purchased additional capacity in the joint water plants for \$380,000. The contract states that the District will pay \$36,000 per year for four years and a balloon payment at the end of the four year term. \$27,000 of each \$36,000 payment will be applied to principal reduction. The District paid the balance due on this purchase during the year ended December 31, 2016, with \$285,000 of the District's funds and \$50,296 from developer advances. \$41,000 of the developer advances was for principal and \$9,296 was for interest.

Bonds voted	\$ 18,890,000
Bonds approved for sale and sold	11,800,000
Bonds voted and not issued	7,090,000

The bonds are payable from the proceeds of an ad valorem tax levied upon all property subject to taxation within the District, without limitation as to rate or amount. The Series 2014 bonds are further payable and secured by a pledge of and lien on certain net revenues, if any, of the District's system.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

As of December 31, 2016, the debt service requirements on the bonds outstanding were as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 375,000	\$ 251,956	\$ 626,956
2018	390,000	244,454	634,454
2019	405,000	236,168	641,168
2020	425,000	226,447	651,447
2021	435,000	214,761	649,761
2022 - 2026	2,390,000	854,686	3,244,686
2027 - 2031	2,495,000	428,188	2,923,188
2032	<u>570,000</u>	<u>24,225</u>	<u>594,225</u>
	<u>\$ 7,485,000</u>	<u>\$ 2,480,885</u>	<u>\$ 9,965,885</u>

The bond issues payable at December 31, 2016, were as follows:

	<u>Refunding Series 2012</u>	<u>Series 2014</u>
Amounts outstanding, December 31, 2016	\$3,985,000	\$3,500,000
Interest rates	2.00% to 3.375%	3.65% to 4.25%
Maturity dates, serially beginning/ending	December 1, 2017/2025	December 1, 2026/2032
Interest payment dates	June 1/December 1	June 1/December 1
Callable dates	December 1, 2020*	December 1, 2022*

\*Or any date thereafter at the option of the District, at a price of par plus accrued interest to the date of redemption.

**NOTE 6: PROPERTY TAXES**

The Harris County Appraisal District has the responsibility for appraising property for all taxing units within the county as of January 1 of each year, subject to review and change by the county Appraisal Review Board. The appraisal roll, as approved by the Appraisal Review Board, must be used by the District in establishing its tax roll and tax rate. The District's taxes are usually levied in the fall, are due when billed and become delinquent after January 31 of the following year or 30 days after the date billed, whichever is later. On January 1 of each year, a statutory tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed for the year on the property.

The Bond Order requires that the District 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.

At an election on August 10, 1985, the voters within the District authorized a maintenance tax, without limitation as to rate or amount, on all property within the District subject to taxation. This maintenance tax is being used by the General Fund to pay expenditures of operating the District.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

On November 10, 2016, the District levied the following ad valorem taxes for the 2016 tax year and the 2017 fiscal year on the adjusted taxable valuation of \$139,876,661:

	<u>Rate</u>	<u>Amount</u>
Debt service	\$ 0.7000	\$ 979,137
Maintenance	<u>0.4000</u>	<u>559,507</u>
	<u>\$ 1.1000</u>	<u>\$ 1,538,644</u>

A reconciliation of the tax levy to property tax revenues on the Statement of Activities is as follows:

2016 tax year total property tax levy	\$ 1,538,644
2016 tax year total property tax levy deferred to 2017 fiscal year	(1,538,644)
2015 tax year total property tax levy deferred to 2016 fiscal year	1,145,370
Appraisal district adjustments to prior year taxes	<u>49,244</u>
Statement of Activities property tax revenues	<u>\$ 1,194,614</u>

**NOTE 7: DEPOSITS AND TEMPORARY INVESTMENTS**

The District complied with the requirements of the Public Funds Investment Act during the current fiscal year including the preparation of quarterly investment reports required by the Act.

State statutes authorize the District to invest and reinvest in direct or indirect obligations of the United States, the State of Texas, any county, city, school district, or other political subdivision of the state, or in local government investment pools authorized under the Public Funds Investment Act. Funds of the District may be placed in certificates of deposit of state or national banks or savings and loan associations within the state provided that they are secured in the manner provided for the security of the funds under the laws of the State of Texas. In accordance with the District's investment policies, during the current year the District's funds were invested in interest bearing accounts at authorized financial institutions and in TexPool, a local government investment pool sponsored by the State Comptroller. TexPool is rated AAAM by Standard & Poor's.

In accordance with state statutes and the District's investment policies, the District requires that insurance or security be provided by depositories for all funds held by them. At the balance sheet date, the carrying amount of the District's deposits was \$3,217,669 and the bank balance was \$3,038,706. Of the bank balance, \$1,398,154 was covered by federal insurance, \$1,371,347 was covered by a letter of credit in favor of the District issued by the Federal Home Loan Bank of Atlanta, and \$269,205 was covered by the market value of collateral held by the District's custodial bank in the District's name. The market value of collateral was reported to the District by the depository.

At the balance sheet date the carrying value and market value of the investments in TexPool was \$1,615,617.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Deposits and temporary investments restricted by state statutes and the Bond Orders:

Debt Service Fund

For payment of debt principal and interest,  
paying agent fees and costs of assessing and  
collecting taxes:

Cash	\$ 938,589
Certificates of deposit	244,549
Temporary investments	<u>17,283</u>
	<u>\$ 1,200,421</u>

Capital Projects Fund

For construction of capital assets:

Cash	\$ 718,880
Certificates of deposit	240,000
Temporary investments	<u>592,824</u>
	<u>\$ 1,551,704</u>

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; personal injuries and natural disasters. Significant losses are covered by insurance as described below. There were no significant reductions in insurance coverage from the prior fiscal year. There have been no settlements which have exceeded the insurance coverage for each of the past three fiscal years.

