

**OAKMONT PUBLIC UTILITY DISTRICT
(Harris County, Texas)**

**PRELIMINARY OFFICIAL STATEMENT
DATED: MAY 9, 2013**

**\$1,620,000
UNLIMITED TAX BONDS
SERIES 2013**

**BIDS TO BE SUBMITTED: 11:00 A.M., HOUSTON, TEXAS TIME
THURSDAY, JUNE 13, 2013**



RBC Capital Markets®

Financial Advisor

PRELIMINARY OFFICIAL STATEMENT DATED MAY 9, 2013

This Preliminary Official Statement is subject to completion and amendment, as provided in the Official Notice of Sale, and is intended for the solicitation of initial bids to purchase the Bonds. Upon the sale of the Bonds, the Official Statement will be completed and delivered to the Underwriter (hereinafter defined).

IN THE OPINION OF BOND COUNSEL, INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER EXISTING LAW SUBJECT TO THE MATTERS DESCRIBED UNDER "TAX EXEMPTION. SEE "TAX EXEMPTION" FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL, INCLUDING A DESCRIPTION OF ALTERNATIVE MINIMUM TAX CONSEQUENCES.

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

NEW ISSUE - Book-Entry-Only

\$1,620,000

OAKMONT PUBLIC UTILITY DISTRICT

(A Political Subdivision of the State of Texas, located within Harris County)

UNLIMITED TAX BONDS, SERIES 2013

Interest accrues from: July 1, 2013

Due: March 1, as shown below

The \$1,620,000 Oakmont Public Utility District Unlimited Tax Bonds, Series 2013 (the "Bonds") are obligations of Oakmont Public Utility District (the "District") and are not obligations of the State of Texas; Harris County, Texas; the City of Houston; or any entity other than the District. Neither the faith and credit nor the taxing power of the State of Texas; Harris County, Texas; the City of Houston, Texas; nor any entity other than the District is pledged to the payment of the principal of or interest on the Bonds.

The Bonds will be initially registered and delivered only to Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Beneficial owners of the Bonds will not receive physical certificates representing the Bonds, but will receive a credit balance on the books of the nominees of such beneficial owners. So long as Cede & Co. is the registered owner of the Bonds, the principal of and interest on the Bonds will be paid by Regions Bank, Houston, Texas, an Alabama banking corporation, or any successor Paying Agent/Registrar (the "Paying Agent/Registrar") directly to DTC, which will, in turn, remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds. See "THE BONDS – Book-Entry-Only System." Principal of the Bonds is payable to the Registered Owner(s) of the Bonds (the "Bondholder(s)") at the principal payment office of the Paying Agent/Registrar upon surrender of the Bonds for payment at maturity or upon prior redemption. Interest on the Bonds is payable on March 1, 2014, and each September 1 and March 1 thereafter to the person in whose name the Bonds are registered as of the 15th day of the calendar month next preceding each interest payment date (the "Record Date"). Unless otherwise agreed between the Paying Agent/Registrar and a Bondholder, such interest is payable by check mailed to such persons or by other means acceptable to such persons and the Paying Agent/Registrar. The Bonds are issuable in denominations of \$5,000 or any integral multiple thereof in fully registered form only.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS

| Due (March 1) | Principal Amount | Interest Rate | Initial Reoffering Yield (a) | Due (March 1) | Principal Amount | Interest Rate | Initial Reoffering Yield (a) |
|------------------|---------------------|------------------|------------------------------------|------------------|---------------------|------------------|------------------------------------|
| 2015 | \$ 40,000 | ___% | ___% | 2027(b) | \$ 65,000 | ___% | ___% |
| 2016 | 40,000 | ___% | ___% | 2028(b) | 70,000 | ___% | ___% |
| 2017 | 45,000 | ___% | ___% | 2029(b) | 70,000 | ___% | ___% |
| 2018 | 45,000 | ___% | ___% | 2030(b) | 75,000 | ___% | ___% |
| 2019 | 45,000 | ___% | ___% | 2031(b) | 80,000 | ___% | ___% |
| 2020 | 50,000 | ___% | ___% | 2032(b) | 80,000 | ___% | ___% |
| 2021 | 50,000 | ___% | ___% | 2033(b) | 85,000 | ___% | ___% |
| 2022(b) | 55,000 | ___% | ___% | 2034(b) | 90,000 | ___% | ___% |
| 2023(b) | 55,000 | ___% | ___% | 2035(b) | 95,000 | ___% | ___% |
| 2024(b) | 60,000 | ___% | ___% | 2036(b) | 95,000 | ___% | ___% |
| 2025(b) | 60,000 | ___% | ___% | 2037(b) | 100,000 | ___% | ___% |
| 2026(b) | 65,000 | ___% | ___% | 2038(b) | 105,000 | ___% | ___% |

- (a) The initial reoffering yield has been provided by the Underwriter and represents the initial offering price to the public of a substantial amount of the Bonds for each maturity. Such initial reoffering yield may subsequently be changed. The initial reoffering yields indicated above represent the lower of the yields resulting when priced to maturity or to the first call date. Accrued interest from July 1, 2013 is to be added to the price.
- (b) The Bonds maturing on March 1, 2022 and thereafter, are subject to redemption prior to maturity at the option of the District, as a whole or from time in part, on March 1, 2021, or any date thereafter at a price equal to the par value thereof, plus accrued interest to the date fixed for redemption. See "THE BONDS – Optional Redemption."

The Bonds constitute the eighth series of unlimited tax bonds issued by the District for the purpose of acquiring, constructing, owning, operating, repairing, improving or extending the water, sanitary sewer and storm drainage facilities (the "System") to serve the District. Voters in the District have authorized a total of \$50,000,000 principal amount of bonds for the System. Additionally, the voters in the District have authorized a total of \$10,000,000 principal amount of unlimited tax bonds for parks and recreational facilities. Following the issuance of the Bonds, \$16,680,000 principal amount of unlimited tax bonds for the System and \$10,000,000 for parks and recreational facilities will remain authorized and unissued. See "THE BONDS - Source of Payment."

The Bonds, when issued, will be payable from the proceeds of an annual ad valorem tax, without legal limit as to rate or amount, levied against taxable property within the District.

The Bonds are offered when, as and if issued by the District and accepted by the Underwriter, subject among other things to the approval of the initial Bonds by the Attorney General of Texas and the approval of certain legal matters by Coats, Rose, Yale, Ryman & Lee, P.C., Houston, Texas, Bond Counsel. Certain legal matters will be passed upon for the District by Andrews Kurth LLP, Austin, Texas, Disclosure Counsel. The Bonds in definitive form are expected to be available for delivery through DTC on or about July 11, 2013. See "LEGAL MATTERS."

**SEALED BIDS TO BE SUBMITTED: 11:00 A.M., HOUSTON, TEXAS TIME
THURSDAY, JUNE 13, 2013**

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

USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

All of the summaries of the statutes, orders, resolutions, contracts, audits, and engineering and other related reports set forth in the Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from RBC Capital Markets, LLC, 1001 Fannin, 1200 First City Tower, Houston, Texas 77002, the Financial Advisor to the District.

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

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APPENDIX A - Financial Statements of the District

APPENDIX B - Aerial Photograph of the District

SALE AND DISTRIBUTION OF THE BONDS

Underwriting

After requesting competitive bids for the Bonds, the District has accepted the lowest bid, which was tendered by _____ (referred to herein as the “Underwriter”). The Underwriter has agreed to purchase the Bonds, bearing the interest rates on the cover page of this Official Statement, at a price of _____% of the par value thereof plus accrued interest to the date of delivery, which resulted in a net effective interest rate of _____%, calculated pursuant to Chapter 1204, Texas Government Code, as amended.

Prices and Marketability

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

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

The prices and other terms with respect to the offering and sale of the Bonds may be changed from time-to-time by the Underwriter after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial reoffering 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.

Securities Laws

No registration statement relating to the Bonds has been filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon 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 acts of any other jurisdictions. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be offered, sold, or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds should not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdictions.

MUNICIPAL BOND INSURANCE

The Authority has made an application to Build America Mutual Assurance Company (“BAM”) and Assured Guaranty Municipal Corp. (“AGM”) for a commitment for municipal bond guaranty insurance on the Bonds. The purchase of such insurance, if available, and payment of all associated costs, including the premium charged by the insurer, will be at the expense of the Underwriter.

RATINGS

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

Standard & Poor's has assigned an underlying rating of "BBB- (Positive Outlook)" to the Bonds.

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

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

OFFICIAL STATEMENT SUMMARY

The following material is a summary of certain information contained herein and is qualified in its entirety by the more detailed information and financial statements appearing elsewhere in this Official Statement.

THE BONDS

- The Issuer Oakmont Public Utility District (the “District”), a political subdivision of the State of Texas, is located in Harris County, Texas. See “THE DISTRICT.”
- The Issue..... \$1,620,000 Unlimited Tax Bonds, Series 2013 (the “Bonds”). Interest accrues from July 1, 2013, and the Bonds mature in serial installments on March 1, 2015 through March 1, 2038, inclusive. Interest is payable March 1, 2014, and on each September 1 and March 1 thereafter until maturity or prior redemption. Bonds maturing on or after March 1, 2022, are subject to redemption prior to maturity at the option of the District, in whole or from time to time in part, on March 1, 2021, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. See “THE BONDS – General, and - Optional Redemption.”
- Source of Payment..... Principal of and interest on the Bonds are payable from the proceeds of a continuing, direct annual ad valorem tax, without legal limitation as to rate or amount, levied against taxable property located within the District. The Bonds are obligations solely of the District and are not obligations of the State of Texas, Harris County, the City of Houston or any entity other than the District. See “THE BONDS – Sources of Payment.”
- Use of Proceeds..... A portion of the proceeds from the Bonds will be used to (i) reimburse the developer for the construction and engineering costs for (a) Auburn Lakes Reserve, Section 5; (b) Auburn Lakes Retreat, Section 5; and (ii) pay the construction and engineering expenses for Water Plant No. 1 Expansion, Phase III. The remaining proceeds from the Bonds will be used to pay bond issuance costs and developer’s interest. See “THE BONDS – Use and Distribution of Bond Proceeds.”
- Qualified Tax-Exempt Obligations The District will designate the Bonds as “qualified tax-exempt obligations” pursuant to section 265(b) of the Internal Revenue Code of 1986, as amended (the “Code”), and will represent that the total amount of tax-exempt bonds (including the Bonds) issued by District during calendar year 2013 is not reasonably expected to exceed \$10,000,000. See “QUALIFIED TAX-EXEMPT OBLIGATIONS.”
- Payment Record..... The Bonds represent the eighth series of bonds issued by the District for the purpose of acquiring, constructing, owning, operating, repairing, improving or extending the water, sanitary sewer and drainage facilities to serve the District. The District has never defaulted on the timely payment of principal or interest on its outstanding indebtedness. See “THE BONDS – Source of Payment.”
- Outstanding Bonds The District has previously issued: \$1,840,000 Unlimited Tax Bonds, Series 2005 (the “Series 2005 Bonds”); \$5,450,000 Unlimited Tax Bonds, Series 2007 (the “Series 2007 Bonds”); \$5,510,000 Unlimited Tax Bonds, Series 2008 (the “Series 2008 Bonds”); \$8,560,000 Unlimited Tax Bonds, Series 2009 (the “Series 2009 Bonds”);

\$3,820,000 Unlimited Tax Bonds, Series 2010 (the “Series 2010 Bonds”); \$3,360,000 Unlimited Tax Bonds, Series 2011 (the “Series 2011 Bonds”); and \$3,160,000 Unlimited Tax Bonds, Series 2012 (the “Series 2012 Bonds”) aggregating \$31,700,000 in principal amount of unlimited tax bonds issued by the District. As of May 1, 2013, \$29,410,000 in principal amount of bonds issued remain outstanding (the “Outstanding Bonds”). See “THE BONDS – Outstanding Bonds.”

Municipal Bond Insurance and Rating An application has been made for a commitment for municipal bond guaranty insurance on the Bonds. The purchase of such insurance, if available, and payment of all associated costs, including the premium charged by the insurer, and fees charged by any rating companies, other than S&P, will be at the option of the Underwriter. S&P has assigned an underlying rating of “BBB- (Positive Outlook)” to the District’s credit. See “MUNICIPAL BOND INSURANCE” and “RATINGS.”

Legal Opinion..... Coats, Rose, Yale, Ryman & Lee, P.C., Houston, Texas, Bond Counsel. See “LEGAL MATTERS.”

Financial Advisor RBC Capital Markets, LLC, Houston, Texas.

THE DISTRICT

Description Oakmont Public Utility District, a political subdivision of the State of Texas, is located wholly within Harris County, approximately 25 miles north of Houston’s central business district, approximately 5 miles west of Interstate Highway 45 (IH45), and approximately 1 mile south of Spring Creek and just north of Willow Creek. All of the land within the District is within the exclusive extraterritorial jurisdiction (the “ETJ”) of the City of Houston and is located within Klein Independent School District. See “THE DISTRICT – General, and - Description.”

Authority The rights, powers, privileges, authority and functions of the District are established by the general laws of the State of Texas pertaining to municipal utility districts, including particularly Chapters 49 and 54 of the Texas Water Code, as amended. See “THE DISTRICT – General.”

Development..... Of the approximately 469 acres of land within the District, approximately 377 acres (1,147 lots) within the District have been developed with water distribution, sanitary sewer and storm drainage facilities. As of May 1, 2013, the District contained 905 completed homes; 93 homes under construction; and 149 vacant, developed lots. The remaining acreage within the District is comprised of approximately 3 undeveloped but developable acres and approximately 89 undevelopable acres. See “STATUS OF DEVELOPMENT IN THE DISTRICT.”

The Developer The developer of land in the District is Peramco, Inc., (“Peramco” or the “Developer”), a privately owned Florida corporation. Peramco was formerly a Netherlands Antilles corporation formed in 1981 for the purpose of developing and marketing land within the United States of America and specifically the District and similar utility districts. All of the undeveloped but developable acreage located in the District is owned by Peramco. See “THE DEVELOPER.”

HomebuildersHomebuilders active within the District include Infinity Classic Homes, Village Builders, First Texas Homes, Cannon Custom Homes, Great American Builders, Matt Powers Homes, Lennar Homes, David Weekley Homes, and Brickland Homes. Homes within the District range in price from \$175,000 to approximately \$1,200,000. See “HOMEBUILDERS WITHIN THE DISTRICT.”

INVESTMENT CONSIDERATIONS

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

**SELECTED FINANCIAL INFORMATION
(UNAUDITED)**

| | |
|---|--------------------------|
| 2012 Assessed Valuation | \$215,681,716 (a) |
| (100% of market value as of January 1, 2012) | |
| See "TAX DATA" and "TAXING PROCEDURES." | |
| Estimated Taxable Valuation as of April 1, 2013..... | \$297,350,417 (b) |
| (100% of estimated market value as of April 1, 2013) | |
| See "TAX DATA" and "TAXING PROCEDURES." | |
| Direct Debt: | |
| Outstanding Bonds (as of May 1, 2013)..... | \$ 29,410,000 |
| The Bonds..... | <u>1,620,000</u> |
| Total..... | \$ 31,030,000 |
| Estimated Overlapping Debt..... | <u>\$ 15,974,368 (c)</u> |
| Total Direct and Estimated Overlapping Debt | <u>\$ 47,004,368</u> |
| Ratio of Direct Debt to..... | |
| 2012 Assessed Valuation (\$215,681,716) | 14.39 % |
| Estimated Taxable Valuation as of 4-1-2013 (\$297,350,417) .. | 10.44 % |
| Ratio of Direct and Estimated | |
| Overlapping Debt to..... | |
| 2012 Assessed Valuation (\$215,681,716) | 21.79 % |
| Estimated Taxable Valuation as of 4-1-2013 (\$297,350,417) .. | 15.81 % |
| Debt Service Fund Balance (as of May 9, 2013)..... | \$ 2,274,665 (d) |
| General Operating Fund Balance (as of May 9, 2013)..... | \$ 1,060,517 |
| Capital Projects Fund Balance (as of May 9, 2013) | \$ 140,679 |
| Recreational Facilities Fund Balance (as of May 9, 2013)..... | \$ 244,697 |
| 2012 Tax Rate | |
| Debt Service | \$1.00 |
| Maintenance & Operation | 0.15 |
| Recreational Facilities | <u>0.10</u> |
| Total..... | <u>\$1.25 (e)</u> |
| Average Annual Debt Service Requirements (2014-2038)..... | \$ 1,942,616 (f) |
| Maximum Annual Debt Service Requirements (2032)..... | \$ 2,568,259 (f) |
| Tax Rate per \$100 of Assessed Valuation Required to Pay Average Annual | |
| Debt Service Requirements on the Bonds (2014-2038) at 95% Tax Collections | |
| Based Upon 2012 Assessed Valuation (\$215,681,716) | \$0.95 |
| Based Upon Estimated Taxable Valuation as of April 1, 2013 (\$297,350,417) | \$0.69 |
| Tax Rate per \$100 of Assessed Valuation Required to Pay Maximum Annual | |
| Debt Service Requirements on the Bonds (2032) at 95% Tax Collections | |
| Based Upon 2012 Assessed Valuation (\$215,681,716) | \$1.26 |
| Based Upon Estimated Taxable Valuation at April 1, 2013 (\$297,350,417) | \$0.91 |
| Single-Family Homes (including 93 homes under construction) as of May 1, 2013 | 905 |

-
- (a) As certified by the Harris County Appraisal District (the "HCAD"). See "TAXING PROCEDURES." This value includes \$14,799,046 in uncertified value. The uncertified value represents the owners' opinion of their value and is the minimum amount of value that will ultimately be certified by the HCAD.
 - (b) Provided by the HCAD for information purposes only. Represents new construction within the District from January 1, 2013 to April 1, 2013. This estimate is based upon the same unit value used in the assessed value. No taxes will be levied on this estimate. See "TAXING PROCEDURES."
 - (c) See "DISTRICT DEBT – Estimated Overlapping Debt."
 - (d) Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the Debt Service Fund. At the time of closing, accrued interest from July 1, 2013 to the date of delivery will be deposited to this fund.
 - (e) The Texas Commission on Environmental Quality (the "TCEQ") has recommended the District levy a debt service tax rate of at least \$0.88 per \$100 of assessed valuation in the first tax year following the issuance of the Bonds. This recommendation was based upon the Bonds being sold at a maximum effective interest rate of 5.19%. See "TAXING PROCEDURES."
 - (f) Debt service on the Bonds is estimated at an average interest rate of 4.25%. See "DISTRICT DEBT – Debt Service Requirements."

INTRODUCTION

This Official Statement provides certain information in connection with the issuance by Oakmont Public Utility District (the "District"), of its \$1,620,000 Unlimited Tax Bonds, Series 2013 (the "Bonds").

The Bonds are issued pursuant to (i) the Bond Order ("Bond Order") adopted by the Board of Directors of the District on the date of the sale of the Bonds, (ii) the Constitution and general laws of the State of Texas, particularly Chapters 49 and 54, Texas Water Code, as amended, (iii) an election held within the District on February 7, 2004, and (iv) by an order issued by the Texas Commission on Environmental Quality ("TCEQ").

Certain capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Bond Order, except as otherwise indicated herein.

This Official Statement also includes information about the District and certain reports and other statistical data. The summaries and references to all documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive and each summary and reference is qualified in its entirety by reference to each such document, statute, report or instrument.