At December 31, 2016, the District had physical damage and boiler and machinery coverage of \$5,850,000, comprehensive general liability coverage with a per occurrence limit of \$1,000,000 and \$3,000,000 general aggregate, pollution liability coverage of \$1,000,000, umbrella liability coverage of \$2,000,000, worker's compensation coverage of \$1,000,000, consultant's crime coverage of \$50,000 and a tax assessor-collector bond of \$10,000.

NOTE 9: JOINT FACILITIES AGREEMENT

On October 11, 1996, the District and Northgate Crossing Municipal Utility District No. 2 ("No. 2") entered into the Fifth Amended and Restated Joint Facilities Agreement (the "JFA") which superseded the prior agreement. This agreement was amended on October 26, 2003, February 12, 2004, November 10, 2005 and April 30, 2014. The District and No. 2 are working on a revision to the JFA to identify No. 1's capacity allocation with respect to Water Plant 1.

Ownership of the joint wastewater treatment plant facilities under the amended agreement is as follows: No. 1 -- 40.69%, No. 2 -- 59.31%. Oversight of the operation of joint water supply and wastewater treatment facilities (the "Water and Sewer Joint Facilities") is exercised by No. 2. The District's share of the operating costs for this entity was \$274,328 and \$38,287 for capital expenditures for the year ended December 31, 2016. At this date the District had contributed \$25,000 for an operating reserve at the Water and Sewer Joint Facilities. Each participant records its share of the capital assets of the Joint Facilities in its financial statements.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

The JFA further provides that the District is responsible for the oversight of the operation of joint storm water pumping facilities (the "Storm Water Facilities"). Ownership of the joint storm water pumping facilities under the agreement is as follows: No. 1 -- 55.00%, No. 2 -- 45.00%. The Storm Water Facilities' activity has been reported as the Special Revenue Fund of the District. The District's share of the operating costs for this entity was \$150,110 and \$727,516 for capital expenditures for the year ended December 31, 2016. At this date the District had contributed \$10,168 for an operating reserve at the Storm Water Facilities. Each participant records its share of the capital assets of the Joint Facilities in its financial statements.

On April 30, 2014, the District entered into a four year lease to acquire additional capacity in the joint sewage treatment plant from No. 2 at a cost of \$67,000 per year. At December 31, 2016, there was one annual payment of \$67,000 due under the terms of this lease. The lease contains termination provisions whereby the lease may be terminated prior to the end of the four year period.

Under the Fourth Amendment to the JFA effective April 30, 2014, the District purchased additional capacity in the joint water plants for \$380,000. The contract states that the District will pay \$36,000 per year for four years and a balloon payment at the end of the four year term. \$27,000 of each \$36,000 payment will be applied to principal reduction. The District paid the \$326,000 balance due on this purchase during the year ended December 31, 2016.

As described in Note 5, developers within the District have advanced funds for the sewage plant capacity and the purchase of water plant capacity.

### NOTE 10: RESERVE FOR POSSIBLE FUTURE MAINTENANCE EXPENDITURES

On April 23, 1986, the District entered into a contract with Harris County Flood Control District. Under the terms of the contract the District was required to initially reserve \$50,000 for the purposes of meeting its future maintenance responsibilities relative to the various flood control facilities constructed within the District. The amount of the reserve is to be no less than one year's estimated maintenance requirements. The District believes that the \$50,000 presently reserved is adequate for this purpose.

### NOTE 11: REGIONAL WATER AUTHORITY FEES

The North Harris County Regional Water Authority (the "Authority") was created by House Bill 2965, Acts of the 76th Legislature, Regular Session 1999, and was confirmed by an election held on January 15, 2001. The Authority is a political subdivision of the State of Texas, governed by an elected five member Board of Directors. The Authority is empowered to, among other powers, "acquire or develop surface water and groundwater supplies from sources inside of or outside of the boundaries of the authority and may conserve, store, transport, treat, purify, distribute, sell and deliver water to persons, corporations, municipal corporations, political subdivisions of the state, and others, inside of and outside of the boundaries of the authority." The Authority is also empowered to "establish fees and charges as necessary to enable the authority to fulfill the authority's regulatory obligations." In accordance with this provision, as of December 31, 2016, the Authority had established a well pumpage fee of \$2.40 per 1,000 gallons of water pumped from each regulated well. The District's pumpage fees payable to the Authority during the fiscal year were \$122,232, paid through the Water and Sewer Joint Facilities described in Note 9. The District billed its customers \$150,683 during the fiscal year to pay for the District's share of the fees charged by the Authority.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**NOTE 12: STRATEGIC PARTNERSHIP AGREEMENT**

Effective December 13, 2010, the District and the City of Houston (the "City") entered into a 30 year Strategic Partnership Agreement (the "Agreement"). Under the terms of the Agreement, the City annexed a portion of the District (the "Partial District") for the limited purposes of applying the City's Planning, Zoning, Health, and Safety Ordinances within the Partial District. The Agreement states that the District and 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 with the District. The City agreed 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 City imposed a Sales and Use Tax within the boundaries of the Partial District at the time of the limited-purpose annexation of the Partial District. The Agreement provides that the City shall pay to the District one half of all Sales and Use Tax revenues generated within the boundaries of the Partial District and received by the City from the Comptroller of Public Accounts of the State of Texas. The District accrued Sales and Use Tax revenues of \$21,356 from the City for the year ended November 30, 2016, of which \$900 was receivable at that date.

**NOTE 13: GROUNDWATER BANK CERTIFICATES**

The District has purchased Groundwater Bank certificates directly from the issuer, the Harris-Galveston Subsidence District (the "HGSD"). These certificates expire in 20 years and allow the bearer to pump the quantity of water specified on the certificate from wells instead of using surface water as mandated by the HGSD. Certificates can also be used in lieu of a disincentive fee assessed by the HGSD for ground water pumpage in excess of the District's permit, as amended. At December 31, 2016, the District had in its possession certificates totaling 10,584 thousand gallons of water. The District values the certificates at cost which resulted in a total cost basis for the certificates on hand of \$4,347 at December 31, 2016.



NORTHGATE CROSSING MUNICIPAL UTILITY DISTRICT NO. 1

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE, BUDGET AND ACTUAL, GENERAL FUND

FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Property taxes	\$ 452,056	\$ 452,056	\$ 506,261	\$ 54,205
Water service	174,000	174,000	165,064	(8,936)
Sewer service	302,000	302,000	323,240	21,240
Surface water fees	109,200	109,200	150,683	41,483
Penalty and other revenues	0	0	35,271	35,271
Tap connection and inspection fees	0	0	19,357	19,357
Sales and Use Taxes	0	0	21,356	21,356
Interest on deposits and investments	3,100	3,100	6,686	3,586
<b>TOTAL REVENUES</b>	<u>1,040,356</u>	<u>1,040,356</u>	<u>1,227,918</u>	<u>187,562</u>
<b>EXPENDITURES</b>				
Service operations:				
Purchased services	431,904	459,404	424,438	(34,966)
Professional fees	105,600	105,600	142,633	37,033
Contracted services	51,960	51,960	60,928	8,968
Utilities	3,700	3,700	2,857	(843)
Sewer plant capacity lease	0	0	67,000	67,000
Repairs, maintenance and other operating expenditures	116,000	116,000	117,682	1,682
Security service	113,244	113,244	85,682	(27,562)
Garbage disposal	64,282	64,282	64,084	(198)
Administrative expenditures	68,700	68,700	70,140	1,440
Capital outlay	165,000	165,000	85,738	(79,262)
Interest	0	0	9,296	9,296
<b>TOTAL EXPENDITURES</b>	<u>1,120,390</u>	<u>1,147,890</u>	<u>1,130,478</u>	<u>(17,412)</u>
<b>EXCESS REVENUES (EXPENDITURES)</b>	<u>(80,034)</u>	<u>(107,534)</u>	<u>97,440</u>	<u>204,974</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Developer advances	0	0	117,296	117,296
<b>TOTAL OTHER FINANCIAL SOURCES (USES)</b>	<u>0</u>	<u>0</u>	<u>117,296</u>	<u>117,296</u>
<b>EXCESS SOURCES (USES)</b>	<u>(80,034)</u>	<u>(107,534)</u>	<u>214,736</u>	<u>322,270</u>
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<u>1,484,032</u>	<u>1,484,032</u>	<u>1,484,032</u>	<u>0</u>
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ 1,403,998</u>	<u>\$ 1,376,498</u>	<u>\$ 1,698,768</u>	<u>\$ 322,270</u>

The District's Board of Directors adopts an annual nonappropriated budget. This budget may be amended throughout the fiscal year and is prepared on a basis consistent with generally accepted accounting principles.

See accompanying independent auditor's report.

NORTHGATE CROSSING MUNICIPAL UTILITY DISTRICT NO. 1  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE, BUDGET AND ACTUAL, SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
From participants:				
Northgate Crossing Municipal Utility District No. 1	\$ 156,504	\$ 184,004	\$ 128,922	\$ (55,082)
Northgate Crossing Municipal Utility District No. 2	<u>134,153</u>	<u>156,653</u>	<u>150,110</u>	<u>(6,543)</u>
	290,657	340,657	279,032	(61,625)
Interest on deposits	<u>0</u>	<u>0</u>	<u>18</u>	<u>18</u>
<b>TOTAL REVENUES</b>	<u>290,657</u>	<u>340,657</u>	<u>279,050</u>	<u>(61,607)</u>
<b>EXPENDITURES</b>				
Service operations:				
Professional fees	45,025	45,025	18,033	(26,992)
Contracted services	3,900	3,900	3,900	0
Utilities	10,750	10,750	6,090	(4,660)
Repairs, maintenance and other operating expenditures	135,550	185,550	167,700	(17,850)
Security services	82,152	82,152	70,490	(11,662)
Administrative expenditures	13,280	13,280	12,837	(443)
Capital outlay	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL EXPENDITURES</b>	<u>290,657</u>	<u>340,657</u>	<u>279,050</u>	<u>(61,607)</u>
<b>EXCESS REVENUES (EXPENDITURES)</b>	0	0	0	0
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<u>18,487</u>	<u>18,487</u>	<u>18,487</u>	<u>0</u>
<b>FUND BALANCE, END OF YEAR</b>	<u>\$ 18,487</u>	<u>\$ 18,487</u>	<u>\$ 18,487</u>	<u>\$ 0</u>

The District's Board of Directors adopts an annual nonappropriated budget. This budget may be amended throughout the fiscal year and is prepared on a basis consistent with generally accepted accounting principles.

See accompanying independent auditor's report.