THE BONDS

General

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

The \$1,620,000 Oakmont Public Utility District Unlimited Tax Bonds, Series 2013 (the "Bonds"), will mature on March 1 of the years and in principal amounts, and will bear interest from July 1, 2013, at the rates per annum, set forth on the cover page of this Official Statement. Interest on the Bonds will be payable March 1, 2014, and semiannually thereafter on each September 1 and March 1 until maturity or redemption. Bonds maturing on or after March 1, 2022, are subject to redemption prior to maturity at the option of the District, in whole or from time to time in part, on March 1, 2021, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. If less than all the Bonds are redeemed at any time, the particular maturities of Bonds to be redeemed shall be selected by the District. If less than all of the Bonds of a particular maturity are redeemed, the Paying Agent/Registrar shall select the particular Bonds to be redeemed by such random method as it deems fair and appropriate.

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

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

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

Book-Entry-Only System

DTC will act as securities depository for the securities (the “Bonds”). The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be required by an authorized representative of DTC. One fully-registered Security certificate will be issued for each of the Bonds, each in the aggregate principal amount of such issue, and will be deposited with DTC. If however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

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

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

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

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

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

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

Paying Agent/Registrar

The Board has selected Regions Bank, Houston, Texas, an Alabama banking corporation (the "Paying Agent/Registrar"), as the initial Paying Agent and Registrar for the Bonds. The initial designated payment office for the Bonds is located in Houston, Texas. Provision is made in the Bond Order for removal of the Paying Agent/Registrar, provided that no such removal shall be effective until a successor paying agent/registrar shall have accepted the duties of the Paying Agent/Registrar under the provisions of the Bond Order. Any successor paying agent/registrar selected by the District shall be a corporation organized and doing business under the laws of the United States of America or of any state authorized under such laws to exercise trust powers, shall have a combined capital and surplus of at least \$10,000,000, shall be subject to supervision or examination by federal or state authority, shall be registered as a transfer agent with the Securities and Exchange Commission and shall have a corporate trust office in the State of Texas.

Use of Certain Terms in Other Sections of this Official Statement

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

Registration and Transfer

So long as any Bonds remain outstanding, the Paying Agent/Registrar will keep the register at its principal payment office and, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar will provide for the registration and transfer of Bonds in accordance with the Bond Order. While the Bonds are in the Book-Entry-Only system, Bonds will be registered in the name of Cede & Co. and will not be transferred. See "Book-Entry-Only System."

Mutilated, Lost, Stolen or Destroyed Bonds

In the event the Book-Entry-Only System should be discontinued, the District has agreed to replace mutilated, destroyed, lost or stolen Bonds upon surrender of the mutilated Bonds to the Paying Agent/Registrar, or receipt of satisfactory evidence of such destruction, loss or theft, and receipt by the District and the Paying Agent/Registrar of security or indemnity which they determine to be sufficient to hold them harmless. The District may require payment of taxes, governmental charges and other expenses in connection with any such replacement.

Authority for Issuance

The bonds authorized by the resident electors of the District, the amount of bonds issued and the remaining authorized but unissued bonds following the issuance of the Bonds are as follows:

| <u>Election Date</u> | <u>Purpose</u> | <u>Amount Authorized</u> | <u>Issued to Date</u> | <u>The Bonds</u> | <u>Remaining</u> |
|----------------------|---------------------------|--------------------------|-----------------------|------------------|------------------|
| February 7, 2004 | Water, Sewer and Drainage | \$50,000,000 | \$31,700,000 | \$ 1,620,000 | \$16,680,000 |
| February 7, 2004 | Recreational Facilities | \$10,000,000 | -0- | -0- | \$10,000,000 |

The Bonds are issued by the District pursuant to the terms and conditions of the Bond Order, Article XVI, Section 59 of the Texas Constitution, and Chapters 49 and 54 of the Texas Water Code, as amended.

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

Source of Payment

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

Optional Redemption

Bonds maturing on March 1, 2022, and thereafter shall be subject to redemption at the option of the District, in whole or from time to time in part, on March 1, 2021, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. Notice of the exercise of the reserved right of redemption will be given at least thirty (30) days prior to the redemption date by sending such notice by first class mail to the Registered Owner of each Bond to be redeemed in whole or in part at the address shown on the bond register. If less than all of the Bonds are redeemed at any time, the maturities of the Bonds to be redeemed shall be selected by the District. If less than all of the Bonds of a certain maturity are to be redeemed, the particular Bonds or portions thereof to be redeemed will be selected by the Paying Agent/Registrar prior to the redemption date by such random method as the Paying Agent/Registrar deems fair and appropriate in integral multiples of \$5,000 within any one maturity. The Registered Owner of any Bond, all or a portion of which has been called for redemption, shall be required to present such Bond to the Paying Agent/Registrar for payment of the redemption price on the portion of the Bonds so called for redemption and issuance of a new Bond in the principal amount equal to the portion of such Bond not redeemed.

Annexation

Under Texas law, the District may be annexed in whole or in part, without the District's consent. If the District is annexed, the City will assume the District's assets, functions, and obligations (including the Bonds) and dissolve the District. No representation is made concerning the likelihood of annexation or the ability of the City to make debt service payments should annexation occur. The Bond Order provides for the termination of the pledge of taxes to the Bonds upon annexation and dissolution by the City.

Consolidation

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

Strategic Partnership Agreement with City of Houston

The District is authorized to enter into a strategic partnership agreement with the City of Houston to provide the terms and conditions under which services would be provided and funded by the parties and under which the District would continue to exist for an extended period if the land within the District, or any portion thereof, were to be annexed for full or limited purposes by the City. The terms of any such agreement would be determined by the City and the District, and could provide for limitations on the timing of annexation of the District by the City, the continuation of the District as a limited district following general purpose annexation by the City, the conversion of a limited purpose annexation to a general purpose annexation, or the payment of a fee in lieu of annexation to be derived from residential property within the District based on the costs of providing municipal services to the District. The City has negotiated and entered into strategic partnership with several other districts in its extraterritorial jurisdiction. Nothing herein is intended to imply that the District and the City will ever enter into such an agreement, nor has the City approached the District concerning such an agreement.

Defeasance

The Bond Order provides that the District may discharge its obligations to the Registered Owners of any or all of the Bonds to pay principal, interest and redemption price thereon in any manner permitted by law. Under current Texas law, such discharge may be accomplished either (i) by depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of, premium, if any, and all interest to accrue on the Bonds to maturity or redemption or (ii) by depositing with any place or payment (paying agent) for obligations of the District payable from ad valorem taxes, amounts sufficient to provide for payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested only in (a) direct noncallable obligations of the United

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

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

Outstanding Bonds

The District has previously issued \$1,840,000 Unlimited Tax Bonds, Series 2005 (the "Series 2005 Bonds"); \$5,450,000 Unlimited Tax Bonds, Series 2007 (the "Series 2007 Bonds"); \$5,510,000 Unlimited Tax Bonds, Series 2008 (the "Series 2008 Bonds"); \$8,560,000 Unlimited Tax Bonds, Series 2009 (the "Series 2009 Bonds"); \$3,820,000 Unlimited Tax Bonds, Series 2010 (the "Series 2010 Bonds"); \$3,360,000 Unlimited Tax Bonds, Series 2011 (the "Series 2011 Bonds"); and \$3,160,000 Unlimited Tax Bonds, Series 2012 (the "Series 2012 Bonds") aggregating \$31,700,000 in principal amount of unlimited tax bonds issued by the District. As of May 1, 2013 \$31,030,000 principal amount of bonds issued remain outstanding (the "Outstanding Bonds"). See "THE BONDS – Outstanding Bonds."

Issuance of Additional Debt

The District may issue additional bonds with the approval necessary to provide improvements and facilities consistent with the purposes for which the District was created. The District's voters have authorized the issuance of \$50,000,000 principal amount of unlimited tax bonds for the System and \$10,000,000 principal amount of unlimited tax bonds for parks and recreational facilities, and could authorize additional amounts. The Bonds are the seventh series of unlimited tax bonds issued by the District for the purpose of acquiring, constructing, owning, operating, repairing, improving or extending the water, sanitary sewer and drainage facilities to serve the land within the District. Following the issuance of the Bonds, \$16,680,000 principal amount of unlimited tax bonds for the System and \$10,000,000 principal amount of unlimited tax bonds for parks and recreational facilities will remain authorized but unissued. According to the District's Engineer, the remaining authorized but unissued bonds will be sufficient to finance the remaining land within the District. The Bond Order imposes no limitation on the amount of additional parity bonds which may be issued by the District (if authorized by the District's voters and approved by the Board). See "INVESTMENT CONSIDERATIONS - Future Debt."

According to the Developer, following the issuance of the Bonds, the District will remain obligated to reimburse the Developer additional amounts for the facilities serving the existing development within the District. After the sale of the Bonds, the Developer indicated that the District will still be obligated to reimburse the Developer approximately \$2,000,000 for such facilities. The District expects to submit bond applications to the TCEQ for the sale of additional bonds to satisfy its obligation to pay the Developer for such facilities.

Additional tax bonds may be authorized by District's voters 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 therefore 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.

The District is within the Harris-Galveston Coastal Subsidence District (the "Subsidence District") which regulates the withdrawal of groundwater within its jurisdiction. The District's authority to pump ground water from its wells is subject to annual permits issued by the Subsidence District. The Subsidence District has ordered certain areas of suburban Houston to convert most of their water supply to surface water under various schedules but not established a date for the District to restrict the withdrawal of ground water and to develop a source of surface water. The issuance of additional bonds by the district at some time in the future in an undetermined amount may be necessary to meet these requirements. See "THE SYSTEM – Subsidence and Conversion to Surface Water Supply."

Financing Recreational Facilities

On September 13, 2003, an amendment to the Texas Constitution was adopted that authorized conservation and reclamation districts, such as the District, in certain counties to develop and finance with property taxes certain recreational facilities after a district election has been successfully held to approve a maintenance tax to support recreational facilities and/or the issuance of bonds payable from taxes.

The Texas Legislature enacted legislation, effective September 13, 2003, allowing the District to levy an operation and maintenance tax to support recreational facilities at a rate not to exceed \$0.10 per \$100 of assessed valuation of taxable property within the District, after such tax is approved at an election. On February 7, 2004, the District voters approved an ad valorem tax not to exceed \$0.10 for recreational facilities. The District has implemented such tax.

In addition, the District is authorized to issue bonds payable from ad valorem taxes to pay for the development and maintenance of recreational facilities if (i) the District duly adopts a plan for the facilities; (ii) the bonds payable from any source do not exceed 1% of the value of the taxable property in the District at the time of issuance of the bonds, or an amount greater than the estimated cost of the plan, whichever amount is smaller, (iii) the District obtains any necessary governmental consents allowing the issuance of such bonds; and (iv) the bonds are approved by the Attorney General of Texas. The issuance of such bonds is subject to rules and regulations to be adopted by the TCEQ.

At an election held on February 7, 2004, the District voters authorized the issuance of \$10,000,000 of bonds for parks and recreational purposes payable from ad valorem taxes. The District may issue bonds from such authorization subject to compliance with the TCEQ rules and obtaining the consent of the City of Houston.

The District owns certain parks and recreational facilities including a recreation center containing a fitness room, swimming pool and playground. The District has contracted with Northampton Municipal Utility District to operate and manage the District's recreational facilities; and pays Northampton Municipal Utility District an annual management fee of \$72,000. In addition, the District and Northampton Municipal Utility District have entered into an agreement which allows residents of the District to use the parks and recreational facilities of Northampton Municipal Utility District, and conversely, residents of Northampton Municipal Utility District are allowed to use the District's parks and recreational facilities. Pursuant to an election held on February 7, 2004, the District levied an ad valorem tax of \$0.10 for recreational facilities.

Amendments to the Bond Order

The District may, without the consent of or notice to any Registered Owners, amend the Bond Order in any manner not detrimental to the interests of the Registered Owners, including the curing of any ambiguity, inconsistency or formal defect or omission therein. In addition, the District may, with the written consent of the Registered Owners of a majority in aggregate principal amount of the Bonds then outstanding affected thereby, amend, add to or rescind any of the provisions of the Bond Order, provided that, without the consent of the Registered Owners of all of the Bonds affected, and provided that it has not failed to make a timely payment of principal of or interest on the Bonds, no such amendment, addition or rescission may (1) change the date specified as the date on which the principal of or any installment of interest on any Bond is due and payable, reduce the principal amount thereof, the redemption price thereof, or the rate of interest thereon, change the place or places at, or the coin or currency in which any Bond or the interest thereon is payable, or in any other way modify the terms or sources of payment of the principal of or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) modify any of the provisions of the Bond Order relating to the amendment thereof, except to increase any percentage provided thereby or to provide that certain other provisions of the Bond Order cannot be modified or waived without the consent of the holder of each Bond affected thereby. In addition, a state, consistent with federal law, may, in the exercise of its police power, make such modifications in the terms and conditions of contractual covenants relating to the payment of indebtedness of a political subdivision as are reasonable and necessary for attainment of an important public purpose.

Registered Owners' Remedies

Texas law and the Bond Order provide that in the event the District defaults in the payment of the principal of or the interest on any of the Bonds when due, fails to make payments required by the Bond Order into the Debt Service Fund or defaults in the observance or performance of any of the covenants, conditions, or obligations set forth in the Bond Order, any Registered Owner shall be entitled at any time to a writ of mandamus from a court of competent jurisdiction compelling and requiring the Board to observe and perform any covenant, obligation, or condition prescribed by the Bond Order. Such right is in addition to other rights the Registered Owners of the Bonds may be provided by the laws of the State of Texas.

Except for 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 of the Bonds. There is no provision for 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 public purpose property. Further, the Registered Owners could not themselves foreclose on property within the District or sell property within the District in order to pay the principal of and interest on the Bonds.

Bankruptcy Limitation to Registered Owners' Rights

The enforceability of the rights and remedies of the Registered Owners may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. Subject to the requirements of Texas law, the District may voluntarily proceed

under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. Sections 901-946, if the District: (1) is generally authorized to file for federal bankruptcy protection by State law; (2) is insolvent or unable to meet its debts as they mature; (3) desires to effect a plan to adjust such debt; and (4) has either obtained the agreement of or negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiation is impracticable. Under Texas law, a municipal utility district such as the District must obtain approval of the 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

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

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

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

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

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

Use and Distribution of Bond Proceeds

A portion of the proceeds from the Bonds will be used to (i) reimburse the developer for the construction and engineering costs for (a) Auburn Lakes Reserve, Section 5; (b) Auburn Lakes Retreat, Section 5; and (ii) pay the construction and engineering expenses for Water Plant No. 1 Expansion, Phase III. The remaining proceeds from the Bonds will be used to pay bond issuance costs and developer's interest.

| | <u>Amount</u> |
|--|---------------------------|
| CONSTRUCTION COSTS | |
| A. Developer Contribution Items | |
| 1. Auburn Lakes Retreat, Section 5 & Auburn Lakes Reserve, Section 5 - W, WW & Dr. | \$ 661,400 |
| 2. Auburn Lakes Retreat, Section 5 & Auburn Lakes Reserve, Section 5 - Clearing and Grubbing | 24,743 |
| 3. Engineering | 226,317 |
| 4. Storm Water Pollution Prevention Plan | <u>25,200</u> |
| TOTAL DEVELOPER CONTRIBUTION ITEMS | \$ 937,660 |
| B. District Items | |
| 1. Water Plant No. 1 Expansion Phase III | \$ 335,000 |
| 2. Contingencies | 33,500 |
| 3. Engineering | <u>55,275</u> |
| TOTAL DISTRICT ITEMS | \$ 423,775 |
| TOTAL CONSTRUCTION COSTS | <u>\$1,361,435</u> |
| NONCONSTRUCTION COSTS | |
| A. Legal Fees | \$ 40,500 |
| B. Fiscal Agent Fees | 32,400 |
| C. Developer Interest | 30,758 |
| D. Bond Discount (3%) | 48,600 |
| E. Bond Issuance Expenses | 55,137 |
| D. Bond Application Report Costs | 45,000 |
| G. Attorney General Fee (0.10%) | 1,620 |
| H. TCEQ Bond Issuance Fee (0.25%) | <u>4,550</u> |
| TOTAL NONCONSTRUCTION COSTS | \$ 258,565 |
| TOTAL BOND ISSUE REQUIREMENT | <u>\$1,620,000</u> |

DISTRICT DEBT

General

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

| | |
|---|--------------------------|
| 2012 Taxable Assessed Valuation | \$215,681,716 (a) |
| (100% of market value as of January 1, 2012) | |
| See "TAX DATA" and "TAXING PROCEDURES." | |
| Estimated Taxable Valuation as of April 1, 2013..... | \$297,350,417 (b) |
| (100% of estimated market value as of April 1, 2013) | |
| See "TAX DATA" and "TAXING PROCEDURES." | |
| Direct Debt: | |
| Outstanding Bonds (as of May 1, 2013)..... | \$ 29,410,000 |
| The Bonds..... | <u>1,620,000</u> |
| Total..... | \$ 31,030,000 |
| Estimated Overlapping Debt..... | <u>\$ 15,974,368 (c)</u> |
| Total Direct and Estimated Overlapping Debt | <u>\$ 47,004,368</u> |
| Debt Service Fund Balance (as of May 9, 2013)..... | \$ 2,274,665 (d) |
| General Operating Fund Balance (as of May 9, 2013)..... | \$ 1,060,517 |
| Capital Projects Fund Balance (as of May 9, 2013)..... | \$ 140,679 |
| Recreational Facilities Fund Balance (as of May 9, 2013)..... | \$ 244,697 |
| 2012 Tax Rate | |
| Debt Service | \$1.00 |
| Maintenance & Operation | 0.15 |
| Recreational Facilities | <u>0.10</u> |
| Total..... | <u>\$1.25 (e)</u> |
| Average Annual Debt Service Requirements (2014-2038)..... | \$ 1,942,616 (f) |
| Maximum Annual Debt Service Requirements (2032)..... | \$ 2,568,259 (f) |
| Ratio of Direct Debt to..... | |
| 2012 Assessed Valuation (\$215,681,716)..... | 14.39 % |
| Estimated Taxable Valuation as of 4-1-2013 (\$297,350,417) | 10.44 % |
| Ratio of Direct and Estimated | |
| Overlapping Debt to..... | |
| 2012 Assessed Valuation (\$215,681,716)..... | 21.79 % |
| Estimated Taxable Valuation as of 4-1-2013 (\$297,350,417) | 15.81 % |

(a) As certified by the Harris County Appraisal District (the "HCAD"). See "TAXING PROCEDURES." This value includes \$14,799,043 in uncertified value. The uncertified value represents the owners' opinion of their value and is the minimum amount of value that will ultimately be certified by the HCAD.

(b) Provided by the HCAD for information purposes only. Represents new construction within the District from January 1, 2013 to April 1, 2013. This estimate is based upon the same unit value used in the assessed value. No taxes will be levied on this estimate. See "TAXING PROCEDURES."

(c) See "DISTRICT DEBT – Estimated Overlapping Debt."

- (d) Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the Debt Service Fund. At the time of closing, accrued interest from July 1, 2013 to the date of delivery will be deposited to this fund.
- (e) The Texas Commission on Environmental Quality (the "TCEQ") has recommended the District levy a debt service tax rate of at least \$0.88 per \$100 of assessed valuation in the first tax year following the issuance of the Bonds. This recommendation was based upon the Bonds being sold at a maximum effective interest rate of 5.19%. See "TAXING PROCEDURES."
- (f) Debt service on the Bonds is estimated at an average interest rate of 4.25%. See "DISTRICT DEBT – Debt Service Requirements."

Estimated Overlapping Debt

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

| Taxing Jurisdiction | Outstanding Debt as of April 30, 2013 | Percent | Overlapping Amount |
|---------------------------------------|---|---------|-----------------------|
| Harris County | \$2,345,417,190 | 0.07% | \$ 1,751,227 |
| Harris County Department of Education | 7,605,000 | 0.07 | 5,678 |
| Harris County Flood Control District | 96,470,000 | 0.07 | 72,030 |
| Port of Houston Authority | 731,969,397 | 0.07 | 546,532 |
| Lone Star College System | 494,540,000 | 0.18 | 884,133 |
| Klein ISD | 767,670,000 | 1.66 | <u>12,714,768</u> |
| Total Estimated Overlapping Debt | | | \$15,974,368 |
| The District | | | <u>30,030,000</u> |
| Total Direct & Estimated Overlapping | | | <u>\$47,004,368</u> |

Debt Ratios

| | 2012 Taxable Assessed Valuation | Estimated Taxable Valuation as of April 1, 2013 |
|---|------------------------------------|--|
| Direct Debt | 14.39% | 10.44% |
| Total Direct and Estimated Overlapping Debt | 21.79% | 15.81% |

Pro-Forma Debt Service Requirements

The following schedules set forth the current total debt service requirements of the District and the principal and interest requirements on the Bonds, assuming that the Bonds are issued at an estimated interest rate of 4.25% per annum.

| Year Ending December 31 | Outstanding Debt Service | The Bonds | | Total Debt Service |
|-------------------------------|-----------------------------|--------------------|--------------------|-----------------------|
| | | Principal | Interest | |
| 2013 | \$ 748,911 | | | \$ 748,911 |
| 2014 | 2,336,475 | | \$ 86,063 | 2,422,538 |
| 2015 | 2,342,609 | \$ 40,000 | 67,858 | 2,450,467 |
| 2016 | 2,349,259 | 40,000 | 66,158 | 2,455,417 |
| 2017 | 2,365,748 | 45,000 | 64,334 | 2,475,082 |
| 2018 | 2,373,583 | 45,000 | 62,422 | 2,481,004 |
| 2019 | 2,382,815 | 45,000 | 60,509 | 2,488,324 |
| 2020 | 2,393,248 | 50,000 | 58,473 | 2,501,720 |
| 2021 | 2,399,560 | 50,000 | 56,348 | 2,505,908 |
| 2022 | 2,411,359 | 55,000 | 54,099 | 2,520,458 |
| 2023 | 2,408,500 | 55,000 | 51,761 | 2,515,261 |
| 2024 | 2,416,163 | 60,000 | 49,300 | 2,525,463 |
| 2025 | 2,434,109 | 60,000 | 46,750 | 2,540,859 |
| 2026 | 2,439,604 | 65,000 | 44,076 | 2,548,680 |
| 2027 | 2,447,340 | 65,000 | 41,314 | 2,553,654 |
| 2028 | 2,443,950 | 70,000 | 38,427 | 2,552,377 |
| 2029 | 2,453,673 | 70,000 | 35,452 | 2,559,125 |
| 2030 | 2,460,763 | 75,000 | 32,353 | 2,568,116 |
| 2031 | 2,455,331 | 80,000 | 29,042 | 2,564,373 |
| 2032 | 2,462,618 | 80,000 | 25,642 | 2,568,259 |
| 2033 | 477,163 | 85,000 | 22,118 | 584,280 |
| 2034 | 209,238 | 90,000 | 18,381 | 317,619 |
| 2035 | 207,675 | 95,000 | 14,432 | 317,107 |
| 2036 | 210,850 | 95,000 | 10,395 | 316,245 |
| 2037 | 213,675 | 100,000 | 6,233 | 319,908 |
| 2038 | | 105,000 | 1,859 | 106,859 |
| Total | <u>\$47,844,215</u> | <u>\$1,620,000</u> | <u>\$1,043,800</u> | <u>\$50,508,15</u> |

| | |
|---|-------------|
| Estimated Average Annual Requirements (2014-2038) | \$1,942,616 |
| Estimated Maximum Requirement (2032)..... | \$2,568,259 |

TAXING PROCEDURES

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

Authority to Levy Taxes

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in sufficient amount to pay the principal of and interest on the Bonds and any additional bonds payable from taxes which the District may hereafter issue, and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Order to levy such a tax from year to year as described more fully above under "THE BONDS - Source of Payment." Under Texas law, the Board may also levy and collect annual ad valorem taxes for the operation and maintenance of the District and the System and for the payment of certain contractual obligations. The District levied a maintenance and operation tax of \$0.15 per \$100 assessed value and a recreational facilities tax rate of \$0.10 per assessed value in 2012. See "TAX DATA – Tax Rate Limitation."

Property Tax Code and County-wide Appraisal District

The Texas Property Tax Code (the "Property Tax Code"), specifies the taxing procedures of all political subdivisions of the State of Texas, including the District. Provisions of the Property Tax Code are complex and are not fully summarized herein. The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas an appraisal district with the responsibility for recording and appraising property for all taxing units within a county and an appraisal review board with responsibility for reviewing and equalizing the values established by the Appraisal District. The Harris County Appraisal District (the "Appraisal District") has the responsibility of appraising property for all taxing units within Harris County, including the District. Such appraisal values will be subject to review and change by the Harris County Appraisal Review Board (the "Appraisal Review Board"). The appraisal roll, as approved by the Appraisal Review Board, will be used by the District in establishing its tax rolls and tax rate.

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

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. 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. Once an appraisal roll is prepared and approved by the Appraisal Review Board, it is used by the District in establishing its rate.

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

Property Subject to Taxation by the District

General: Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: property owned by the State of Texas or its political subdivisions, if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies and personal effects; certain goods, wares, and merchandise in transit; certain farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually-owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons 65 years or older and certain disabled persons, to the extent deemed advisable by the Board of Directors of the District. The District may be required to offer such exemptions if a majority of voters approve same at an election. The District would be required to call an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the preceding election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District's obligation to pay tax-supported debt incurred prior to adoption of the exemption by the District. Furthermore, the District must grant exemptions to disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces, if requested, but only to the maximum extent of between \$5,000 and \$12,000 depending upon the disability rating of the veteran claiming the exemption. Further, a veteran who receives a disability rating of 100% is entitled to an exemption of full value of the veteran's residential homestead. Furthermore, qualifying surviving spouses of persons 65 years of age and older are entitled to receive a resident homestead exemption equal to the exemption received by the deceased spouse. Effective January 1, 2012, 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.

Residential Homestead Exemptions: The Property Tax Code authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty (20%) percent of the appraised value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The District has never adopted a general homestead exemption.

Freeport Goods Exemption: 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.

Tax Abatement

Harris County may designate all or part of the area within the District as a reinvestment zone. Thereafter, either Harris County and/or the District, at the option and discretion of each entity, may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the District, for a period of up to ten (10) years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with the terms of the tax abatement. Each taxing jurisdiction has discretion to determine terms for its tax abatement agreements without regard to the terms approved by the other taxing jurisdiction. None of the area within the District has been designated as a Reinvestment Zone to date, and the District has not approved any such tax abatement agreements.

Valuation of Property for Taxation

Generally, all taxable property in the District (other than qualifying agriculture or timberland) must be appraised by the Appraisal District at one hundred percent (100%) of market value as of January 1 of each year subject to review and approval of the Appraisal Review Board. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Property Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Property Tax Code. Increases in assessed value of residential homesteads are limited to ten percent (10%) annually regardless of the market value of the property. Further, a developer or builder with houses which remain unoccupied, or are not leased or rented and produce no income may apply for a residential real property inventory designation, which would require such houses 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 with the District.

The Property Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land’s capacity to produce agricultural or timber products rather than at its fair market value. The Property Tax Code permits under certain circumstances that residential real property inventory held by a person in the trade or business be valued at the price all of such property would bring if sold as a unit to a purchaser who would continue the business. Provisions of the Property Tax Code are complex and are not fully summarized here. Landowners wishing to avail themselves of the agricultural use, open space or timberland designation or residential real property inventory designation must apply for the designation and the appraiser is required by the Property Tax Code to act on each claimant’s right to the designation individually. A claimant may waive the special valuation as

to taxation by one political subdivision while claiming it for another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous three years for agricultural use and taxes for the previous five years for open space land and timberland.

Notice and Hearing Procedures

The Property Tax Code establishes procedures for providing notice and the opportunity for a hearing for taxpayers in the event of certain proposed tax increases and provides for taxpayers referenda which could result in the repeal of certain tax increases. The District is required to publish a notice of a public hearing regarding the tax rate proposed to be levied in the current year and comparing the proposed tax rate to the tax rate set in the preceding year. If the proposed combined debt service, operation and maintenance and contract tax rates imposes a tax more than 1.08 times the amount of tax imposed in the preceding year on a residence homestead appraised at the average appraised value of a residence homestead, disregarding any homestead exemption available to the disabled or persons 65 years of age or older, the qualified voters of the taxing jurisdiction by petition of ten percent of the registered voters in the taxing jurisdiction may require that an election be held to determine whether to reduce the operation and maintenance tax to the rollback tax rate.

District and Taxpayer Remedies

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

Rollback of Operation and Maintenance Tax Rate

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

Levy and Collection of Taxes

The District is responsible for the levy and collection of its taxes, unless it elects to transfer such functions to another governmental entity. The date of delinquency may be postponed if the tax bills are mailed after January 10.

A person over sixty-five (65) years of age is entitled by law to pay current taxes on his residential homestead in installments or to defer tax without penalty during the time he owns and occupies the property as his residential homestead. By September 1 of each year, or as soon thereafter as practicable, the rate of taxation is set by the Board of Directors of the District based on valuation of property within the District as of the preceding January 1.

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

District's Rights in the Event of Tax Delinquencies

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

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

The Effect of FIRREA on Tax Collections in the District

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") contains certain provisions which affect the time for protesting property valuations, the fixing of tax liens and the collection of penalties and interest on delinquent taxes on real property owned by the Federal Deposit Insurance Corporation ("FDIC"). Under FIRREA, real property held by the FDIC is still subject to ad valorem taxation, but such act states that no real property of the FDIC shall be subject to foreclosure or sale without the consent of the FDIC, no involuntary liens shall attach to such property, the FDIC shall not be liable for any penalties, interest, or fines, including those arising from failure to pay any real or personal property tax when due, and notwithstanding failure of a person to challenge an appraisal in accordance with state law, such value shall be determined as of the period for which such tax is imposed.

TAX DATA

General

Taxable property within the District is subject to the assessment, levy and collection by the District of a continuing direct, annual ad valorem tax, without legal limitation as to rate or amount, sufficient to pay principal of and interest on the Bonds (and any future tax-supported bonds which may be issued from time to time as authorized). Taxes are levied by the District each year against the District's assessed valuation as of January 1 of that year. Taxes become due October 1 of such year, or when billed, and generally become delinquent after January 31 of the following year. The Board covenants in the Bond Order to assess and levy for each year that all or any part of the Bonds remain outstanding and unpaid a tax ample and sufficient to produce funds to pay the principal of and interest on the Bonds. The actual rate of such tax will be determined from year to year as a function of the District's tax base, its debt service requirements and available funds. In addition, the District has the power and authority to assess, levy and collect ad valorem taxes, not to exceed \$1.35 per \$100 of assessed valuation, for operation and maintenance purposes. The Board levied a 2012 tax rate for debt service purposes of \$1.00 per \$100 of assessed valuation, \$0.15 per \$100 of assessed valuation for operation and maintenance purposes for the System and \$0.10 per \$100 of assessed valuation for recreational facilities for a total tax rate of \$1.25 per \$100 assessed value.

Tax Rate Limitation

| | |
|------------------------|--|
| Debt Service: | Unlimited (no legal limit as to rate or amount). |
| Maintenance: | \$1.35 per \$100 of Assessed Valuation. |
| Recreation Facilities: | \$0.10 per \$100 of Assessed Valuation. |

Historical Tax Collections

The following table illustrates the collection history of the District from the 2005-2012 tax years:

| Tax Year | Assessed Valuation | Tax Rate/ \$100(a) | Adjusted Levy | Current Year | Fiscal Year Ending 9/30 | As of 04/30/13 |
|----------|--------------------|-----------------------|---------------|--------------|-------------------------|----------------|
| 2005 | \$ 12,254,997 | \$1.350000 | \$ 165,442 | 98.30% | 2006 | 100.00% |
| 2006 | 26,636,510 | 1.300000 | 346,275 | 98.00 | 2007 | 100.00 |
| 2007 | 61,921,972 | 1.250000 | 774,025 | 97.10 | 2008 | 99.90 |
| 2008 | 115,905,594 | 1.250000 | 1,448,820 | 97.00 | 2009 | 100.00 |
| 2009 | 154,479,605 | 1.250000 | 1,930,995 | 99.20 | 2010 | 100.00 |
| 2010 | 161,879,787 | 1.250000 | 2,023,497 | 99.60 | 2011 | 99.90 |
| 2011 | 188,199,961 | 1.250000 | 2,352,500 | 99.40 | 2012 | 99.80 |
| 2012 | 215,681,719 | 1.250000 | 2,696,021 | 98.60(b) | 2013 | 98.60 |

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

(b) As of April 30, 2013.

Tax Rate Distribution

| | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|-------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Debt Service | \$1.00 | \$1.00 | \$0.94 | \$0.94 | \$0.87 | \$0.87 |
| Maintenance | 0.15 | 0.15 | 0.21 | 0.21 | 0.28 | 0.38 |
| Recreational Facilities | <u>0.10</u> | <u>0.10</u> | <u>0.10</u> | <u>0.10</u> | <u>0.10</u> | <u>0.00</u> |
| | <u>\$1.25</u> | <u>\$1.25</u> | <u>\$1.25</u> | <u>\$1.25</u> | <u>\$1.25</u> | <u>\$1.25</u> |

Analysis of Tax Base

The following table illustrates the District’s total taxable assessed value in the 2008-2012 tax year by type of property.

| Type of Property | 2012 Assessed Valuation | 2011 Assessed Valuation | 2010 Assessed Valuation | 2009 Assessed Valuation | 2008 Assessed Valuation |
|-------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Land | \$ 58,922,791 | \$ 55,093,081 | \$ 46,655,923 | \$ 44,603,290 | \$ 36,489,933 |
| Improvements | 158,417,479 | 136,530,148 | 118,584,039 | 113,573,684 | 82,055,991 |
| Personal Property | 1,420,053 | 1,792,329 | 1,665,644 | 1,562,004 | 899,958 |
| Less: Exemptions | <u>(3,078,607)</u> | <u>(5,220,597)</u> | <u>(5,025,819)</u> | <u>(5,259,373)</u> | <u>(3,540,288)</u> |
| Total | <u>\$215,681,716</u> | <u>\$188,199,961</u> | <u>\$161,879,787</u> | <u>\$154,479,605</u> | <u>\$115,905,594</u> |

Principal Taxpayers

The following represents the principal taxpayers, type of property, and their assessed values as of January 1, 2012:

| Taxpayer | Type of Property | Assessed Valuation 2012 Tax Roll | % of 2012 Tax Roll |
|---------------------------------|---------------------|-------------------------------------|-----------------------|
| Peramco Inc. (a) | Land & Improvements | \$ 5,120,603 | 2.37% |
| Infinity Classic Homes, LLC (a) | Land & Improvements | 2,454,445 | 1.14 |
| Homeowner | Land & Improvements | 1,682,543 | 0.78 |
| Homeowner | Land & Improvements | 1,041,756 | 0.48 |
| Homeowner | Land & Improvements | 1,018,600 | 0.47 |
| Homeowner | Land & Improvements | 903,709 | 0.42 |
| Homeowner | Land & Improvements | 896,768 | 0.42 |
| Homeowner | Land & Improvements | 879,288 | 0.41 |
| Homeowner | Land & Improvements | 848,000 | 0.39 |
| Homeowner | Land & Improvements | <u>803,361</u> | <u>0.37</u> |
| Total | | <u>\$15,649,073</u> | <u>7.26%</u> |

(a) See “THE DEVELOPER” and “HOMEBUILDERS WITHIN THE DISTRICT.”

Tax Rate Calculations

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 of Taxable Assessed Valuation that would be required to meet certain debt service requirements if no growth in the District occurs beyond the 2012 Assessed Valuation (\$215,681,716), or alternatively, the Estimated Taxable Valuation as of April 1, 2013 (\$297,350,417). The foregoing further assumes collection of 95% of taxes levied and the sale of no additional bonds:

| | |
|---|-------------|
| Average Annual Debt Service Requirements (2014-2038)..... | \$1,942,616 |
| Tax Rate of \$0.95 on the 2012 Assessed Valuation at 95% collections produces | \$1,946,527 |
| Tax Rate of \$0.69 on the Estimated Taxable Valuation as of April 1, 2013 at 95% collections produces | \$1,949,132 |
| Maximum Annual Debt Service Requirement (2032)..... | \$2,568,259 |
| Tax Rate of \$1.26 on the 2012 Assessed Valuation at 95% collections produces | \$2,581,710 |
| Tax Rate of \$0.91 on the Estimated Taxable Valuation as of April 1, 213 at 95% collections produces | \$2,570,594 |

Estimated Overlapping Taxes

Property within the District is subject to taxation by several taxing authorities in addition to the District. Under Texas law, if ad valorem taxes levied by a taxing authority become delinquent, a lien is created upon the property which has been taxed. A tax lien on property in favor of the District is on a parity with tax liens of other taxing jurisdictions. In addition to ad valorem taxes required to make debt service payments on bonded debt of the District and of such other jurisdictions (see “DISTRICT DEBT - Estimated Overlapping Debt”), certain taxing jurisdictions are authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administrative and/or general revenue purposes.

Set forth below is a compilation of all 2012 taxes levied by such jurisdictions per \$100 of assessed valuation. Such levies do not include local assessments for community associations, fire department contributions, charges for solid waste disposal, or any other dues or charges made by entities other than political subdivisions.

| <u>Taxing Jurisdiction</u> | <u>2012 Tax Rate/ Per \$100 of A.V.</u> |
|---------------------------------------|---|
| The District | 1.250000 |
| Harris County | 0.400210 |
| Harris County Flood Control District | 0.028090 |
| Harris County Department of Education | 0.006617 |
| Harris County Hospital District | 0.182160 |
| Port of Houston Authority | 0.019520 |
| Klein Independent School District | 1.440000 |
| Lone Star College System District | 0.119800 |
| Harris County ESD #7 | 0.082400 |
| Harris County ESD #11 | <u>0.030000</u> |
| Estimated Total Tax Rate | <u>\$3.558797</u> |

THE DISTRICT

General

The District is a limited-purpose political subdivision of the State of Texas operating as a municipal utility district pursuant to Article XVI, Section 59 of the Texas Constitution. The District was created pursuant to the Acts of the 62nd Legislature, Regular Session 1971, Chapter 625, codified as Vernon’s Annotated Taxes Civil Statutes, Art. 8280-524. The District is vested with all the rights, privileges, authority and functions conferred by the laws of the State of Texas 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 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, among other things. The District may also provide solid waste collection and disposal service and operate and maintain recreational facilities. Currently the District contracts for solid waste collection service. The District may operate and maintain a fire department, independently or with one or more other conservation and reclamation districts, if approved by the voters and the TCEQ. The District does not operate and/or maintain a fire department. The District is subject to the continuing supervision of the TCEQ and is located exclusively within the extraterritorial jurisdiction of the City of Houston.