NORTHGATE CROSSING MUNICIPAL UTILITY DISTRICT NO. 1  
SCHEDULE OF TEXAS SUPPLEMENTARY INFORMATION  
REQUIRED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY  
DECEMBER 31, 2016

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

- [X] TSI-1. Services and Rates
- [X] TSI-2. General Fund Expenditures
- [X] TSI-3. Temporary Investments
- [X] TSI-4. Taxes Levied and Receivable
- [X] TSI-5. Long-Term Debt Service Requirements by Years
- [X] TSI-6. Changes in Long-Term Bonded Debt
- [X] TSI-7. Comparative Schedule of Revenues and Expenditures -  
General Fund and Debt Service Fund - Five Year
- [X] TSI-8. Board Members, Key Personnel and Consultants

NORTHGATE CROSSING MUNICIPAL UTILITY DISTRICT NO. 1

SCHEDULE OF SERVICES AND RATES

DECEMBER 31, 2016

1. Services Provided by the District during the Fiscal Year:

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

2. Retail Service Providers

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

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1000 Gallons Over Minimum</u>	<u>Usage Levels</u>
WATER:	\$12.50	10,000	N	\$1.50 1.75	10,001 to 20,000 Over 20,000
WASTEWATER:	\$45.00	20,000	N	\$2.50	Over 20,000
SURCHARGE:	\$2.64 per 1,000 gallons of water used. – NHCRWA surface water fees. 0.05% of water and sewer bill. – TCEQ assessment.				

District employs winter averaging for wastewater usage: Yes  No

Total charges per 10,000 gallons usage: Water: \$12.50    Wastewater: \$45.00    Surcharge: \$26.69

NORTHGATE CROSSING MUNICIPAL UTILITY DISTRICT NO. 1

SCHEDULE OF SERVICES AND RATES (Continued)

DECEMBER 31, 2016

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	0	0	1.0	0
< or = 3/4"	389	385	1.0	385
1"	2	0	2.5	0
1-1/2"	2	2	5.0	10
2"	25	21	8.0	168
3"	1	1	15.0	15
4"	1	0	25.0	0
6"	1	1	50.0	50
8"	5	5	80.0	400
10"	1	0	115.0	0
Total Water	<u>427</u>	<u>415</u>		<u>1,028</u>
Total Wastewater	<u>396</u>	<u>392</u>	1.0	<u>392</u>

\*Single family equivalents

3. Total Water Consumption during the Fiscal Year (rounded to thousands):

Gallons pumped into system (unaudited): 186,704 for Northgate Crossing MUD Nos. 1 and 2

Gallons billed to customers (unaudited): 56,635 for Northgate Crossing MUD No. 1  
115,668 for Northgate Crossing MUD No. 2  
172,303 Total

Water Accountability Ratio  
 (Gallons billed/ gallons pumped): 92%

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

Does the District have Debt Service standby fees? Yes  No

If yes, date of the most recent Commission Order: \_\_\_\_\_

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

If yes, date of the most recent Commission Order: \_\_\_\_\_

NORTHGATE CROSSING MUNICIPAL UTILITY DISTRICT NO. 1

EXPENDITURES

FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
<b>CURRENT</b>					
Purchased services:					
Water and sewer services	\$ 152,096	\$	\$	\$	\$ 152,096
Surface water fees billed through joint facilities	122,232				122,232
Storm water pumping station	150,110				150,110
	<u>424,438</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>424,438</u>
Professional fees:					
Auditing	10,600	1,025			11,625
Legal	79,271		1,859		81,130
Landscape architect	16,391				16,391
Engineering	36,371	17,008			53,379
	<u>142,633</u>	<u>18,033</u>	<u>1,859</u>	<u>0</u>	<u>162,525</u>
Contracted services:					
Bookkeeping	19,480	3,900			23,380
Operation and billing	41,448				41,448
Tax assessor-collector			6,168		6,168
Central appraisal district			10,051		10,051
	<u>60,928</u>	<u>3,900</u>	<u>16,219</u>	<u>0</u>	<u>81,047</u>
Utilities	<u>2,857</u>	<u>6,090</u>	<u>0</u>	<u>0</u>	<u>8,947</u>
Sewer plant capacity lease	<u>67,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>67,000</u>
Repairs, maintenance and other operating expenditures	<u>117,682</u>	<u>167,700</u>	<u>0</u>	<u>0</u>	<u>285,382</u>
Security service	<u>85,682</u>	<u>70,490</u>	<u>0</u>	<u>0</u>	<u>156,172</u>
Garbage disposal	<u>64,084</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>64,084</u>
Administrative expenditures:					
Director's fees	29,700				29,700
Office supplies and postage	6,986	626			7,612
Insurance	9,518	12,211	100		21,829
Permits	1,629				1,629
Other	22,307		3,575		25,882
	<u>70,140</u>	<u>12,837</u>	<u>3,675</u>	<u>0</u>	<u>86,652</u>
<b>CAPITAL OUTLAY</b>					
Tap costs	6,452				6,452
Authorized expenditures	79,286			1,012,517	1,091,803
	<u>85,738</u>	<u>0</u>	<u>0</u>	<u>1,012,517</u>	<u>1,098,255</u>
<b>DEBT SERVICE</b>					
Principal retirement	<u>0</u>	<u>0</u>	<u>370,000</u>	<u>0</u>	<u>370,000</u>
Interest and fees:					
Interest	9,296		259,355		268,651
Paying agent fees			1,000		1,000
	<u>9,296</u>	<u>0</u>	<u>260,355</u>	<u>0</u>	<u>269,651</u>
<b>TOTAL EXPENDITURES</b>	<u>\$ 1,130,478</u>	<u>\$ 279,050</u>	<u>\$ 652,108</u>	<u>\$ 1,012,517</u>	<u>\$ 3,074,153</u>

See accompanying independent auditor's report.