Description

Oakmont Public Utility District is located wholly within Harris County, approximately 25 miles north of Houston’s central business district, approximately 5 miles west of Interstate Highway 45 (“IH 45”), and approximately 1 mile south of Spring Creek and just north of Willow Creek. All of the land within the District is within the exclusive extraterritorial jurisdiction (the “ETJ”) of the City of Houston and Klein Independent School District.

Management of the District

The District is governed by a board of five directors which has control and management supervision over all affairs of the District. All of the present members of the Board reside within the District. Directors are elected in even-numbered years for four-staggered terms. The present members and officers of the Board and their principal occupations are listed below:

| <u>Name</u> | <u>Position</u> | <u>Term Expires May</u> |
|------------------|---------------------|-------------------------|
| Ken Streeter | President | 2015 |
| Michael P. Arden | Vice President | 2015 |
| Sylvia Sullivan | Secretary | 2017 |
| Brad D. Tinder | Assistant Secretary | 2017 |
| Randa Langerud | Assistant Secretary | 2015 |

The District employs the following companies and individuals to operate its utilities and recreational facilities:

Tax Assessor/Collector – The District's Tax Assessor/Collector is Equi-Tax Inc.

Bookkeeper – The District contracts with Cindy Schmidt, for bookkeeping services.

Utility System Operator – The District's operator is Hays Utility South Corporation.

Auditor – The District employed Roth & Eyring, PLLC to audit its financial records for the fiscal year ended September 30, 2012.

Engineer – The consulting engineer retained by the District in connection with the design and construction of the District's facilities is Jones & Carter, Inc. (the "Engineer").

Legal Counsel – The District employs Coats, Rose, Yale, Ryman & Lee, P.C. as Bond Counsel in connection with the issuance of the Bonds. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered and, therefore, such fees are contingent on the sale and delivery of the Bonds. Coats, Rose, Yale, Ryman & Lee, P.C. also acts as general counsel for the District.

Financial Advisor – RBC Capital Markets, LLC serves as the District's financial advisor (the "Financial Advisor"). The fee for services rendered in connection with the issuance of the Bonds is based on the percentage of the Bonds actually issued, sold and delivered and, therefore, such fee is contingent upon the sale and delivery of the Bonds. The Financial Advisor is employed by the District and has participated in the preparation of the Official Statement, however, the Financial Advisor is not obligated to undertake, and has not undertaken to make an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement that has been supplied or provided by third-parties. See "SOURCES OF INFORMATION - Experts."

THE DEVELOPER

The Role of a Developer

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

The Developer

The developer of land within the District is Peramco, Inc. ("Peramco" or the "Developer"), a privately owned Florida corporation. Peramco was formerly a Netherlands Antilles corporation formed in 1981 for the purpose of developing and marketing land within the United States of America ("USA"), and specifically the District and similar utility districts. Peramco has owned land in the District since 1983 and has developed all of the land heretofore developed in the District. All of the undeveloped but developable acreage currently located in the District is owned by Peramco. Peramco's experience developing utility districts has been obtained in connection with its development of the District, Harris County Municipal Utility District No. 217 and Northampton Municipal Utility District. In addition, the Developer has developed property in Southern Florida and Rockville, Maryland. Peramco is owned by foreign investors residing outside the USA. Such investors have experience in developing real estate in the USA but are under no commitment to advance funds to Peramco in the future. The management of Peramco has experience in the development and marketing of various residential, commercial and recreational land and building projects, both within and outside the USA and within the Houston area. See "THE BONDS – Issuance of Additional Debt." See "THE SYSTEM - Description of the System" and "THE BONDS - Use and Distribution of Bond Proceeds."

STATUS OF DEVELOPMENT IN THE DISTRICT

General

Oakmont Public Utility District is a political subdivision of the State of Texas and is located wholly within Harris County and the extraterritorial jurisdiction of the City of Houston. Development within the District began in 2003. To date, of the District's 469 acres, approximately 377 acres have been developed as 1,147 single family residential lots. The following presents the current status of improvements in the developed portion of the District.

Sales and Development

Development to date within the District has consisted of single-family housing within Village at Auburn Lakes, Sections 1 and 2, and Auburn Lakes Estates, Section 1 and 2; Auburn Lakes Retreat, Sections 1, 2, 3, 4 and 5; Auburn Lakes Reserve, Sections 1, 2, 3, 4 and 5; Auburn Lakes Pines, Sections 1, 2, 3, 4 and 5. The status of development as of May 1, 2013, is described below:

The following is a status of construction of single-family detached housing within the District:

| <u>Development Area (a)</u> | <u>Acreage</u> | <u>Platted Lots</u> | <u>Completed Lots</u> | <u>Completed Homes</u> | <u>Homes Under Construction</u> | <u>Remaining Vacant Developed Lots</u> |
|---------------------------------|----------------|-------------------------|---------------------------|----------------------------|---|--|
| Village at Auburn Lakes, | | | | | | |
| Section 1 | 27.03 | 87 | 87 | 87 | 0 | 0 |
| Section 2 | 25.34 | 82 | 82 | 82 | 0 | 0 |
| Auburn Lakes Estates, | | | | | | |
| Section 1 | 20.24 | 41 | 41 | 32 | 1 | 8 |
| Section 2 | 37.23 | 52 | 52 | 15 | 5 | 32 |
| Auburn Lakes Retreat, | | | | | | |
| Section 1 | 22.18 | 57 | 57 | 57 | 0 | 0 |
| Section 2 | 18.52 | 41 | 41 | 38 | 2 | 1 |
| Section 3 | 25.57 | 72 | 72 | 68 | 1 | 3 |
| Section 4 | 14.06 | 38 | 38 | 31 | 1 | 6 |
| Section 5 | 20.57 | 56 | 56 | 1 | 21 | 34 |
| Auburn Lakes Reserve, | | | | | | |
| Section 1 | 18.25 | 56 | 56 | 56 | 0 | 0 |
| Section 2 | 21.82 | 77 | 77 | 74 | 1 | 2 |
| Section 3 | 22.23 | 81 | 81 | 78 | 0 | 3 |
| Section 4 | 16.58 | 49 | 49 | 39 | 6 | 4 |
| Section 5 | 11.25 | 41 | 41 | 0 | 24 | 17 |
| Auburn Lakes Pines, | | | | | | |
| Section 1 | 14.24 | 51 | 51 | 51 | 0 | 0 |
| Section 2 | 10.67 | 41 | 41 | 41 | 0 | 0 |
| Section 3 | 17.64 | 73 | 73 | 72 | 1 | 0 |
| Section 4 | 15.64 | 69 | 69 | 59 | 6 | 4 |
| Section 5 | 17.94 | 83 | 83 | 24 | 24 | 35 |
| | <u>377.00</u> | <u>1,147</u> | <u>1,147</u> | <u>905</u> | 93 | <u>149</u> |
| Undeveloped, but Developable | 2.76 | | | | | |
| Undevelopable | <u>89.25</u> | | | | | |
| Total | <u>469.01</u> | | | | | |

(a) See "DISTRICT MAP."

There were approximately 61 homes built in the District during 2010, approximately 100 homes were built during 2011, approximately 125 homes were built during 2012; and approximately 61 homes were built during the first four months of 2013.

HOMEBUILDERS WITHIN THE DISTRICT

Homebuilders Within the District

Homebuilding within the District began in 2003. The homebuilders active in the District are Infinity Classic Homes, Village Builders, First Texas Homes, Cannon Custom Homes, Matt Powers Homes, David Weekley Homes, Lennar Homes, Great American Builders and Brickland Homes. Homes in the District range in price from \$175,000 to \$1,200,000.

Lennar Homes, Infinity Homes and First Texas Homes are purchasing lots in Auburn Lakes Pines, Sections 5. Each of these homebuilders is required to purchase 3 lots per quarter until all of the lots in the subdivisions are purchased.

Each homebuilder is in compliance with its respective takedown contract. Homes being constructed in Auburn Lakes Pines, Section 5 range in price from \$190,000 to \$250,000.

Lennar Homes and Infinity Homes are purchasing lots in Auburn Lakes Reserve, Sections 2, 3, 4 and 5 with each homebuilder being required to purchase 3 lots per calendar quarter. Each homebuilder is in compliance with its respective takedown contract. Homes in such subdivision range in price from \$250,000 to \$290,000.

Village Builders and David Weekley Homes are purchasing lots in Auburn Lakes Retreat, Section 4 and 5 and are each required to purchase 3 lots per calendar quarter. Each homebuilder is in compliance with its takedown contract and is constructing homes in the \$350,000 to \$450,000 price range.

Custom homebuilders active within the District include Cannon Custom Homes, Matt Powers Homes, Great American Builders and Brickland Homes. Each homebuilder is required to own an unsold home to be able to continue to purchase lots. Custom homes being built in the District range in price from \$700,000 to \$1,200,000.

PHOTOGRAPHS TAKEN WITHIN THE DISTRICT
(May, 2013)



PHOTOGRAPHS TAKEN WITHIN THE DISTRICT
(May, 2013)



THE SYSTEM

Regulation

According to the Engineer, the water distribution and wastewater collection lines constructed by the District (the “System”) have been designed in accordance with accepted engineering practices and the requirements of all governmental agencies having regulatory or supervisory jurisdiction over the construction and operation of such facilities including, among others, the TCEQ, the City of Houston, and Harris County. According to the District’s Engineer, the design of all such facilities has been approved by all required governmental agencies and inspected by the TCEQ.

Operation of the District’s waterworks and sewer treatment facilities is subject to regulation by, among others, the Environmental Protection Agency and the TCEQ. In many cases, regulations promulgated by these agencies have become effective only recently and are subject to further development and revisions.

Description of the System

- Wastewater Treatment and Conveyance System -

On June 15, 1993, the District entered into an agreement (which was amended on October 8, 2009) between the District, Northampton Municipal Utility District (“Northampton MUD”) and Klein Independent School District (“Klein ISD”) to share a 1,150,000-gallon per day (“gpd”) wastewater treatment facility (the “WWTP”). Pursuant to the agreement, the District has a 0.435 million gallon per day (“mgd”) share in the plant. Northampton MUD has a 0.640 mgd share, and Klein ISD has a 0.075 mgd share. The WWTP is operated by Northampton MUD. The WWTP is sufficient to serve a total of 3,650 equivalent single-family connections (“ESFCs”). The District’s pro-rata share of the WWTP is sufficient to serve 1,380 ESFCs.

- Water Supply and Distribution -

The District owns and operates a 1,400 gallon per minute (“gpm”) water plant (the “Water Plant”). The Water Plant contains two 15,000 gallon pressure tanks, a 426,000 gallon ground storage tank, three (3) 700 gpm booster pumps and one (1) 450 kw generator, and one (1) forced draft aerator. The Water Plant is capable of serving approximately 1,050 ESFCs.

- Drainage -

The developed portions of the District are served with storm sewers, three detention ponds and outfall drainage facilities constructed with proceeds of certain developer advances. According to the Engineer, the Federal Emergency Management Agency Flood Hazard Boundary Map currently in effect which covers the land in the District reflects some of the developed acres in the District lie within the 100-year flood plain. Approximately 11.95 acres lie within the 100-year flood plain.

Subsidence and Conversion to Surface Water Supply

The District is located within Area 3 of the boundaries of the Harris-Galveston Subsidence District (the “Subsidence District”), the entity which regulates groundwater withdrawal in Harris and Galveston Counties. The District’s ability 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 Regulatory Plan (the “Regulatory Plan”) to reduce groundwater withdrawal through conversion to surface water consumption by the areas within the Subsidence District’s boundaries. Under the Regulatory Plan, areas within the Subsidence District’s boundaries were to convert to 30% surface water by 2010, 70% surface water by 2020 and 80% surface water by 2030. The HGSD’s Board of Directors adopted an updated regulatory plan (the “2013 Regulatory Plan”) on January 9, 2013. Under the 2013 Regulatory Plan, the Authority is required to: maintain groundwater withdrawals at no more than 70% of total annual water demand under permits issued through 2024; reduce and maintain its groundwater withdrawals to no more than 40% (as opposed to 30%) of total annual water demand beginning with permits issued in 2025 (as

opposed to 2020); and reduce and maintain its groundwater withdrawals to no more than 20% of total annual water demand beginning with permits issued in 2035 (as opposed to 2030). Water permittees including the District, are required to adopt and implement a groundwater reduction plan to meet the schedule for surface water conversion.

The District is also located within the boundaries of the North Harris County Regional Water Authority (the “Water Authority”). The District was included in the ground water reduction plan for the Water Authority. The Groundwater reduction plan was filed with the Subsidence District on January 1, 2004. The Water Authority was created to accomplish the conversion to surface water by entities within the Subsidence District’s Area 3 in accordance with the Subsidence District’s Regulatory Plan. To implement the required conversion to surface water in accordance with the Subsidence District’s Regulatory Plan, the Water Authority 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 Water Authority’s boundaries (the “Surface Water Facilities”). The District is not currently located in the 2010, 2025, or 2035 service area to receive surface water, therefore, the District has no plans to acquire, design, construct, operate, or finance any Surface Water Facilities. The Water Authority has also contracted with the City of Houston to secure a long-term supply of surface water. To obtain funding to accomplish its purposes, the Water Authority is currently assessing a pumpage fee in the amount of \$1.75 per 1,000 gallons for groundwater and a fee of \$2.20 per 1,000 gallons for surface water. The Water Authority has sold three issues of Senior Lien Revenue Bonds in the principal amount of \$456,675,000 to finance costs related to the design, acquisition and construction of Phase 1 of the Surface Water Facilities. The Water Authority bonds are secured by revenues of the Water Authority, including the groundwater pumpage fee and surface water fee. The groundwater pumpage fee and surface water fee may increase in the future.

No representation is made that the Water Authority will continue in existence or will build the Surface Water Facilities to meet the Subsidence District’s Regulatory Plan. If such Surface Water Facilities are not constructed, 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.

INVESTMENT CONSIDERATIONS

General

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

Economic Factors Affecting Taxable Values and Tax Payments

The rate of development within the District is directly related to the vitality of the single-family housing in the Houston metropolitan area. New single-family residential construction can be significantly affected by factors such as interest rates, construction costs, and consumer demand. Decreased levels of single-family residential construction would restrict the growth of property values in the District. Although the District has constructed 905 single-family homes and has 93 single-family homes under construction, the District cannot predict the pace or magnitude of any future development in the District. See “STATUS OF DEVELOPMENT IN THE DISTRICT.”

Location and Access: The District is located approximately 25 miles north of Houston’s central business district, approximately 5 miles west of Interstate Highway 45 (“IH 45”), and approximately 1 mile south of Spring Creek and just north of Willow Creek. The Developers and homebuilders active within the District compete for the sale of developed lots and homes with numerous residential development projects located closer to major employment centers and closer to major freeways. In addition, many of the residential developments with which the District competes have lower total tax rates. As a result, particularly during times of increased competition, the Developers and homebuilders may find themselves at a competitive disadvantage to the developers and homebuilders in other residential projects located closer to major urban centers or with lower tax rates. See “THE DISTRICT.”

Recent Events in Real Estate Market: In the past few years, the housing and mortgage markets in most parts of the United States have been under pressure due to many economic factors, including the tightening of credit standards, reduction of access to mortgage capital, and interest rate adjustments on many adjustable rate mortgages which have caused property owners to default on their mortgages. Foreclosures have increased to record levels as a result of these factors, and residential property values in most areas of the country have generally declined. Through the 2012 certified value, such downturn has not had a significant effect in the District. However, the Harris County area has experienced reduced levels of home construction and home values. The District cannot predict what impact, if any, a continued downturn in the national and local housing market may have on the Harris County area market and assessed values in the District.

Developer’s Obligations to the District: There is no commitment by or legal requirement of the Developer, or any other landowner to the District to proceed at any particular rate or according to any specified plan with the development of land in the District, or of any home builder to proceed at any particular pace with the construction of homes in the District. Moreover, there is no restriction on any land owner's right to sell its land. Therefore, the District can make no representation about the probability of future development, if any, or the rate of future home construction activity in the District. Failure to construct taxable improvements on developed lots would restrict the rate of growth of taxable values in the District and result in higher tax rates. See “STATUS OF DEVELOPMENT IN THE DISTRICT,” and “THE DEVELOPER.”

Maximum Impact on District Tax Rate: 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 property owners to pay their taxes. The 2012 Assessed Valuation of property within the District (see “SELECTED FINANCIAL INFORMATION”) is \$215,681,716 and the Estimated Taxable Valuation as of April 1, 2013 is \$297,350,417. After issuance of the Bonds, the maximum annual debt service requirement will be \$2,568,259 (2032) and the average annual debt service requirement will be \$1,942,616 (2014 through 2038 inclusive). Assuming no increase nor decrease from the 2012 Assessed Valuation, a tax rate of \$1.26 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the maximum annual debt service requirement of \$2,568,259 and a tax rate of \$0.95 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the average annual debt service requirements of \$1,942,616 (see “DISTRICT DEBT – Pro-Forma Debt Service Requirements”). Assuming no increase or decrease from the Estimated Taxable Valuation as of April 1, 2013, tax rates of \$0.91 and \$0.69 per \$100 of Assessed Valuation at a 95% tax collection rate would be necessary to pay the maximum annual debt service requirement and the average annual debt service requirement on the Bonds, respectively. The District levied a tax rate in 2012 for debt service purposes of \$1.00 per \$100 of assessed valuation and a tax rate of \$0.25 per \$100 of assessed valuation for operation and maintenance purposes (\$0.15 for operation and maintenance of the System and \$0.10 for parks and recreation).

Tax Collections and Foreclosure Remedies

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

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

Registered Owners' Remedies

Remedies available to Registered Owners of Bonds in the event of a default by the District under the Bond Order are limited. Although the Bond Order provides that the Registered Owners may obtain a writ of mandamus requiring performance by the District, such remedy must be exercised upon each default and may prove time-consuming, costly and difficult to enforce. The Bond Order does not provide for acceleration of maturity of the Bonds, appointment of a trustee to protect the interests of the Registered Owners or any other additional remedy in the event of a default by the District. The Bonds are not secured by an interest in the improvements financed with the Bonds, or any other property of the District. No judgment against the District is enforceable by execution of a levy against the District's public purpose property. Further, the Registered Owners themselves cannot foreclose on property within the District or sell property within the District in order to pay the principal of and interest on the Bonds. The rights of the Registered Owners and the enforceability of the Bonds may also be delayed, reduced or otherwise affected by proceedings under the Federal Bankruptcy Code or other laws affecting the enforcement of creditors' rights generally. See "THE BONDS – Registered Owners' Remedies."

Future Debt

Following the issuance of the Bonds, the District will have \$16,680,000 principal amount of unlimited tax bonds authorized for the purpose of acquiring, constructing, owning, operating, repairing, improving or extending the water, sanitary sewer and storm drainage facilities (the "System") and \$10,000,000 principal amount of unlimited tax bonds authorized for parks and recreational facilities will remain authorized but unissued. The District reserves in the Bond Order the right to issue the remaining authorized but unissued bonds plus such additional bonds as may hereafter be authorized by voters in the District. In addition, the District has the right to issue obligations, other than the Bonds, including tax anticipation notes and bond anticipation notes, and to borrow money for any valid public purpose. The issuance of additional obligations may increase the District's tax rate and adversely affect the security for and the investment quality and value of the Bonds. Following the issuance of the Bonds, the District will owe the Developer approximately \$2,000,000 for the existing infrastructure. See "STATUS OF DEVELOPMENT IN THE DISTRICT."