NORTHGATE CROSSING MUNICIPAL UTILITY DISTRICT NO. 1

ANALYSIS OF CHANGES IN DEPOSITS AND TEMPORARY INVESTMENTS  
ALL GOVERNMENTAL FUND TYPES

FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
<b>SOURCES OF DEPOSITS AND TEMPORARY INVESTMENTS</b>					
Cash receipts from revenues	\$ 829,752	\$ 270,781	\$ 749,677	\$ 3,276	\$ 1,853,486
Maintenance tax receipts			472,654		472,654
Transfer of maintenance taxes	411,681				411,681
Construction reimbursed by other district				217,716	217,716
Overpayments by taxpayers			<u>13,349</u>		<u>13,349</u>
<b>TOTAL DEPOSITS AND TEMPORARY INVESTMENTS PROVIDED</b>	<u>1,241,433</u>	<u>270,781</u>	<u>1,235,680</u>	<u>220,992</u>	<u>2,968,886</u>
<b>APPLICATIONS OF DEPOSITS AND TEMPORARY INVESTMENTS</b>					
Cash disbursements for:					
Current expenditures	1,135,103	274,128	21,753		1,430,984
Capital outlay	85,738			1,369,333	1,455,071
Debt service			630,355		630,355
Other fund	107,767				107,767
Decrease in customer and tap deposits	15,061				15,061
Disbursements from developer advances	117,296				117,296
Transfer of maintenance taxes			411,681		411,681
Refund of taxpayer overpayments			<u>11,552</u>		<u>11,552</u>
<b>TOTAL DEPOSITS AND TEMPORARY INVESTMENTS APPLIED</b>	<u>1,460,965</u>	<u>274,128</u>	<u>1,075,341</u>	<u>1,369,333</u>	<u>4,179,767</u>
<b>INCREASE (DECREASE) IN DEPOSITS AND TEMPORARY INVESTMENTS</b>	(219,532)	(3,347)	160,339	(1,148,341)	(1,210,881)
<b>DEPOSITS AND TEMPORARY INVESTMENTS BALANCES, BEGINNING OF YEAR</b>	<u>2,285,920</u>	<u>18,120</u>	<u>1,040,082</u>	<u>2,700,045</u>	<u>6,044,167</u>
<b>DEPOSITS AND TEMPORARY INVESTMENTS BALANCES, END OF YEAR</b>	<u>\$2,066,388</u>	<u>\$ 14,773</u>	<u>\$1,200,421</u>	<u>\$ 1,551,704</u>	<u>\$ 4,833,286</u>

See accompanying independent auditor's report.

NORTHGATE CROSSING MUNICIPAL UTILITY DISTRICT NO. 1

SCHEDULE OF CERTIFICATES OF DEPOSIT AND TEMPORARY INVESTMENTS

DECEMBER 31, 2016

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Year End Balance</u>	<u>Accrued Interest Receivable</u>
<b>GENERAL FUND</b>				
Certificates of Deposit				
No. 12754	0.51%	11/03/17	\$ <u>244,580</u>	\$ <u>198</u>
TexPool				
No. 2574900001	Market	On demand	\$ <u>1,005,510</u>	\$ <u>0</u>
<b>DEBT SERVICE FUND</b>				
Certificates of Deposit				
No. 9009003841	0.50%	5/10/17	\$ <u>244,549</u>	\$ <u>787</u>
TexPool				
No. 2574900003	Market	On demand	\$ <u>17,283</u>	\$ <u>0</u>
<b>CAPITAL PROJECTS FUND</b>				
Certificates of Deposit				
No. 1002943272	0.50%	3/28/17	\$ <u>240,000</u>	\$ <u>306</u>
TexPool				
No. 2574900002	Market	On demand	\$ <u>592,824</u>	\$ <u>0</u>
Total – All Funds			\$ <u>2,344,746</u>	\$ <u>1,291</u>

See accompanying independent auditor's report.



NORTHGATE CROSSING MUNICIPAL UTILITY DISTRICT NO. 1

TAXES LEVIED AND RECEIVABLE

FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Maintenance Taxes</u>	<u>Debt Service Taxes</u>
RECEIVABLE, BEGINNING OF YEAR	\$ 201,227	\$ 272,923
Additions and corrections to prior year taxes	<u>20,875</u>	<u>28,369</u>
Adjusted receivable, beginning of year	222,102	301,292
2016 ADJUSTED TAX ROLL	<u>559,507</u>	<u>979,137</u>
Total to be accounted for	781,609	1,280,429
Tax collections: Current tax year	(254,342)	(445,099)
Prior tax years	<u>(218,312)</u>	<u>(295,917)</u>
RECEIVABLE, END OF YEAR	<u>\$ 308,955</u>	<u>\$ 539,413</u>
RECEIVABLE, BY TAX YEAR		
2006	\$ 13	\$ 19
2007	15	20
2008	14	19
2009	14	21
2010	57	94
2011	157	252
2012	318	470
2013	168	216
2014	727	1,139
2015	2,307	3,125
2016	<u>305,165</u>	<u>534,038</u>
RECEIVABLE, END OF YEAR	<u>\$ 308,955</u>	<u>\$ 539,413</u>

Fiscal year 2016 General Fund property tax revenue of \$506,261 under the modified accrual basis of accounting is comprised of prior tax year collections of \$218,312 during fiscal year 2016 and 2015 tax year collections of \$287,949 during fiscal year 2015.

Fiscal year 2016 Debt Service Fund property tax revenue of \$685,849 under the modified accrual basis of accounting is comprised of prior tax year collections of \$295,917 during fiscal year 2016 and 2015 tax year collections of \$389,932 during fiscal year 2015.

See accompanying independent auditor's report.

NORTHGATE CROSSING MUNICIPAL UTILITY DISTRICT NO. 1

TAXES LEVIED AND RECEIVABLE (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2016

ADJUSTED PROPERTY VALUATIONS AS OF JANUARY 1 OF TAX YEAR	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Land	\$ 53,351,922	\$ 45,450,862	\$ 37,244,490	\$ 28,137,823
Improvements	104,165,444	80,675,422	65,224,275	54,593,365
Personal property	3,416,811	3,882,586	3,311,659	1,894,583
Less exemptions	<u>(21,057,516)</u>	<u>(24,396,380)</u>	<u>(21,228,634)</u>	<u>(13,615,945)</u>
 TOTAL PROPERTY VALUATIONS	 <u>\$ 139,876,661</u>	 <u>\$ 105,612,490</u>	 <u>\$ 84,551,790</u>	 <u>\$ 71,009,826</u>
 TAX RATES PER \$100 VALUATION				
Debt service tax rates	\$ 0.70000	\$ 0.65000	\$ 0.76000	\$ 0.70000
Maintenance tax rates*	<u>0.40000</u>	<u>0.48000</u>	<u>0.48500</u>	<u>0.54500</u>
 TOTAL TAX RATES PER \$100 VALUATION	 <u>\$ 1.10000</u>	 <u>\$ 1.13000</u>	 <u>\$ 1.24500</u>	 <u>\$ 1.24500</u>
 TAX ROLLS	 <u>\$ 1,538,644</u>	 <u>\$ 1,193,421</u>	 <u>\$ 1,052,670</u>	 <u>\$ 884,072</u>
 PERCENT OF TAXES COLLECTED TO TAXES LEVIED	 <u>45.5 %**</u>	 <u>99.5 %</u>	 <u>99.8 %</u>	 <u>99.9 %</u>

\*Maximum tax rate approved by voters on August 10, 1985: Unlimited

\*\*The District's taxes are usually levied in the fall and are not delinquent until after the following January 31.

See accompanying independent auditor's report.

NORTHGATE CROSSING MUNICIPAL UTILITY DISTRICT NO. 1

LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS

DECEMBER 31, 2016

<u>Series 2012</u>			
<u>Due During Fiscal Years Ending December 31</u>	<u>Principal Due December 1</u>	<u>Interest Due June 1, December 1</u>	<u>Total</u>
2017	\$ 375,000	\$ 113,858	\$ 488,858
2018	390,000	106,357	496,357
2019	405,000	98,070	503,070
2020	425,000	88,350	513,350
2021	435,000	76,663	511,663
2022	460,000	63,612	523,612
2023	475,000	49,237	524,237
2024	500,000	33,800	533,800
2025	<u>520,000</u>	<u>17,550</u>	<u>537,550</u>
TOTALS	<u>\$ 3,985,000</u>	<u>\$ 647,497</u>	<u>\$ 4,632,497</u>

<u>Series 2014</u>			
<u>Due During Fiscal Years Ending December 31</u>	<u>Principal Due December 1</u>	<u>Interest Due June 1, December 1</u>	<u>Total</u>
2017	\$	\$ 138,098	\$ 138,098
2018		138,097	138,097
2019		138,098	138,098
2020		138,097	138,097
2021		138,098	138,098
2022		138,097	138,097
2023		138,098	138,098
2024		138,097	138,097
2025		138,098	138,098
2026	435,000	138,097	573,097
2027	455,000	122,220	577,220
2028	475,000	105,158	580,158
2029	500,000	86,870	586,870
2030	520,000	67,370	587,370
2031	545,000	46,570	591,570
2032	<u>570,000</u>	<u>24,225</u>	<u>594,225</u>
TOTALS	<u>\$ 3,500,000</u>	<u>\$ 1,833,388</u>	<u>\$ 5,333,388</u>

See accompanying independent auditor's report.

NORTHGATE CROSSING MUNICIPAL UTILITY DISTRICT NO. 1  
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)  
DECEMBER 31, 2016

<u>Due During Fiscal Years Ending December 31</u>	<u>Annual Requirements for All Series</u>		
	<u>Total Principal Due</u>	<u>Total Interest Due</u>	<u>Total</u>
2017	\$ 375,000	\$ 251,956	\$ 626,956
2018	390,000	244,454	634,454
2019	405,000	236,168	641,168
2020	425,000	226,447	651,447
2021	435,000	214,761	649,761
2022	460,000	201,709	661,709
2023	475,000	187,335	662,335
2024	500,000	171,897	671,897
2025	520,000	155,648	675,648
2026	435,000	138,097	573,097
2027	455,000	122,220	577,220
2028	475,000	105,158	580,158
2029	500,000	86,870	586,870
2030	520,000	67,370	587,370
2031	545,000	46,570	591,570
2032	570,000	24,225	594,225
TOTALS	\$ 7,485,000	\$ 2,480,885	\$ 9,965,885

See accompanying independent auditor's report.

NORTHGATE CROSSING MUNICIPAL UTILITY DISTRICT NO. 1ANALYSIS OF CHANGES IN LONG-TERM BONDED DEBTFOR THE YEAR ENDED DECEMBER 31, 2016

	<u>(1)</u>	<u>(2)</u>	<u>Totals</u>
Bond Series:	2012	2014	
Interest Rate:	2.00% to 3.375%	3.65% to 4.25%	
Dates Interest Payable:	June 1/ December 1	June 1/ December 1	
Maturity Dates:	December 1, 2017/2025	December 1, 2026/2032	
Bonds Outstanding at Beginning of Current Year	\$ 4,355,000	\$ 3,500,000	\$ 7,855,000
Less Retirements	<u>(370,000)</u>	<u>0</u>	<u>(370,000)</u>
Bonds Outstanding at End of Current Year	<u>\$ 3,985,000</u>	<u>\$ 3,500,000</u>	<u>\$ 7,485,000</u>
Current Year Interest Paid	<u>\$ 121,258</u>	<u>\$ 138,097</u>	<u>\$ 259,355</u>

Bond Descriptions and Original Amount of Issue

(1) Northgate Crossing Municipal Utility District No. 1 Unlimited Tax Refunding Bonds, Series 2012  
(\$5,164,998)

(2) Northgate Crossing Municipal Utility District No. 1 Unlimited Tax and Revenue Bonds, Series 2014 (\$3,500,000)

Paying Agent/Registrar

(1) (2) Bank of Texas, Austin, Texas

<u>Bond Authority</u>	<u>Tax Bonds</u>	<u>Other Bonds</u>	<u>Refunding Bonds</u>
Amount Authorized by Voters:	\$ 18,890,000	\$ 0	\$ 0
Amount Issued:	11,800,000		
Remaining to be Issued:	7,090,000		

Net Debt Service Fund deposits and investments balances as of December 31, 2016: \$505,171

Average annual debt service payment for remaining term of all debt: 622,868

See accompanying independent auditor's report.