Additional tax bonds may be authorized by District's voters 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 therefore 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.

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

The District is authorized by statute to develop parks and recreational facilities, including the issuing of bonds payable from taxes for such purpose. Before the District could issue park bonds payable from taxes, the following actions would be required (a) approval of the park project and bonds by the Commission; (b) approval of the bonds by the District; and (c) approval of the bonds by the Attorney General of Texas. If the District does issue park bonds, the outstanding principal amount of such bonds may not exceed an amount equal to one percent of the value of the taxable property in the District. At an election held within the District on February 7, 2004, voters in the District approved \$10,000,000 principal amount of park bonds. The District has not issued any park bonds, but may do so in the future.

At the election on February 7, 2004, the voters in the District approved the levy of a maintenance and operation tax of \$0.10 per \$100 assessed value for parks and recreation. The District is currently levying a \$0.10 per \$100 assessed value for parks and recreation operations tax.

The District is within the Harris-Galveston Coastal Subsidence District (the "Subsidence District") which regulates the withdrawal of ground water within its jurisdiction. The District's authority to pump ground water from its wells is subject to annual permits issued by the Subsidence District. The Subsidence District has ordered certain areas of suburban Houston to convert most of their water supply to surface water under various time schedules but has not established a date for the District to commence restricting the withdrawal of ground water and to develop a source of surface water. The issuance of additional bonds by the District at some time in the future in an undetermined amount may be necessary to meet these requirements. See "THE SYSTEM - Subsidence and Conversion to Surface Water Supply."

Based on present engineering cost estimates and on development plans supplied by the Developer, in the opinion of the District's consulting engineer, Jones & Carter, Inc. (the "Engineer"), following the issuance of the Bonds, the remaining \$16,680,000 principal amount of authorized but unissued bonds will be sufficient to fully finance the remaining undeveloped but developable land within the District.

Proposed Legislation

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

Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The disclosures and opinions expressed herein are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of

the Bonds, and no opinion is expressed as of any date subsequent thereto or with respect to any proposed or pending legislation, regulatory initiatives or litigation.

Competitive Nature of Houston Residential Market

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

Collection of Taxes

The District's ability to pay debt service on the Bonds may be adversely affected by its ability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien on the property in favor of the District on a parity with the lien of all other state and local authorities. Such lien can be foreclosed in judicial proceedings. 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 a tax collection procedure against a taxpayer or (c) market conditions limiting the proceeds from a foreclosure sale of taxable property including the taxpayer's right to redeem property for a specified period of time after foreclosure at the foreclosure sale price. See "TAXING PROCEDURES – Levy and Collection of Taxes."

Marketability of the Bonds

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

Environmental and Air Quality Regulations

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

- Requiring permits for construction and operation of water wells, wastewater treatment and other facilities;
- Restricting the manner in which wastes are treated and released into the air, water and soils;
- Restricting or regulating the use of wetlands or other properties;
- 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 Issues. Air quality control measures required by the United States Environmental Protection Agency (the "EPA") and the Commission may impact new industrial, commercial and residential development in Houston and adjacent areas. Under the Clean Air Act ("CAA") Amendments of 1990, the eight-county Houston Galveston

area (“HGB area”) - Harris, Galveston, Brazoria, Chambers, Fort Bend, Waller, Montgomery and Liberty counties - was designated by the EPA in 2008 as a severe ozone nonattainment area, with an attainment date of June 15, 2019. Such areas are required to demonstrate progress in reducing ozone concentrations each year until the EPA's “8-hour” ozone standards are met. To provide for reductions in ozone concentrations, the EPA and the Commission have imposed increasingly stringent limits on sources of air emissions and require any new source of significant air emissions to provide for a net reduction of air emissions. If the HGB area fails to demonstrate progress in reducing ozone concentrations or fails to meet EPA's standards, EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects, as well as severe emissions offset requirements on new major sources of air emissions for which construction has not already commenced.

In order to comply with the EPA's standards for the HGB area, the Commission has established a state implementation plan (“SIP”) setting emission control requirements, some of which regulate the inspection and use of automobiles. These types of measures could impact how people travel, what distances people are willing to travel, where people choose to live and work, and what jobs are available in the HGB area. It is possible that additional controls will be necessary to allow the HGB area to reach attainment by June 15, 2019. These additional controls could have a negative impact on the HGB area's economic growth and development.

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

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

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

Operations of utility districts are also potentially subject to stormwater discharge permitting requirements under the Clean Water Act and EPA and TCEQ regulations. The TCEQ issued a general permit for stormwater discharges associated with industrial activities (which will be reissued, and could be revised, in 2013) and a general permit for stormwater discharges associated with small municipal separate storm sewer systems (which should be issued by the end of 2012 and is undergoing significant revisions during TCEQ's renewal of that permit). The TCEQ and/or EPA are expected to issue more stringent stormwater discharge permit. The District could incur substantial costs to develop and implement such plans as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff.

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.

Bankruptcy Limitation to Registered Owners' Rights

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. Under Texas law, the District must obtain the approval of the

TCEQ prior to filing bankruptcy. The rights and remedies of the Registered Owners could be adjusted in accordance with the confirmed plan of adjustment of the District's debt.

Continuing Compliance with Certain Covenants

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

Approval of the Bonds

The Attorney General of Texas must approve the legality of the Bonds prior to their delivery. The Attorney General of Texas, however, does not pass upon or guarantee the safety of the Bonds as an investment or the adequacy or accuracy of the information contained in this Official Statement.

Bond Insurance Risk Factors

The District has applied for a bond insurance policy to guarantee the scheduled payment of principal and interest on the Bonds. The District has yet to determine whether an insurance policy will be purchased with the Bonds. If an insurance policy is purchased, the following are risk factors relating to bond insurance.

In the event of default of the payment of principal or interest with respect to the Bonds when all or some becomes due, any owner of the Bonds shall have a claim under the applicable Bond Insurance Policy (the "Policy") for such payments. However, in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments are to be made in such amounts and at such times as such payments would have been due had there not been any such acceleration. The Policy does not insure against redemption premium, if any. The payment of principal and interest in connection with mandatory or optional prepayment of the Bonds by the District which is recovered by the District from the bond owner as a voidable preference under applicable bankruptcy law is covered by the insurance policy, however, such payments will be made by the Bond Insurer at such time and in such amounts as would have been due absence such prepayment by the District unless the Bond Insurer chooses to pay such amounts at an earlier date.

Under most circumstances, default of payment of principal and interest does not obligate acceleration of the obligations of the Bond Insurer without appropriate consent. The Bond Insurer may direct and must consent to any remedies and the Bond Insurer's consent may be required in connection with amendments to any applicable bond documents.

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

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

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

Neither the District or Underwriter have made independent investigation into the claims paying ability of the Bond Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Bond Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest on the Bonds and the claims paying ability of the Bond Insurer, particularly over the life of the investment. See “Bond Insurance” herein for further information provided by the Bond Insurer and the Policy, which includes further instructions for obtaining current financial information concerning the Bond Insurer.

LEGAL MATTERS

Legal Opinions

Issuance of the Bonds is subject to the approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and binding obligations of the District payable from an annual ad valorem tax levied without limit as to rate or amount upon all taxable property within the District. Issuance of the Bonds is also subject to the legal opinion of Bond Counsel that, based upon examination of the transcript of the proceedings incident to authorization and issuance of the Bonds, the Bonds are valid and legally binding obligations of the District payable from the sources and enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity, and are payable from annual ad valorem taxes, which are not limited by applicable law in rate or amount, levied against all property within the District which is not exempt from taxation by or under applicable law. The legal opinion will further state that the 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.” The legal opinion of Bond Counsel will be printed on the Bonds, if certificated Bonds are issued. Such opinions will express no opinion with respect to the sufficiency of the security for or the marketability of the Bonds. Certain legal matters will be passed upon for the District by Andrews Kurth LLP, Austin, Texas, Disclosure Counsel.

In addition to serving as Bond Counsel, Coats, Rose, Yale, Ryman & Lee, P.C. also acts as counsel to the District on matters not related to the issuance of bonds. The legal fees to be paid Bond Counsel and Disclosure Counsel for services rendered in connection with the issuance of the Bonds are based upon a percentage of bonds actually issued, sold and delivered and, therefore, such fees are contingent upon the sale and delivery of the Bonds.

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, to the best knowledge and belief of the certifying officers, threatened against the District contesting or attacking the Bonds; 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 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 Preliminary Official Statement, as it may have been supplemented or amended through the date of sale.

TAX EXEMPTION

Delivery of the Bonds is subject to an opinion of Coats, Rose, Yale, Ryman & Lee, P.C., 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, interest on the Bonds (1) will be excludable from the gross income, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes pursuant to section 103 of the Code as amended to the date of issuance of the Bonds, existing regulations, published rulings, and court decisions thereunder, and (2) will not be included in the alternative minimum taxable income of individuals or, except as described below, corporations. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change.

Interest on all tax-exempt obligations, such as 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 and certifications 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 will assume continuing compliance by the District with certain covenants in the Bond Resolution subsequent to the issuance of the Bonds. Failure to comply with any of these covenants would cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of issuance of the Bonds.

Bond Counsel's opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent Bond Counsel's legal judgment based upon its review of existing law to the extent deemed relevant to render such opinions and the representations and covenants referenced above. The Service has an ongoing audit program to determine whether interest on selected state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to the likelihood that the Service will commence an audit of the Bonds. If an audit is commenced, under current procedures the Service is likely to treat the District as the "taxpayer," and the owners 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. 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.

Except as described above, Bond Counsel will express no opinion with respect to any other federal, state or local tax consequences 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, "S" corporations with "subchapter C" earnings and profits, certain foreign corporations doing business in the United States, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, 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.

TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT AND PREMIUM

The initial public offering price (as furnished by the Underwriter) of certain Bonds (the “Discount Bonds”), may be less than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bond. A portion of such original issue discount, allocable to the holding period of such Discount Bond by the initial purchaser, will, upon the disposition of such Discount Bond (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes on the same terms and conditions as those for other interest on the Bonds described above under “TAX EXEMPTION.” Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will result in an amount of interest different from the amount of the payment denominated as interest actually received by the initial purchaser during his taxable 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 Sections 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, owners of an interest in a FASIT, 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 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 certain of the Bonds (the “Premium Bonds”), may be greater than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bond. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser may be reduced each year by the amortizable bond premium. Such reduction in basis will increase the amount of any gain or decrease the amount of any loss to be recognized for federal income tax purposes upon the sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity. Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium with respect to the 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 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 disallowance of interest expense allocable to interest on the Bonds under Section 265(b) of the Code. However, 20 percent 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

In the Bond Resolution, the District has 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 the Municipal Securities Rulemaking Board (“MSRB”). The MSRB has established the Electronic Municipal Market Access (“EMMA”) system which is available at www.emma.msrb.org.

Annual Reports

The District will provide certain updated financial information and operating data via EMMA annually.

The information to be updated with respect to the District includes all quantitative financial information and operating data of the general type included in this Official Statement under the headings “DISTRICT DEBT” (except under the subheading “Estimated Overlapping Debt Statement”), “TAX DATA,” and “APPENDIX A - Financial Statements of the District.” The District will update and provide this information within six months after the end of each of its fiscal years ending in or after 2013.

The District will update and provide this information via EMMA within six months after the end of each of its fiscal years ending in or after September 30, 2013. Any information so provided shall be prepared in accordance with generally accepted auditing standards or other such principles as the District may be required to employ from time to time pursuant to state law or regulation, and audited if the audit report is completed within the period during which it must be provided. If the audit report is not complete within such period, then the District shall provide unaudited financial statements for the applicable fiscal year to the MSRB within such six month period, and audited financial statements when the audit report becomes available.

The District’s current fiscal year end is September 30. Accordingly, it must provide updated information by March 31 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

Material Event Notices

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

Availability of Information from EMMA

The District has agreed to provide the information only to the MSRB. The MSRB has prescribed that such information must be filed via EMMA. The MSRB makes the information available to the public without charge and investors will be able to access continuing disclosure information filed with the MSRB at www.emma.msrb.org.

Limitations and Amendments

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

The District may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or operations of the District but only if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with SEC Rule 15c2-12, taking into account any amendments and interpretations of the Rule to the date of such amendment, as well as changed circumstances, and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. The District may also amend or repeal the agreement if the SEC amends or repeals the applicable provisions of such rule or a court of final jurisdiction determines that such provisions are invalid, but in either case only to the extent that its right to do so would not prevent the Underwriter from lawfully purchasing the Bonds in the offering described herein. If the District so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement

described above under “Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance with Prior Undertakings

The District will agree in the Bond Order to provide certain periodic information and notices of material events in accordance with SEC Rule 15c2-12. The Underwriter’s obligation to accept and pay for the Bonds is conditioned upon delivery to the Underwriter or their agent of a certified copy of the Bond Order containing the provisions described under such heading.

The District became obligated in 2006 to make annual disclosure of certain financial information. Due to an administrative oversight, the District failed to timely file information regarding its principal taxpayers for the fiscal year ending September 30, 2009; such filing was due by March 31, 2010. As of this date, all required information has been filed. The District has instituted procedures to ensure timely filing of all required information.

SOURCES OF INFORMATION

General

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

Experts

Bond Counsel has reviewed the information appearing in this Official Statement under the captions “THE BONDS,” “TAXING PROCEDURES,” “THE DISTRICT - General,” “LEGAL MATTERS - Legal Opinions,” “TAX-EXEMPTION,” “TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT AND PREMIUM,” “QUALIFIED TAX-EXEMPT OBLIGATIONS,” and “CONTINUING DISCLOSURE.” Bond Counsel has reviewed the information under the aforementioned sections solely to determine whether such information fairly summarizes the law or documents referred to in such sections. Bond Counsel has not independently verified other factual information contained in this Official Statement nor 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 the limited participation of such firm as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the other information contained herein.

The information contained in this Official Statement relating to engineering and to the description of the System generally and, in particular, the engineering information included in the sections captioned “THE DISTRICT” and “THE SYSTEM” has been provided by the Engineer and has been included herein in reliance upon the authority of said 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 valuations, analysis of the tax base and percentages of tax collections contained in the sections captioned “TAX DATA” has been provided by the Harris County Appraisal District and the District's Tax Assessor/Collector, and has been included herein in reliance upon the authority of such parties as experts in the field of tax assessing and collecting.

The information contained in this Official Statement relating to development and the status of development within the District generally and, in particular, the information in the sections captioned “STATUS OF DEVELOPMENT IN THE DISTRICT” and “THE DEVELOPER” has been provided by the Developer and has been included herein in reliance upon their authority and knowledge of such party concerning the matters described therein.

The information contained in this Official Statement relating to the District’s financial statements, in particular, the information in Appendix A, has been provided by the Auditor and has been included herein in reliance upon their authority and knowledge of such party concerning the matters described therein.

Updating of Official Statement

If, subsequent to the date of the Official Statement, the District learns, through the ordinary course of business and without undertaking any investigation or examination for such purposes, or is notified by the Underwriter, of any adverse event which causes the Official Statement to be materially misleading, and unless the Underwriter elects to terminate its obligation to purchase the Bonds, the District will promptly prepare and supply to the Underwriter an appropriate amendment or supplement to the Official Statement satisfactory to the Underwriter; provided, however, that the obligation of the District to so amend or supplement the Official Statement will terminate when the District delivers the Bonds to the Underwriter, unless the Underwriter notifies the District on or before such date that less than all of the Bonds have been sold to ultimate customers, in which case the District's obligations hereunder will extend for an additional period of time (but not more than 90 days after the date the District delivers the Bonds) until all of the Bonds have been sold to ultimate customers.

Official Statement “Deemed Final”

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission, this document, as the same may be supplemented or corrected by the District from time-to-time, may be treated as an Official Statement with respect to the Bonds described herein “deemed final” by the District as of the date hereof (or of any such supplement or correction) except for the omission of certain information referred to in the succeeding paragraph.

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

Certification as to Official Statement

The District, acting by and through its Board of Directors in its official capacity in reliance upon the experts listed above, hereby certifies, as of the date hereof, that to the best of its knowledge, the information, statements and descriptions pertaining to the District and its affairs herein 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 were made, not misleading. The information, descriptions and statements concerning entities other than the District, including particularly other governmental entities, have been obtained from sources believed to be reliable, but the District has made no independent investigation or verification of such matters and makes no representation as to the accuracy or completeness thereof.

Concluding Statement

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

This Official Statement was approved by the Board of Directors of Oakmont Public Utility District as of the date shown on the first page hereof.

/s/ _____
President, Board of Directors
Oakmont Public Utility District

ATTEST:

/s/ _____
Secretary, Board of Directors
Oakmont Public Utility District

APPENDIX A
FINANCIAL STATEMENTS OF THE DISTRICT

OAKMONT PUBLIC UTILITY DISTRICT
HARRIS COUNTY, TEXAS
ANNUAL AUDIT REPORT
SEPTEMBER 30, 2012

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Roth & Eyring, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

4915 S. Main • Suite 114 • Stafford, Texas 77477 • 281-277-9595 • Fax 281-277-9484

January 10, 2013

INDEPENDENT AUDITORS' REPORT

Board of Directors
Oakmont Public Utility District
Harris County, Texas

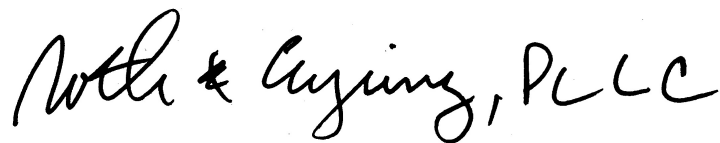
We have audited the accompanying financial statements of Oakmont Public Utility District as of September 30, 2012, and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the management of Oakmont Public Utility District. Our responsibility is to express an opinion 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oakmont Public Utility District as of September 30, 2012, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on Pages 2 to 7 and Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual, General Fund, on Page 21 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 opinions on the financial statements that collectively comprise Oakmont Public Utility District's financial statements as a whole. The supplementary information on Pages 22 to 43 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Except for the portion marked "unaudited," this supplementary 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 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.



Management's Discussion and Analysis

Using this Annual Report

Within this section of the Oakmont Public Utility District (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 September 30, 2012.