NORTHGATE CROSSING MUNICIPAL UTILITY DISTRICT NO. 1

COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,  
GENERAL FUND

FOR YEARS ENDED DECEMBER 31

	AMOUNT					PERCENT OF TOTAL REVENUES				
	2016	2015	2014	2013	2012	2016	2015	2014	2013	2012
<b>REVENUES</b>										
Property taxes	\$ 506,261	\$ 402,245	\$ 386,588	\$ 328,865	\$ 316,509	41.3 %	27.1 %	35.4 %	42.3 %	38.4 %
Water service	165,064	135,648	134,345	123,193	145,680	13.4	9.2	12.3	15.8	17.7
Sewer service	323,240	304,153	275,234	196,314	195,396	26.3	20.6	25.2	25.2	23.7
Surface water fees	150,683	109,614	115,110	104,634	127,216	12.3	7.4	10.5	13.5	15.5
Penalty and other revenues	35,271	33,781	27,302	21,191	33,453	2.9	2.3	2.5	2.7	4.1
Tap connection and inspection fees	19,357	490,420	151,005	0	0	1.6	33.1	13.8	0.0	0.0
Sales and Use Taxes	21,356	0	0	0	0	1.7	33.1	0.0	0.0	0.0
Interest on deposits and investments	6,686	4,030	3,104	3,600	4,730	0.5	0.3	0.3	0.5	0.6
<b>TOTAL REVENUES</b>	<b>1,227,918</b>	<b>1,479,891</b>	<b>1,092,688</b>	<b>777,797</b>	<b>822,984</b>	<b>100.0</b>	<b>133.1</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>EXPENDITURES</b>										
Current:										
Purchased services	424,438	342,167	265,984	257,310	306,285	34.5	23.3	24.3	33.2	37.2
Professional fees	142,633	140,986	181,727	101,373	119,550	11.6	9.5	16.6	13.0	14.5
Contracted services	60,928	52,290	46,606	43,285	39,783	5.0	3.5	4.3	5.6	4.8
Sewer plant capacity lease	67,000	67,000	67,000	0	0	5.5	4.5	6.1	0.0	0.0
Repairs, maintenance, utilities and other operating expenditures	120,539	66,216	96,537	52,699	95,074	9.8	4.5	8.9	6.8	11.5
Security service	85,682	80,577	69,402	70,365	68,803	7.0	5.4	6.4	9.0	8.4
Garbage disposal	64,084	62,325	61,347	57,722	56,715	5.2	4.2	5.6	7.4	6.9
Administrative expenditures	70,140	53,936	62,415	57,542	60,074	5.7	3.6	5.7	7.4	7.3
Capital outlay	85,738	235,070	211,943	51,712	31,736	7.0	15.9	19.4	6.6	3.9
Interest	9,296	9,000	9,000	0	0	0.8	0.6	0.8	0.0	0.0
<b>TOTAL EXPENDITURES</b>	<b>1,130,478</b>	<b>1,109,567</b>	<b>1,071,961</b>	<b>692,008</b>	<b>778,020</b>	<b>92.1</b>	<b>75.0</b>	<b>98.1</b>	<b>89.0</b>	<b>94.5</b>
<b>EXCESS REVENUES (EXPENDITURES)</b>	<b>\$ 97,440</b>	<b>\$ 370,324</b>	<b>\$ 20,727</b>	<b>\$ 85,789</b>	<b>\$ 44,964</b>	<b>7.9 %</b>	<b>58.1 %</b>	<b>1.9 %</b>	<b>11.0 %</b>	<b>5.5 %</b>
<b>TOTAL ACTIVE RETAIL WATER CONNECTIONS</b>	<b>415</b>	<b>410</b>	<b>405</b>	<b>405</b>	<b>400</b>					
<b>TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS</b>	<b>392</b>	<b>390</b>	<b>382</b>	<b>388</b>	<b>383</b>					

See accompanying independent auditor's report.

NORTHGATE CROSSING MUNICIPAL UTILITY DISTRICT NO. 1

COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,  
DEBT SERVICE FUND

FOR YEARS ENDED DECEMBER 31

	AMOUNT					PERCENT OF TOTAL REVENUES				
	2016	2015	2014	2013	2012	2016	2015	2014	2013	2012
<b>REVENUES</b>										
Property taxes	\$ 685,849	\$ 631,971	\$ 495,357	\$ 525,544	\$ 522,435	98.8 %	99.1 %	97.0 %	95.5 %	96.4 %
Penalty and interest	6,342	3,884	3,406	15,434	14,509	0.9	0.6	0.7	2.8	2.7
Accrued interest on bonds received at date of sale	0	0	9,590	6,397	0	0.0	0.0	1.9	1.2	0.0
Interest on deposits and investments	2,325	2,106	1,797	2,763	4,831	0.3	0.3	0.4	0.5	0.9
<b>TOTAL REVENUES</b>	<b>694,516</b>	<b>637,961</b>	<b>510,150</b>	<b>550,138</b>	<b>541,775</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>EXPENDITURES</b>										
Current:										
Professional fees	1,859	133	823	964	0	0.3	0.0	0.2	0.2	0.0
Contracted services	16,219	14,973	12,800	13,045	12,810	2.3	2.3	2.5	2.4	2.4
Other expenditures	3,675	1,957	2,274	2,033	2,356	0.5	0.3	0.4	0.4	0.4
Debt service:										
Principal retirement	370,000	360,000	350,000	275,000	290,000	53.3	56.5	68.6	50.0	53.5
Interest and fees	260,355	267,555	181,990	259,645	271,180	37.5	41.9	35.7	47.2	50.1
<b>TOTAL EXPENDITURES</b>	<b>652,108</b>	<b>644,618</b>	<b>547,887</b>	<b>550,687</b>	<b>576,346</b>	<b>93.9</b>	<b>101.0</b>	<b>107.4</b>	<b>100.2</b>	<b>106.4</b>
<b>EXCESS REVENUES (EXPENDITURES)</b>	<b>\$ 42,408</b>	<b>\$ (6,657)</b>	<b>\$ (37,737)</b>	<b>\$ (549)</b>	<b>\$ (34,571)</b>	<b>6.1 %</b>	<b>(1.0) %</b>	<b>(7.4) %</b>	<b>(0.2) %</b>	<b>(6.4) %</b>

See accompanying independent auditor's report.

NORTHGATE CROSSING MUNICIPAL UTILITY DISTRICT NO. 1BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTSDECEMBER 31, 2016

Complete District Mailing Address: Northgate Crossing Municipal Utility District No. 1  
 c/o Sanford Kuhl Hagan Kugle Parker Kahn, LLP  
 1980 Post Oak Boulevard  
 Suite 1380  
 Houston, Texas 77056

District Business Telephone No.: 713-850-9000

Submission date of the most recent District Registration Form: June 9, 2016

Limit on Fees of Office that a Director may receive during a fiscal year: \$7,200

BOARD MEMBERS

<u>Name and Address</u>	<u>Term of Office (Elected/ Appointed)</u>	<u>Fees of Office Paid</u>	<u>Expense Reimb.</u>	<u>Title at Year End</u>
Jason B. Williams c/o Sanford Kuhl Hagan Kugle Parker Kahn, LLP 1980 Post Oak Boulevard Suite 1380 Houston, Texas 77056	Elected 5/10/14- 5/05/18	\$ 6,900	\$ 0	President
Shane Holman c/o Sanford Kuhl Hagan Kugle Parker Kahn, LLP 1980 Post Oak Boulevard Suite 1380 Houston, Texas 77056	Elected 5/07/16- 5/02/20	7,200	0	Vice President
Tracy Wilkerson c/o Sanford Kuhl Hagan Kugle Parker Kahn, LLP 1980 Post Oak Boulevard Suite 1380 Houston, Texas 77056	Elected 5/10/14- 5/05/18	7,200	135	Secretary
Kenny Boeckelman c/o Sanford Kuhl Hagan Kugle Parker Kahn, LLP 1980 Post Oak Boulevard Suite 1380 Houston, Texas 77056	Elected 5/07/16- 5/02/20	1,500	0	Assistant Secretary
Michael Lopez c/o Sanford Kuhl Hagan Kugle Parker Kahn, LLP 1980 Post Oak Boulevard Suite 1380 Houston, Texas 77056	Elected 5/10/14- 5/05/18	7,200	0	Assistant Secretary/ Assistant Vice President

See accompanying independent auditor's report.



NORTHGATE CROSSING MUNICIPAL UTILITY DISTRICT NO. 1BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS (Continued)DECEMBER 31, 2016CONSULTANTS

<u>Name and Address</u>	<u>Date Hired</u>	<u>Fees and Expense Reimbursements</u>	<u>Title at Year End</u>
Sanford Kuhl Hagan Kugle Parker Kahn, LLP 1980 Post Oak Boulevard Suite 1380 Houston, Texas 77056	1/21/10	\$ 79,271	Attorney
Perdue, Brandon, Fielder, Collins & Mott, L.L.P. 1235 North Loop West, Suite 600 Houston, Texas 77008	2/11/16	1,859	Delinquent Tax Attorney
Myrtle Cruz, Inc. 3401 Louisiana, Suite 400 Houston, Texas 77002	9/16/86	25,754	Bookkeeper
Myrtle Cruz, Inc. 3401 Louisiana, Suite 400 Houston, Texas 77002	3/09/00	0	Investment Officer
Severn Trent Environmental Services, Inc. 16337 Park Row Houston, Texas 77084	5/19/86	267,300	Operator
Murr, Inc. 11803 Grand Road, Suite 108 Cypress, Texas 77429	Prior to 2015	16,391	Landscape Architect
Edminster, Hinshaw, Russ & Associates, Inc. 10555 Westoffice Drive Houston, Texas 77042	10/26/11	101,439	Engineer
Bob Leared 11111 Katy Freeway, Suite 725 Houston, Texas 77079	7/17/85	7,225	Tax Assessor- Collector
Harris County Appraisal District P.O. Box 900275 Houston, Texas 77292	Legislative Action	10,051	Central Appraisal District
Blitch Associates, Inc. 11111 Katy Freeway, Suite 820 Houston, Texas 77079-2118	11/12/09	0	Financial Advisor
Roth & Eyring, PLLC 12702 Century Drive, Suite C2 Stafford, Texas 77477	Prior to 1994	11,625	Independent Auditor

See accompanying independent auditor's report.

APPENDIX B—Specimen Municipal Bond Insurance Policy



MUNICIPAL BOND  
INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, 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 Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the 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 AGM. 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 AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

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 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 AGM 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 of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount 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 or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

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

To the fullest extent permitted by applicable law, AGM 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 AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, 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, (a) 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 and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By \_\_\_\_\_  
Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc.  
1633 Broadway, New York, N.Y. 10019  
(212) 974-0100