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. Other activities, such as recreation facilities and garbage collection, are minor activities and are not budgeted or accounted for as separate programs. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented on the left side of the statements, a column for adjustments is to the right of the fund financial statements, and the government-wide financial statements are presented to the right side of the adjustments column. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

Government-Wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the District. The District's government-wide financial statements include the statement of net position and statement of activities, which are prepared using accounting principles that are similar to commercial enterprises. The purpose of the statement of net position is to attempt to report all of the assets 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. 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, costs of issuance and 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>2012</u> | <u>2011*</u> | <u>Change</u> |
|--|-----------------------|-----------------------|---------------------|
| Current and other assets | \$ 2,690,828 | \$ 2,766,240 | \$ (75,412) |
| Capital assets | <u>19,538,935</u> | <u>16,854,459</u> | <u>2,684,476</u> |
| Total assets | <u>22,229,763</u> | <u>19,620,699</u> | <u>2,609,064</u> |
| Long-term liabilities | 25,664,868 | 23,056,540 | 2,608,328 |
| Other liabilities | <u>3,585,692</u> | <u>3,386,856</u> | <u>198,836</u> |
| Total liabilities | <u>29,250,560</u> | <u>26,443,396</u> | <u>2,807,164</u> |
| Net position: | | | |
| Invested in capital assets, net of related debt | (9,339,432) | (9,159,732) | (179,700) |
| Restricted | 1,611,559 | 1,798,027 | (186,468) |
| Unrestricted | <u>707,076</u> | <u>539,008</u> | <u>168,068</u> |
| Total net position | <u>\$ (7,020,797)</u> | <u>\$ (6,822,697)</u> | <u>\$ (198,100)</u> |

Summary of Changes in Net Position

| | <u>2012</u> | <u>2011*</u> | <u>Change</u> |
|---|-----------------------|-----------------------|---------------------|
| Revenues: | | | |
| Property taxes, including related penalty and interest | \$ 2,363,824 | \$ 2,121,340 | \$ 242,484 |
| Charges for services | 1,038,493 | 876,752 | 161,741 |
| Other revenues | <u>10,904</u> | <u>17,100</u> | <u>(6,196)</u> |
| Total revenues | <u>3,413,221</u> | <u>3,015,192</u> | <u>398,029</u> |
| Expenses: | | | |
| Service operations | 1,812,739 | 3,340,334 | (1,527,595) |
| Debt service | <u>1,798,582</u> | <u>1,764,078</u> | <u>34,504</u> |
| Total expenses | <u>3,611,321</u> | <u>5,104,412</u> | <u>(1,493,091)</u> |
| Change in net position | (198,100) | (2,089,220) | 1,891,120 |
| Net position, beginning of year | <u>(6,822,697)</u> | <u>(4,733,477)</u> | <u>(2,089,220)</u> |
| Net position, end of year | <u>\$ (7,020,797)</u> | <u>\$ (6,822,697)</u> | <u>\$ (198,100)</u> |

*Restated. See Note 11 of the notes to the financial statements.

Financial Analysis of the District's Funds

The District's combined fund balances as of the end of the fiscal year ended September 30, 2012, were \$2,445,624, a decrease of \$133 from the prior year.

The General Fund balance increased by \$166,655, as revenues and the reimbursement of \$10,016 from the Capital Projects Fund exceeded expenditures.

The Debt Service Fund balance decreased by \$19,247, in accordance with the District's financial plan.

The Capital Projects Fund balance decreased by \$147,541, as authorized expenditures from all bond sales and the reimbursement of \$10,016 to the General Fund exceeded the proceeds from the Series 2011 bonds and the Series 2012 Bond Anticipation Note.

General Fund Budgetary Highlights

The Board of Directors did not amend the budget during the fiscal year. There were significant differences between the budgetary amounts and the actual amounts. Actual revenues and expenditures were generally less than budgeted except for tap connection and inspection fees revenues and purchased services, recreation facilities and capital outlay expenditures which were more than budgeted. The reimbursement from the Capital Projects Fund was not budgeted. The budgetary fund balance as of September 30, 2012, was expected to be \$788,363 and the actual end of year fund balance was \$701,698.

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>2012</u> | <u>2011</u> | <u>Change</u> |
| Land | \$ 1,067,165 | \$ 1,067,165 | \$ 0 |
| Detention ponds | 2,811,392 | 2,719,852 | 91,540 |
| Buildings and improvements | 2,024,605 | 2,108,963 | (84,358) |
| Recreation equipment | 29,667 | 37,085 | (7,418) |
| Construction in progress | 2,481,507 | 3,572,147 | (1,090,640) |
| Water facilities | 5,233,084 | 4,926,379 | 306,705 |
| Sewer facilities | 5,891,515 | 2,422,868 | 3,468,647 |
| Totals | <u>\$ 19,538,935</u> | <u>\$ 16,854,459</u> | <u>\$ 2,684,476</u> |

Changes to capital assets during the fiscal year ended September 30, 2012, are summarized as follows:

| | | |
|-------------------------------------|--|---------------------|
| Additions: | | |
| Detention improvements | | \$ 91,540 |
| Facilities constructed by developer | | 3,071,118 |
| Aeration tower at water plant | | 9,224 |
| Other improvements | | <u>7,474</u> |
| Total additions to capital assets | | 3,179,356 |
| Decreases: | | |
| Depreciation | | <u>(494,880)</u> |
| Net change to capital assets | | <u>\$ 2,684,476</u> |

Debt

Changes in the bonded debt position of the District during the fiscal year ended September 30, 2012, are summarized as follows:

| | |
|---|----------------------|
| Bonded debt payable, beginning of fiscal year | \$ 24,240,000 |
| Sale of Series 2011 bonds | 3,360,000 |
| Bonds paid | <u>(610,000)</u> |
| Bonded debt payable, end of fiscal year | <u>\$ 26,990,000</u> |

At September 30, 2012, the District had \$21,460,000 of bonds authorized but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage system within the District and \$10,000,000 for parks and recreational facilities.

The District sold its Series 2012 Bond Anticipation Note in the amount of \$1,730,000 on March 29, 2012. The Note was paid from the proceeds of the Series 2012 \$3,160,000 Unlimited Tax Bonds which were issued on November 20, 2012.

The District has an underlying rating of BBB- by Standard & Poor's. The Series 2007 bonds are insured by Radian Asset Assurance Inc. and the Series 2010 are insured by Assured Guaranty Municipal Corp. The rating of the Series 2007 bonds is BBB- by Standard & Poor's. The insured rating of the Series 2010 bonds is AA- by Standard & Poor's. There was no change in the bond ratings during the fiscal year ended September 30, 2012.

As further described in Note 5 of the notes to the financial statements, a developer within the District is constructing water, sewer and drainage facilities on behalf of the District under the terms of contracts with the District. The District has agreed to purchase these facilities from the proceeds of future bond issues subject to the approval of the Texas Commission on Environmental Quality. At September 30, 2012, the estimated amount due to the developer for this purpose was \$834,370. These amounts have been recorded in the District's September 30, 2012 government-wide financial statements.

RELEVANT FACTORS AND WATER SUPPLY ISSUES

Property Tax Base

The District's tax base increased approximately \$26,300,000 for the 2011 tax year (about 1.6%), primarily due to the addition of new houses 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 in whole, but not in part, by the City of Houston without the District's consent. If the District is annexed, the City will assume the District's assets, functions and obligations (including the bonded indebtedness) and dissolve the District.

The District is authorized to enter into a strategic partnership agreement with the City of Houston to provide the terms and conditions under which services would be provided and funded by the parties and under which the District would continue to exist for an extended period if the land within the District would be annexed for limited purposes by the City. The terms of any such agreement would be determined by the City and the District.

The District is not aware of any plans regarding annexation or a strategic partnership with the City of Houston.

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, 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 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 (currently \$5.00 per 1,000 gallons) 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 (the "Pumpage Fee") that is assessed and collected by the NHCRWA pursuant to the NHCRWA's Pumpage Fee Order. The Pumpage Fee was \$1.75 for the period beginning January 1, 2010, and is expected to increase in the future. The Authority's surface water usage fee was equal to \$2.20 effective January 1, 2010, 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 three 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.

OAKMONT PUBLIC UTILITY DISTRICT

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET

SEPTEMBER 30, 2012

| | <u>General</u> | <u>Debt Service</u> | <u>Capital Projects</u> | <u>Total</u> | <u>Adjustments (Note 3)</u> | <u>Statement of Net Position</u> |
|---|--------------------------|----------------------------|-----------------------------|----------------------------|---------------------------------|--|
| ASSETS | | | | | | |
| Cash, including interest-bearing accounts, Note 7 | \$ 695,108 | \$ 555,500 | \$ 43,844 | \$ 1,294,452 | \$ | \$ 1,294,452 |
| Certificates of deposit, at cost, Note 7 | | 1,127,000 | | 1,127,000 | | 1,127,000 |
| Receivables: | | | | | | |
| Property taxes | 5,378 | 17,844 | | 23,222 | | 23,222 |
| Accrued penalty and interest on property taxes | | | | 0 | 6,826 | 6,826 |
| Service accounts | 102,047 | | | 102,047 | | 102,047 |
| Accrued interest | | 341 | | 341 | | 341 |
| Other | 31,600 | | | 31,600 | | 31,600 |
| Maintenance and park and rec. taxes collected not yet transferred from other fund | 6,804 | | | 6,804 | (6,804) | 0 |
| Prepaid bond issuance expenditures | 35,642 | | 41,698 | 77,340 | | 77,340 |
| Operating reserve at joint facilities, Note 9 | 28,000 | | | 28,000 | | 28,000 |
| Capital assets, net of accumulated depreciation, Note 4: | | | | | | |
| Capital assets not being depreciated | | | | 0 | 6,360,064 | 6,360,064 |
| Depreciable capital assets | | | | 0 | 13,178,871 | 13,178,871 |
| Total assets | <u>\$ 904,579</u> | <u>\$ 1,700,685</u> | <u>\$ 85,542</u> | <u>\$ 2,690,806</u> | <u>19,538,957</u> | <u>22,229,763</u> |
| LIABILITIES | | | | | | |
| Accounts payable | \$ 134,113 | \$ 16,065 | \$ 1,588 | \$ 151,766 | | 151,766 |
| Accrued interest payable | | | | 0 | 118,155 | 118,155 |
| Customer and builder deposits | 63,390 | | | 63,390 | | 63,390 |
| Maintenance and park and rec. taxes collected not yet transferred to other fund | | 6,804 | | 6,804 | (6,804) | 0 |
| Deferred property tax revenue | 5,378 | 17,844 | | 23,222 | (23,222) | 0 |
| Long-term liabilities, Note 5: | | | | | | |
| Due within one year | | | | 0 | 3,252,381 | 3,252,381 |
| Due in more than one year | | | | 0 | 25,664,868 | 25,664,868 |
| Total liabilities | <u>202,881</u> | <u>40,713</u> | <u>1,588</u> | <u>245,182</u> | <u>29,005,378</u> | <u>29,250,560</u> |
| FUND BALANCES / NET POSITION | | | | | | |
| Fund balances: | | | | | | |
| Nonspendable: | | | | | | |
| Operating reserve at joint facilities, Note 9 | 28,000 | | | 28,000 | (28,000) | 0 |
| Restricted for: | | | | | | |
| Bond interest, Note 5 | | 38,882 | | 38,882 | (38,882) | 0 |
| Assigned to: | | | | | | |
| Debt service | | 1,621,090 | | 1,621,090 | (1,621,090) | 0 |
| Capital projects | | | 83,954 | 83,954 | (83,954) | 0 |
| Unassigned | <u>673,698</u> | | | <u>673,698</u> | <u>(673,698)</u> | <u>0</u> |
| Total fund balances | <u>701,698</u> | <u>1,659,972</u> | <u>83,954</u> | <u>2,445,624</u> | <u>(2,445,624)</u> | <u>0</u> |
| Total liabilities and fund balances | <u>\$ 904,579</u> | <u>\$ 1,700,685</u> | <u>\$ 85,542</u> | <u>\$ 2,690,806</u> | | |
| Net position: | | | | | | |
| Invested in capital assets, net of related debt, Note 4 | | | | | (9,339,432) | (9,339,432) |
| Restricted for debt service | | | | | 1,527,605 | 1,527,605 |
| Restricted for capital projects | | | | | 83,954 | 83,954 |
| Unrestricted | | | | | <u>707,076</u> | <u>707,076</u> |
| Total net position | | | | | <u>\$ (7,020,797)</u> | <u>\$ (7,020,797)</u> |

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

OAKMONT PUBLIC UTILITY DISTRICT

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

FOR THE YEAR ENDED SEPTEMBER 30, 2012

| | General Fund | Debt Service Fund | Capital Projects Fund | Total | Adjustments (Note 3) | Statement of Activities |
|---|-------------------|-------------------------|-----------------------------|---------------------|-------------------------|-------------------------------|
| REVENUES | | | | | | |
| Property taxes for debt service | \$ | \$ 1,875,517 | \$ | \$ 1,875,517 | \$ 7,744 | \$ 1,883,261 |
| Property taxes for maintenance | 281,484 | | | 281,484 | | 281,484 |
| Property taxes for parks and recreation | 187,565 | | | 187,565 | | 187,565 |
| Water service | 217,314 | | | 217,314 | | 217,314 |
| Sewer service | 316,735 | | | 316,735 | | 316,735 |
| Surface water fees, Note 10 | 284,797 | | | 284,797 | | 284,797 |
| Penalty and interest | 12,704 | 9,010 | | 21,714 | 2,504 | 24,218 |
| Tap connection and inspection fees | 194,040 | | | 194,040 | | 194,040 |
| Interest on deposits | 1,501 | 8,790 | 613 | 10,904 | | 10,904 |
| Accrued interest on bonds received at date of sale | | 2,430 | | 2,430 | (2,430) | 0 |
| Other revenues | <u>12,903</u> | | | <u>12,903</u> | | <u>12,903</u> |
| Total revenues | <u>1,509,043</u> | <u>1,895,747</u> | <u>613</u> | <u>3,405,403</u> | <u>7,818</u> | <u>3,413,221</u> |
| EXPENDITURES / EXPENSES | | | | | | |
| Service operations: | | | | | | |
| Purchased services, Note 9 | 144,257 | | | 144,257 | | 144,257 |
| Professional fees | 161,271 | 1,017 | | 162,288 | | 162,288 |
| Contracted services | 57,512 | 33,439 | | 90,951 | | 90,951 |
| Utilities | 66,702 | | | 66,702 | | 66,702 |
| Surface water pumpage fees, Note 10 | 269,822 | | | 269,822 | | 269,822 |
| Repairs and maintenance | 125,233 | | | 125,233 | | 125,233 |
| Other operating expenditures | 45,430 | | | 45,430 | | 45,430 |
| Recreation facilities | 169,540 | | | 169,540 | | 169,540 |
| Garbage disposal | 143,429 | | | 143,429 | | 143,429 |
| Administrative expenditures | 28,828 | 4,166 | | 32,994 | | 32,994 |
| Depreciation | | | | 0 | 494,880 | 494,880 |
| Capital outlay / non-capital outlay | 140,380 | | 2,717,914 | 2,858,294 | (2,791,081) | 67,213 |
| Debt service: | | | | | | |
| Principal retirement | | 610,000 | | 610,000 | (610,000) | 0 |
| Bond issuance expenditures | | | 327,217 | 327,217 | | 327,217 |
| Interest and fees | | 1,412,179 | | 1,412,179 | 59,186 | 1,471,365 |
| Total expenditures / expenses | <u>1,352,404</u> | <u>2,060,801</u> | <u>3,045,131</u> | <u>6,458,336</u> | <u>(2,847,015)</u> | <u>3,611,321</u> |
| Excess (deficiency) of revenues over expenditures | <u>156,639</u> | <u>(165,054)</u> | <u>(3,044,518)</u> | <u>(3,052,933)</u> | <u>2,854,833</u> | <u>(198,100)</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Reimbursement (to) from other fund | 10,016 | | (10,016) | 0 | 0 | 0 |
| Bonds issued, Note 5 | | 213,007 | 3,146,993 | 3,360,000 | (3,360,000) | 0 |
| Bond issuance discount, Note 5 | | (67,200) | | (67,200) | 67,200 | 0 |
| Bond Anticipation Note paid, Note 5 | | | (1,970,000) | (1,970,000) | 1,970,000 | 0 |
| Bond Anticipation Note issued, Note 5 | | | 1,730,000 | 1,730,000 | (1,730,000) | 0 |
| Total other financing sources (uses) | <u>10,016</u> | <u>145,807</u> | <u>2,896,977</u> | <u>3,052,800</u> | <u>(3,052,800)</u> | <u>0</u> |
| Net change in fund balances / net position | 166,655 | (19,247) | (147,541) | (133) | (197,967) | (198,100) |
| Beginning of year, restated, Note 11 | <u>535,043</u> | <u>1,679,219</u> | <u>231,495</u> | <u>2,445,757</u> | <u>(9,268,454)</u> | <u>(6,822,697)</u> |
| End of year | <u>\$ 701,698</u> | <u>\$ 1,659,972</u> | <u>\$ 83,954</u> | <u>\$ 2,445,624</u> | <u>\$ (9,466,421)</u> | <u>\$ (7,020,797)</u> |

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

OAKMONT PUBLIC UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2012

NOTE 1: REPORTING ENTITY

Oakmont Public Utility District (the "District") was created by Acts of the 62nd Legislature of the State of Texas, Regular Session, 1971, 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 September 2, 1971, and the first bonds were sold on October 25, 2005. 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. The District may provide garbage disposal and collection services and maintain recreational facilities. 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. Based upon the application of these criteria, there were no other entities which were included as a component unit in the District's financial statements.

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 District first utilizes restricted resources to finance qualifying activities. 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.

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 revenues. 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:

| | |
|----------------------------|-------------|
| Buildings and improvements | 40 years |
| Recreation equipment | 5-10 years |
| 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 | | \$ 2,445,624 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds: | | |
| Total capital assets, net | | 19,538,935 |
| 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 | \$ (26,990,000) | |
| Less: Issuance discount (to be amortized as interest expense) | 637,121 | |
| Bond Anticipation Note payable | (1,730,000) | |
| Due to developer | <u>(834,370)</u> | (28,917,249) |
| 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 | 6,826 | |
| Uncollected property taxes | <u>23,222</u> | 30,048 |
| Some liabilities that do not require the use of current financial resources are not reported as liabilities in the funds: | | |
| Accrued interest | | <u>(118,155)</u> |
| Net position, end of year | | <u>\$ (7,020,797)</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 | | \$ (133) |
| <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 | \$ 2,791,081 | |
| Depreciation | <u>(494,880)</u> | 2,296,201 |
| <p>The issuance of long-term debt (bonds and bond anticipation notes payable) 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> | | |
| Bonds issued | (3,360,000) | |
| Bond Anticipation Note issued | (1,730,000) | |
| Bond Anticipation Note paid | 1,970,000 | |
| Principal reduction | <u>610,000</u> | (2,510,000) |
| <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> | | |
| Issuance discount | | 14,971 |
| <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 | 2,504 | |
| Uncollected property taxes | <u>7,744</u> | 10,248 |
| <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>(9,387)</u> |
| Change in net position | | <u>\$ (198,100)</u> |

NOTE 4: CAPITAL ASSETS

At September 30, 2012, "Invested in capital assets, net of related debt" was \$(9,339,432). 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 September 30, 2012, was as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--|------------------------------|---------------------|---------------------|---------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 1,067,165 | \$ | \$ | \$ 1,067,165 |
| Detention ponds | 2,719,852 | 91,540 | | 2,811,392 |
| Construction in progress | <u>3,572,147</u> | <u>3,067,682</u> | <u>4,158,322</u> | <u>2,481,507</u> |
| Total capital assets not being depreciated | <u>7,359,164</u> | <u>3,159,222</u> | <u>4,158,322</u> | <u>6,360,064</u> |
| Depreciable capital assets: | | | | |
| Buildings and improvements | 2,530,753 | | | 2,530,753 |
| Recreation equipment | 90,453 | | | 90,453 |
| Water system | 5,512,616 | 522,325 | | 6,034,941 |
| Sewer system | <u>2,747,672</u> | <u>3,656,131</u> | | <u>6,403,803</u> |
| Total depreciable capital assets | <u>10,881,494</u> | <u>4,178,456</u> | <u>0</u> | <u>15,059,950</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (421,790) | (84,358) | | (506,148) |
| Recreation equipment | (53,368) | (7,418) | | (60,786) |
| Water system | (586,237) | (215,620) | | (801,857) |
| Sewer system | <u>(324,804)</u> | <u>(187,484)</u> | | <u>(512,288)</u> |
| Total accumulated depreciation | <u>(1,386,199)</u> | <u>(494,880)</u> | <u>0</u> | <u>(1,881,079)</u> |
| Total depreciable capital assets, net | <u>9,495,295</u> | <u>3,683,576</u> | <u>0</u> | <u>13,178,871</u> |
| Total capital assets, net | <u>\$ 16,854,459</u> | <u>\$ 6,842,798</u> | <u>\$ 4,158,322</u> | <u>\$ 19,538,935</u> |
| Changes to capital assets: | | | | |
| Capital outlay | | \$ 2,791,081 | \$ | |
| Assets transferred to depreciable assets | | 4,158,322 | 4,158,322 | |
| Capital outlay paid (decrease in liability) to developer | | (2,682,843) | | |
| Increase in liability to developer | | 3,071,118 | | |
| Less depreciation expense for the fiscal year | | <u>(494,880)</u> | | |
| Net increases / decreases to capital assets | | <u>\$ 6,842,798</u> | <u>\$ 4,158,322</u> | |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 5: LONG-TERM LIABILITIES AND CONTINGENT LIABILITIES

The following note does not include the Series 2012 Unlimited Tax Bonds in the amount of \$3,160,000 which were issued on November 20, 2012.

Long-term liability activity for the fiscal year ended September 30, 2012, 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 | \$ 24,240,000 | \$ 3,360,000 | \$ 610,000 | \$ 26,990,000 | \$ 740,000 |
| Less deferred amounts: | | | | | |
| For issuance discounts | <u>(622,150)</u> | <u>(67,200)</u> | <u>(52,229)</u> | <u>(637,121)</u> | <u>(51,989)</u> |
| Total bonds payable | <u>23,617,850</u> | <u>3,292,800</u> | <u>557,771</u> | <u>26,352,879</u> | <u>688,011</u> |
| Bond Anticipation Notes payable | 1,970,000 | 1,730,000 | 1,970,000 | 1,730,000 | 1,730,000 |
| Due to developer (see below) | <u>446,095</u> | <u>3,071,118</u> | <u>2,682,843</u> | <u>834,370</u> | <u>834,370</u> |
| Total long-term liabilities | <u>\$ 26,033,945</u> | <u>\$ 8,093,918</u> | <u>\$ 5,210,614</u> | <u>\$ 28,917,249</u> | <u>\$ 3,252,381</u> |

Bond Anticipation Notes Payable

The District sold its Series 2012 Bond Anticipation Note in the amount of \$1,730,000 on March 29, 2012. The Note was paid from the proceeds of the Series 2012 \$3,160,000 Unlimited Tax Bonds which were issued on November 20, 2012.

Developer Construction Commitments and Liabilities

A developer within the District is constructing water, sewer and drainage facilities on behalf of the District under the terms of contracts with the District. The District has agreed to purchase these facilities from the proceeds of future bond issues subject to the approval of the Texas Commission on Environmental Quality. At September 30, 2012, the estimated amount due to the developer for this purpose was \$834,370. These amounts have been recorded in the District's September 30, 2012 government-wide financial statements and in the schedules in Notes 4 and 5.

As of September 30, 2012, the debt service requirements on the bonds payable were as follows:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|------------------------|----------------------|----------------------|----------------------|
| 2013 | \$ 740,000 | \$ 1,411,432 | \$ 2,151,432 |
| 2014 | 785,000 | 1,372,795 | 2,157,795 |
| 2015 | 830,000 | 1,331,447 | 2,161,447 |
| 2016 | 880,000 | 1,290,696 | 2,170,696 |
| 2017 | 935,000 | 1,249,865 | 2,184,865 |
| 2018 - 2022 | 5,520,000 | 5,511,984 | 11,031,984 |
| 2023 - 2027 | 7,295,000 | 3,890,644 | 11,185,644 |
| 2028 - 2032 | 9,740,000 | 1,532,335 | 11,272,335 |
| 2033 | <u>265,000</u> | <u>6,625</u> | <u>271,625</u> |
| | <u>\$ 26,990,000</u> | <u>\$ 17,597,823</u> | <u>\$ 44,587,823</u> |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

| | |
|------------------------------------|---------------|
| Bonds voted | \$ 50,000,000 |
| Bonds approved for sale and sold | 28,540,000 |
| Bonds voted and not issued | 21,460,000 |
| Parks and recreational bonds voted | 10,000,000 |
| Bonds approved for sale and sold | 0 |
| Bonds voted and not issued | 10,000,000 |

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 bond issues payable at September 30, 2012, were as follows:

| | <u>Series 2005</u> | <u>Series 2007</u> | <u>Series 2008</u> |
|--|---------------------|---------------------|---------------------|
| Amounts outstanding, September 30, 2012 | \$1,545,000 | \$4,945,000 | \$5,260,000 |
| Interest rates | 4.20% to 5.00% | 4.50% to 7.00% | 5.50% to 7.50% |
| Maturity dates, serially beginning/ending | March 1, 2013/2025 | March 1, 2013/2032 | March 1, 2013/2032 |
| Interest payment dates | March 1/September 1 | March 1/September 1 | March 1/September 1 |
| Callable dates | March 1, 2014* | March 1, 2015* | March 1, 2015* |
| | <u>Series 2009</u> | <u>Series 2010</u> | <u>Series 2011</u> |
| Amounts outstanding, September 30, 2012 | \$8,160,000 | \$3,720,000 | \$3,360,000 |
| Interest rates | 4.00% to 6.00% | 4.00% to 6.50% | 2.50% to 5.00% |
| Maturity dates, serially beginning/ending | March 1, 2013/2032 | March 1, 2013/2032 | March 1, 2013/2033 |
| Interest payment dates | March 1/September 1 | March 1/September 1 | March 1/September 1 |
| Callable dates | March 1, 2016* | March 1, 2018* | March 1, 2019* |

*Or any date thereafter, in whole or in part, callable at par plus unpaid accrued interest to the date fixed for redemption.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

In accordance with the Series 2010 and Series 2011 Bond Orders, a portion of the bond proceeds were deposited into the debt service fund and reserved for the payment of bond interest. This bond interest reserve is reduced as the interest is paid. Transactions for the current year are summarized as follows:

| | | |
|--|------------------|------------------|
| Bond interest reserve, beginning of year: | | \$ 19,754 |
| Series 2010 | | |
| 12 months' interest from sale of Series 2011 bonds | \$ 145,807 | |
| Accrued interest received at date of sale | <u>2,430</u> | 148,237 |
| Deduct appropriation for bond interest paid: | | |
| Series 2010 | (19,754) | |
| Series 2011 | <u>(109,355)</u> | <u>(129,109)</u> |
| Bond interest reserve, end of year, Series 2011 | | <u>\$ 38,882</u> |

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 are not delinquent until after the following January 30. 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 Orders require 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 held February 7, 2004, the voters within the District authorized a maintenance tax not to exceed \$1.35 per \$100 valuation on all property subject to taxation within the District. This maintenance tax is being used by the general fund to pay expenditures of operating the District.

At an election held February 7, 2004, the voters within the District authorized a parks and recreation tax not to exceed \$0.10 per \$100 valuation on all property subject to taxation within the District

On October 13, 2011, the District levied the following ad valorem taxes for the 2011 tax year on the adjusted taxable valuation of \$188,183,337:

| | <u>Rate</u> | <u>Amount</u> |
|----------------|------------------|---------------------|
| Debt service | \$ 1.0000 | \$ 1,881,842 |
| Maintenance | 0.1500 | 282,276 |
| Parks and rec. | <u>0.1000</u> | <u>188,184</u> |
| | <u>\$ 1.2500</u> | <u>\$ 2,352,302</u> |

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

| | |
|--|---------------------|
| 2011 tax year total property tax levy | \$ 2,352,302 |
| Appraisal district adjustments to prior year taxes | <u>8</u> |
| Statement of Activities property tax revenues | <u>\$ 2,352,310</u> |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

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 \$2,421,452 and the bank balance was \$2,469,943. Of the bank balance, \$1,930,525 was covered by federal insurance and \$539,418 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.

Deposits 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 | \$ 555,500 |
| Certificates of deposit | <u>1,127,000</u> |
| | <u>\$ 1,682,500</u> |

Capital Projects Fund

For construction of capital assets:

| | |
|------|------------------|
| Cash | \$ <u>43,844</u> |
|------|------------------|

During the fiscal year ended September 30, 2012, the District reimbursed \$10,016 from the Capital Projects Fund to the General Fund from the proceeds of the Series 2011 bonds with the permission of the Texas Commission on Environmental Quality.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

At September 30, 2012, the District had physical damage and boiler and machinery coverage of \$5,050,000, 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 \$1,000,000, worker's compensation coverage of \$1,000,000, consultant's crime coverage of \$250,000 and a tax assessor-collector bond of \$10,000.

NOTE 9: CONTRACTS WITH OTHER DISTRICT

Wastewater Treatment Contract

On June 15, 1993, the District, Northampton Municipal Utility District ("Northampton") and Klein Independent School District to share a 750,000 gallon per day wastewater treatment facility. The term of the contract is forty years. The District owns 18% of the capacity of the facility. Northampton is the operator and manager of the facilities. Expansion costs of the facilities are to be funded by the contribution of funds from each participating district. The facilities issues no debt.

Participants are billed a monthly amount which is equal to the actual costs incurred during the prior month divided according to percentage of ownership and volume delivered to the facilities. During the fiscal year ended September 30, 2012, the District accrued \$137,657 for its share of facilities expenditures. At this date the District had contributed \$28,000 of the facilities' operating reserve.

Water Supply Agreement

The District's cost for water purchased from Northampton under an emergency water supply agreement was \$6,600 for the fiscal year ended September 30, 2012.

NOTE 10: 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, 2000. 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 September 30, 2012, the Authority had established a well pumpage fee of \$1.75 per 1,000 gallons of water pumped from each regulated well. Prior to the completion of the District's water plant, the District's well pumpage fees were paid through the charges as described in Note 9. Subsequent to the completion of the water plant, the District's well pumpage fees payable to the Authority for the fiscal year ended September 30, 2012, were \$269,822. The District billed its customers \$284,797 during the fiscal year to pay for the fees charged by the Authority.

NOTE 11: CHANGE IN ACCOUNTING PRINCIPLE

In March of 2012, the GASB issued Statement No. 65 which changed the method of accounting for bond issuance costs. Prior to Statement No. 65, bond issuance costs were recorded as a deferred charge and amortized over the life of the bond issue. Statement No. 65 requires bond issuance costs to be recorded as an expense of the period incurred. Statement No. 65 also requires that the financial statements of prior periods be restated for all periods presented and the beginning of year net position to be restated for the current period. Accordingly, the beginning of year net position of the District has been reduced by \$2,420,463, the amount of deferred charges as of that date.

OAKMONT PUBLIC UTILITY DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE, BUDGET AND ACTUAL, GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2012

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | Variance with |
|---|-------------------------|-------------------|-------------------|--|
| | <u>Original</u> | <u>Final</u> | | Final Budget Positive (Negative) |
| REVENUES | | | | |
| Property taxes for maintenance | \$ 280,170 | \$ 280,170 | \$ 281,484 | \$ 1,314 |
| Property taxes for parks and recreation | 186,780 | 186,780 | 187,565 | 785 |
| Water service | 300,000 | 300,000 | 217,314 | (82,686) |
| Sewer service | 348,000 | 348,000 | 316,735 | (31,265) |
| Surface water fees | 456,000 | 456,000 | 284,797 | (171,203) |
| Penalty | 12,900 | 12,900 | 12,704 | (196) |
| Tap connection and inspection fees | 119,000 | 119,000 | 194,040 | 75,040 |
| Interest on deposits | 2,000 | 2,000 | 1,501 | (499) |
| Other revenues | <u>12,300</u> | <u>12,300</u> | <u>12,903</u> | <u>603</u> |
| TOTAL REVENUES | <u>1,717,150</u> | <u>1,717,150</u> | <u>1,509,043</u> | <u>(208,107)</u> |
| EXPENDITURES | | | | |
| Service operations: | | | | |
| Purchased services | 120,000 | 120,000 | 144,257 | 24,257 |
| Professional fees | 159,000 | 159,000 | 161,271 | 2,271 |
| Contracted services | 54,000 | 54,000 | 57,512 | 3,512 |
| Utilities | 76,800 | 76,800 | 66,702 | (10,098) |
| Surface water pumpage fees | 456,000 | 456,000 | 269,822 | (186,178) |
| Repairs and maintenance | 150,000 | 150,000 | 125,233 | (24,767) |
| Other operating expenditures | 43,640 | 43,640 | 45,430 | 1,790 |
| Recreation facilities | 152,800 | 152,800 | 169,540 | 16,740 |
| Garbage disposal | 156,000 | 156,000 | 143,429 | (12,571) |
| Administrative expenditures | 39,590 | 39,590 | 28,828 | (10,762) |
| Capital outlay | <u>56,000</u> | <u>56,000</u> | <u>140,380</u> | <u>84,380</u> |
| TOTAL EXPENDITURES | <u>1,463,830</u> | <u>1,463,830</u> | <u>1,352,404</u> | <u>(111,426)</u> |
| EXCESS REVENUES (EXPENSES) | 253,320 | 253,320 | 156,639 | (96,681) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Reimbursement (to)/from other fund | <u>0</u> | <u>0</u> | <u>10,016</u> | <u>10,016</u> |
| TOTAL OTHER FINANCIAL SOURCES (USES) | <u>0</u> | <u>0</u> | <u>10,016</u> | <u>10,016</u> |
| EXCESS SOURCES (USES) | 253,320 | 253,320 | 166,655 | (86,665) |
| FUND BALANCE, BEGINNING OF YEAR | <u>535,043</u> | <u>535,043</u> | <u>535,043</u> | <u>0</u> |
| FUND BALANCE, END OF YEAR | <u>\$ 788,363</u> | <u>\$ 788,363</u> | <u>\$ 701,698</u> | <u>\$ (86,665)</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 auditors' report.

OAKMONT PUBLIC UTILITY DISTRICT
SCHEDULE OF TEXAS SUPPLEMENTARY INFORMATION
REQUIRED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY
SEPTEMBER 30, 2012

(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 General 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

OAKMONT PUBLIC UTILITY DISTRICT
SCHEDULE OF SERVICES AND RATES
SEPTEMBER 30, 2012

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

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

2. Retail Service Providers

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

| | Minimum Charge | Minimum Usage | Flat Rate Y/N | Rate per 1000 Gallons Over Minimum | Usage Levels |
|-------------|-------------------|--------------------|---------------------|--|---|
| WATER: | \$13.50 | 10,000 | N | \$1.00 1.15 1.35 | 10,001 to 20,000 20,001 to 35,000 Over 35,000 |
| WASTEWATER: | \$33.27 | | Y | | |
| SURCHARGE: | \$1.93 | Surface water fees | | | |

District employs winter averaging for wastewater usage: Yes No

Total charges per 10,000 gallons usage: Water: \$13.50 Wastewater: \$33.27 Surcharge: \$19.30

OAKMONT PUBLIC UTILITY DISTRICT
SCHEDULE OF SERVICES AND RATES (Continued)
SEPTEMBER 30, 2012

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" | 752 | 747 | 1.0 | 747 |
| 1" | 110 | 109 | 2.5 | 273 |
| 1-1/2" | 0 | 0 | 5.0 | 0 |
| 2" | 7 | 7 | 8.0 | 56 |
| 3" | 0 | 0 | 15.0 | 0 |
| 4" | 0 | 0 | 25.0 | 0 |
| 6" | 0 | 0 | 50.0 | 0 |
| 8" | 1 | 1 | 80.0 | 80 |
| 10" | 0 | 0 | 115.0 | 0 |
| Total Water | <u>870</u> | <u>864</u> | | <u>1,156</u> |
| Total Wastewater | <u>852</u> | <u>846</u> | 1.0 | <u>846</u> |

*Single family equivalents

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

Gallons pumped into system (unaudited): 154,295
 Gallons billed to customers (unaudited): 152,386

Water Accountability Ratio
 (Gallons billed/ gallons pumped): 99%

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: _____

OAKMONT PUBLIC UTILITY DISTRICT
EXPENDITURES
FOR THE YEAR ENDED SEPTEMBER 30, 2012

| | <u>General Fund</u> | <u>Debt Service Fund</u> | <u>Capital Projects Fund</u> | <u>Totals (Memorandum Only)</u> |
|--|-------------------------|----------------------------------|--------------------------------------|---|
| CURRENT | | | | |
| Purchased services: | | | | |
| Water | \$ 6,600 | \$ | \$ | \$ 6,600 |
| Sewer | 137,657 | | | 137,657 |
| | <u>144,257</u> | <u>0</u> | <u>0</u> | <u>144,257</u> |
| Professional fees: | | | | |
| Auditing | 9,500 | | | 9,500 |
| Legal | 61,116 | 1,017 | | 62,133 |
| Engineering | 90,655 | | | 90,655 |
| | <u>161,271</u> | <u>1,017</u> | <u>0</u> | <u>162,288</u> |
| Contracted services: | | | | |
| Bookkeeping | 12,474 | | | 12,474 |
| Operation and billing | 45,038 | | | 45,038 |
| Tax assessor-collector Central appraisal district | | 13,937 | | 13,937 |
| | | 19,502 | | 19,502 |
| | <u>57,512</u> | <u>33,439</u> | <u>0</u> | <u>90,951</u> |
| Utilities | <u>66,702</u> | <u>0</u> | <u>0</u> | <u>66,702</u> |
| Surface water pumpage fees | <u>269,822</u> | <u>0</u> | <u>0</u> | <u>269,822</u> |
| Repairs and maintenance | <u>125,233</u> | <u>0</u> | <u>0</u> | <u>125,233</u> |
| Other operating expenditures: | | | | |
| Chemicals | 11,824 | | | 11,824 |
| Laboratory costs | 4,145 | | | 4,145 |
| Inspection costs | 18,864 | | | 18,864 |
| Reconnection costs | 6,947 | | | 6,947 |
| TCEQ assessment | 2,470 | | | 2,470 |
| Other | 1,180 | | | 1,180 |
| | <u>45,430</u> | <u>0</u> | <u>0</u> | <u>45,430</u> |
| Recreation facilities: | | | | |
| Recreation center management | 67,800 | | | 67,800 |
| Repairs and maintenance | 57,581 | | | 57,581 |
| Landscape maintenance | 26,923 | | | 26,923 |
| Utilities | 16,225 | | | 16,225 |
| Telephone | 1,011 | | | 1,011 |
| | <u>169,540</u> | <u>0</u> | <u>0</u> | <u>169,540</u> |

See accompanying independent auditors' report.

OAKMONT PUBLIC UTILITY DISTRICT
EXPENDITURES (Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2012

| | <u>General Fund</u> | <u>Debt Service Fund</u> | <u>Capital Projects Fund</u> | <u>Totals (Memorandum Only)</u> |
|------------------------------|-------------------------|----------------------------------|--------------------------------------|---|
| CURRENT | | | | |
| Garbage disposal | \$ 143,429 | \$ 0 | \$ 0 | \$ 143,429 |
| Administrative expenditures: | | | | |
| Director's fees | 7,950 | | | 7,950 |
| Insurance | 16,644 | 50 | | 16,694 |
| Permit fees | 1,249 | | | 1,249 |
| Other | 2,985 | 4,116 | | 7,101 |
| | <u>28,828</u> | <u>4,166</u> | <u>0</u> | <u>32,994</u> |
| CAPITAL OUTLAY | | | | |
| Authorized expenditures | 82,140 | | 2,717,914 | 2,800,054 |
| Tap connection costs | 58,240 | | | 58,240 |
| | <u>140,380</u> | <u>0</u> | <u>2,717,914</u> | <u>2,858,294</u> |
| DEBT SERVICE | | | | |
| Principal retirement | <u>0</u> | <u>610,000</u> | <u>0</u> | <u>610,000</u> |
| Bond issuance expenditures | <u>0</u> | <u>0</u> | <u>327,217</u> | <u>327,217</u> |
| Interest and fees: | | | | |
| Interest | | 1,409,679 | | 1,409,679 |
| Paying agent fees | | 2,500 | | 2,500 |
| | <u>0</u> | <u>1,412,179</u> | <u>0</u> | <u>1,412,179</u> |
| TOTAL EXPENDITURES | <u>\$ 1,352,404</u> | <u>\$ 2,060,801</u> | <u>\$ 3,045,131</u> | <u>\$ 6,458,336</u> |

See accompanying independent auditors' report.

OAKMONT PUBLIC UTILITY DISTRICTANALYSIS OF CHANGES IN DEPOSITS
ALL GOVERNMENTAL FUND TYPESFOR THE YEAR ENDED SEPTEMBER 30, 2012

| | <u>General Fund</u> | <u>Debt Service Fund</u> | <u>Capital Projects Fund</u> | <u>Totals (Memorandum Only)</u> |
|--|-------------------------|----------------------------------|--------------------------------------|---|
| SOURCES OF DEPOSITS | | | | |
| Cash receipts from revenues excluding maintenance and park and rec. taxes | \$ 1,202,754 | \$ 1,895,966 | \$ 613 | \$ 3,099,333 |
| Maintenance and park and rec. tax receipts | | 469,050 | | 469,050 |
| Reimbursement from other fund | 10,016 | | | 10,016 |
| Maintenance and park and rec. tax transfers | 468,200 | | | 468,200 |
| Increase in customer and builder deposits | 9,475 | | | 9,475 |
| Proceeds from sale of bonds | | 145,807 | 3,146,993 | 3,292,800 |
| Proceeds from sale of Bond Anticipation Note | | | 1,730,000 | 1,730,000 |
| Taxpayer overpayments | | 17,221 | | 17,221 |
| TOTAL DEPOSITS | <u>1,690,445</u> | <u>2,528,044</u> | <u>4,877,606</u> | <u>9,096,095</u> |
| APPLICATIONS OF DEPOSITS | | | | |
| Cash disbursements for: | | | | |
| Current expenditures | 1,384,845 | 40,142 | | 1,424,987 |
| Capital outlay | 164,180 | | 2,773,545 | 2,937,725 |
| Debt service | | 2,022,179 | 327,217 | 2,349,396 |
| Prepaid bond issuance expenditures | 35,642 | | | 35,642 |
| Payment of Bond Anticipation Note | | | 1,970,000 | 1,970,000 |
| Reimbursement to other fund | | | 10,016 | 10,016 |
| Increase in operating reserve at joint facility | 14,500 | | | 14,500 |
| Transfer of maintenance and park and rec. taxes | | 468,200 | | 468,200 |
| Refund of taxpayer overpayments | | 20,516 | | 20,516 |
| TOTAL DEPOSITS | <u>1,599,167</u> | <u>2,551,037</u> | <u>5,080,778</u> | <u>9,230,982</u> |
| INCREASE (DECREASE) IN DEPOSITS AND TEMPORARY INVESTMENTS | 91,278 | (22,993) | (203,172) | (134,887) |
| DEPOSITS BALANCE, BEGINNING OF YEAR | <u>603,830</u> | <u>1,705,493</u> | <u>247,016</u> | <u>2,556,339</u> |
| DEPOSITS BALANCE, END OF YEAR | <u>\$ 695,108</u> | <u>\$ 1,682,500</u> | <u>\$ 43,844</u> | <u>\$ 2,421,452</u> |

See accompanying independent auditors' report.

OAKMONT PUBLIC UTILITY DISTRICT
SCHEDULE OF CERTIFICATES OF DEPOSIT
SEPTEMBER 30, 2012

| | <u>Interest Rate</u> | <u>Maturity Date</u> | <u>Year End Balance</u> | <u>Accrued Interest Receivable</u> |
|-------------------------|--------------------------|--------------------------|-----------------------------|--|
| DEBT SERVICE FUND | | | | |
| Certificates of Deposit | | | | |
| No. 5001177 | 0.30% | 2/26/13 | \$ 245,000 | \$ 66 |
| No. 3116011492 | 0.35% | 2/26/13 | 245,000 | 78 |
| No. 1002045995 | 0.40% | 2/26/13 | 245,000 | 89 |
| No. 3300041547 | 0.40% | 2/26/13 | 245,000 | 89 |
| No. 6112163 | 0.15% | 2/26/13 | <u>147,000</u> | <u>19</u> |
| Total – All Funds | | | <u>\$ 1,127,000</u> | <u>\$ 341</u> |

See accompanying independent auditors' report.

OAKMONT PUBLIC UTILITY DISTRICT
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2012

| | <u>Maintenance Taxes</u> | <u>Parks and Rec. Taxes</u> | <u>Debt Service Taxes</u> |
|---|------------------------------|-------------------------------------|-----------------------------------|
| RECEIVABLE, BEGINNING OF YEAR | \$ 2,727 | \$ 1,238 | \$ 11,513 |
| Additions and corrections to prior year taxes | <u>1</u> | <u>1</u> | <u>6</u> |
| Adjusted receivable, beginning of year | 2,728 | 1,239 | 11,519 |
| 2011 ADJUSTED TAX ROLL | <u>282,276</u> | <u>188,184</u> | <u>1,881,842</u> |
| Total to be accounted for | 285,004 | 189,423 | 1,893,361 |
| Tax collections: Current tax year | (281,115) | (187,410) | (1,874,101) |
| Prior tax years | <u>(369)</u> | <u>(155)</u> | <u>(1,416)</u> |
| RECEIVABLE, END OF YEAR | <u>\$ 3,520</u> | <u>\$ 1,858</u> | <u>\$ 17,844</u> |
| RECEIVABLE, BY YEARS | | | |
| 2007 | \$ 1 | \$ | \$ 2 |
| 2008 | 333 | 119 | 1,035 |
| 2009 | 850 | 405 | 3,804 |
| 2010 | 1,175 | 560 | 5,262 |
| 2011 | <u>1,161</u> | <u>774</u> | <u>7,741</u> |
| RECEIVABLE, END OF YEAR | <u>\$ 3,520</u> | <u>\$ 1,858</u> | <u>\$ 17,844</u> |

See accompanying independent auditors' report.

OAKMONT PUBLIC UTILITY DISTRICT
TAXES LEVIED AND RECEIVABLE (Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2012

| ADJUSTED PROPERTY VALUATIONS AS OF JANUARY 1 OF TAX YEAR | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
| Land | \$ 55,093,081 | \$ 46,655,923 | \$ 44,603,290 | \$ 36,489,933 |
| Improvements | 136,530,148 | 118,584,039 | 113,573,684 | 82,055,991 |
| Personal property | 1,780,705 | 1,665,644 | 1,562,004 | 899,958 |
| Less exemptions | <u>(5,220,597)</u> | <u>(5,030,819)</u> | <u>(5,259,373)</u> | <u>(3,540,288)</u> |
| TOTAL PROPERTY VALUATIONS | <u>\$ 188,183,337</u> | <u>\$ 161,874,787</u> | <u>\$ 154,479,605</u> | <u>\$ 115,905,594</u> |
| | | | | |
| TAX RATES PER \$100 VALUATION | | | | |
| Debt service tax rates | \$ 1.00000 | \$ 0.94000 | \$ 0.94000 | \$ 0.87000 |
| Parks and recreation tax rates* | 0.10000 | 0.10000 | 0.10000 | 0.10000 |
| Maintenance tax rates** | <u>0.15000</u> | <u>0.21000</u> | <u>0.21000</u> | <u>0.28000</u> |
| TOTAL TAX RATES PER \$100 VALUATION | <u>\$ 1.25000</u> | <u>\$ 1.25000</u> | <u>\$ 1.25000</u> | <u>\$ 1.25000</u> |
| | | | | |
| TAX ROLLS | <u>\$ 2,352,302</u> | <u>\$ 2,049,642</u> | <u>\$ 1,946,315</u> | <u>\$ 1,455,912</u> |
| | | | | |
| PERCENT OF TAXES COLLECTED TO TAXES LEVIED | <u>99.5 %</u> | <u>99.6 %</u> | <u>99.7 %</u> | <u>99.9 %</u> |

*Maximum tax rate approved by voters on February 7, 2004: \$0.10.

**Maximum tax rate approved by voters on February 7, 2004: \$1.35.

OAKMONT PUBLIC UTILITY DISTRICT
LONG-TERM BONDED DEBT SERVICE REQUIREMENTS, BY YEARS
SEPTEMBER 30, 2012

| <u>Due During Fiscal Years Ending September 30</u> | <u>Series 2005</u> | | |
|--|--------------------------------------|--|---------------------|
| | <u>Principal Due March 1</u> | <u>Interest Due March 1, September 1</u> | <u>Total</u> |
| 2013 | \$ 85,000 | \$ 70,565 | \$ 155,565 |
| 2014 | 90,000 | 66,845 | 156,845 |
| 2015 | 95,000 | 62,868 | 157,868 |
| 2016 | 100,000 | 58,625 | 158,625 |
| 2017 | 105,000 | 54,062 | 159,062 |
| 2018 | 110,000 | 49,225 | 159,225 |
| 2019 | 115,000 | 44,048 | 159,048 |
| 2020 | 125,000 | 38,408 | 163,408 |
| 2021 | 130,000 | 32,350 | 162,350 |
| 2022 | 135,000 | 25,990 | 160,990 |
| 2023 | 145,000 | 19,125 | 164,125 |
| 2024 | 150,000 | 11,750 | 161,750 |
| 2025 | 160,000 | 4,000 | 164,000 |
| TOTALS | <u>\$ 1,545,000</u> | <u>\$ 537,861</u> | <u>\$ 2,082,861</u> |

See accompanying independent auditors' report.

OAKMONT PUBLIC UTILITY DISTRICT

LONG-TERM BONDED DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)

SEPTEMBER 30, 2012

| <u>Due During Fiscal Years Ending September 30</u> | <u>Series 2007</u> | | |
|--|--------------------------------------|--|---------------------|
| | <u>Principal Due March 1</u> | <u>Interest Due March 1, September 1</u> | <u>Total</u> |
| 2013 | \$ 145,000 | \$ 228,825 | \$ 373,825 |
| 2014 | 150,000 | 218,500 | 368,500 |
| 2015 | 160,000 | 207,650 | 367,650 |
| 2016 | 170,000 | 198,225 | 368,225 |
| 2017 | 175,000 | 190,462 | 365,462 |
| 2018 | 185,000 | 182,363 | 367,363 |
| 2019 | 195,000 | 173,812 | 368,812 |
| 2020 | 205,000 | 164,813 | 369,813 |
| 2021 | 220,000 | 155,250 | 375,250 |
| 2022 | 230,000 | 145,125 | 375,125 |
| 2023 | 245,000 | 134,438 | 379,438 |
| 2024 | 255,000 | 123,187 | 378,187 |
| 2025 | 270,000 | 111,375 | 381,375 |
| 2026 | 285,000 | 98,887 | 383,887 |
| 2027 | 300,000 | 85,725 | 385,725 |
| 2028 | 315,000 | 71,888 | 386,888 |
| 2029 | 330,000 | 57,375 | 387,375 |
| 2030 | 350,000 | 42,075 | 392,075 |
| 2031 | 370,000 | 25,875 | 395,875 |
| 2032 | 390,000 | 8,775 | 398,775 |
| TOTALS | <u>\$ 4,945,000</u> | <u>\$ 2,624,625</u> | <u>\$ 7,569,625</u> |

See accompanying independent auditors' report.

OAKMONT PUBLIC UTILITY DISTRICT

LONG-TERM BONDED DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)

SEPTEMBER 30, 2012

| <u>Due During Fiscal Years Ending September 30</u> | <u>Series 2008</u> | | |
|--|--------------------------------------|--|----------------------|
| | <u>Principal Due March 1</u> | <u>Interest Due March 1, September 1</u> | <u>Total</u> |
| 2013 | \$ 95,000 | \$ 371,052 | \$ 466,052 |
| 2014 | 110,000 | 365,416 | 475,416 |
| 2015 | 115,000 | 359,228 | 474,228 |
| 2016 | 120,000 | 352,615 | 472,615 |
| 2017 | 135,000 | 345,115 | 480,115 |
| 2018 | 140,000 | 336,725 | 476,725 |
| 2019 | 150,000 | 327,585 | 477,585 |
| 2020 | 155,000 | 317,670 | 472,670 |
| 2021 | 160,000 | 307,115 | 467,115 |
| 2022 | 175,000 | 295,550 | 470,550 |
| 2023 | 180,000 | 282,900 | 462,900 |
| 2024 | 195,000 | 269,306 | 464,306 |
| 2025 | 205,000 | 254,806 | 459,806 |
| 2026 | 385,000 | 233,419 | 618,419 |
| 2027 | 415,000 | 204,419 | 619,419 |
| 2028 | 440,000 | 172,875 | 612,875 |
| 2029 | 475,000 | 138,562 | 613,562 |
| 2030 | 505,000 | 101,812 | 606,812 |
| 2031 | 535,000 | 62,813 | 597,813 |
| 2032 | 570,000 | 21,375 | 591,375 |
| TOTALS | <u>\$ 5,260,000</u> | <u>\$ 5,120,358</u> | <u>\$ 10,380,358</u> |

See accompanying independent auditors' report.

OAKMONT PUBLIC UTILITY DISTRICT

LONG-TERM BONDED DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)

SEPTEMBER 30, 2012

| <u>Due During Fiscal Years Ending September 30</u> | <u>Series 2009</u> | | |
|--|--------------------------------------|--|----------------------|
| | <u>Principal Due March 1</u> | <u>Interest Due March 1, September 1</u> | <u>Total</u> |
| 2013 | \$ 220,000 | \$ 440,938 | \$ 660,938 |
| 2014 | 230,000 | 431,707 | 661,707 |
| 2015 | 245,000 | 421,488 | 666,488 |
| 2016 | 260,000 | 410,117 | 670,117 |
| 2017 | 275,000 | 397,538 | 672,538 |
| 2018 | 295,000 | 383,562 | 678,562 |
| 2019 | 310,000 | 368,438 | 678,438 |
| 2020 | 330,000 | 352,231 | 682,231 |
| 2021 | 350,000 | 334,588 | 684,588 |
| 2022 | 375,000 | 315,322 | 690,322 |
| 2023 | 395,000 | 294,381 | 689,381 |
| 2024 | 420,000 | 271,969 | 691,969 |
| 2025 | 445,000 | 247,903 | 692,903 |
| 2026 | 475,000 | 221,731 | 696,731 |
| 2027 | 505,000 | 193,556 | 698,556 |
| 2028 | 535,000 | 163,656 | 698,656 |
| 2029 | 570,000 | 131,888 | 701,888 |
| 2030 | 605,000 | 97,350 | 702,350 |
| 2031 | 640,000 | 60,000 | 700,000 |
| 2032 | 680,000 | 20,400 | 700,400 |
| TOTALS | <u>\$ 8,160,000</u> | <u>\$ 5,558,763</u> | <u>\$ 13,718,763</u> |

See accompanying independent auditors' report.

OAKMONT PUBLIC UTILITY DISTRICT

LONG-TERM BONDED DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)

SEPTEMBER 30, 2012

| <u>Due During Fiscal Years Ending September 30</u> | <u>Series 2010</u> | | |
|--|--------------------------------------|--|---------------------|
| | <u>Principal Due March 1</u> | <u>Interest Due March 1, September 1</u> | <u>Total</u> |
| 2013 | \$ 110,000 | \$ 155,307 | \$ 265,307 |
| 2014 | 115,000 | 147,994 | 262,994 |
| 2015 | 120,000 | 140,656 | 260,656 |
| 2016 | 125,000 | 134,556 | 259,556 |
| 2017 | 135,000 | 129,356 | 264,356 |
| 2018 | 140,000 | 123,856 | 263,856 |
| 2019 | 150,000 | 118,056 | 268,056 |
| 2020 | 155,000 | 111,956 | 266,956 |
| 2021 | 165,000 | 105,556 | 270,556 |
| 2022 | 175,000 | 98,756 | 273,756 |
| 2023 | 180,000 | 91,656 | 271,656 |
| 2024 | 190,000 | 84,256 | 274,256 |
| 2025 | 205,000 | 76,356 | 281,356 |
| 2026 | 215,000 | 67,956 | 282,956 |
| 2027 | 225,000 | 59,156 | 284,156 |
| 2028 | 235,000 | 49,956 | 284,956 |
| 2029 | 250,000 | 40,100 | 290,100 |
| 2030 | 265,000 | 29,478 | 294,478 |
| 2031 | 275,000 | 18,169 | 293,169 |
| 2032 | 290,000 | 6,163 | 296,163 |
| TOTALS | <u>\$ 3,720,000</u> | <u>\$ 1,789,295</u> | <u>\$ 5,509,295</u> |

See accompanying independent auditors' report.

OAKMONT PUBLIC UTILITY DISTRICT

LONG-TERM BONDED DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)

SEPTEMBER 30, 2012

| <u>Due During Fiscal Years Ending September 30</u> | <u>Series 2011</u> | | |
|--|--------------------------------------|--|---------------------|
| | <u>Principal Due March 1</u> | <u>Interest Due March 1, September 1</u> | <u>Total</u> |
| 2013 | \$ 85,000 | \$ 144,745 | \$ 229,745 |
| 2014 | 90,000 | 142,333 | 232,333 |
| 2015 | 95,000 | 139,557 | 234,557 |
| 2016 | 105,000 | 136,558 | 241,558 |
| 2017 | 110,000 | 133,332 | 243,332 |
| 2018 | 115,000 | 129,814 | 244,814 |
| 2019 | 120,000 | 125,845 | 245,845 |
| 2020 | 130,000 | 121,307 | 251,307 |
| 2021 | 135,000 | 116,170 | 251,170 |
| 2022 | 145,000 | 110,498 | 255,498 |
| 2023 | 150,000 | 104,375 | 254,375 |
| 2024 | 160,000 | 97,725 | 257,725 |
| 2025 | 170,000 | 90,506 | 260,506 |
| 2026 | 180,000 | 82,400 | 262,400 |
| 2027 | 190,000 | 73,381 | 263,381 |
| 2028 | 200,000 | 63,875 | 263,875 |
| 2029 | 210,000 | 53,750 | 263,750 |
| 2030 | 220,000 | 43,000 | 263,000 |
| 2031 | 235,000 | 31,625 | 266,625 |
| 2032 | 250,000 | 19,500 | 269,500 |
| 2033 | 265,000 | 6,625 | 271,625 |
| TOTALS | <u>\$ 3,360,000</u> | <u>\$ 1,966,921</u> | <u>\$ 5,326,921</u> |

See accompanying independent auditors' report.

OAKMONT PUBLIC UTILITY DISTRICT

LONG-TERM BONDED DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)

SEPTEMBER 30, 2012

| <u>Due During Fiscal Years Ending September 30</u> | <u>Annual Requirements for All Series</u> | | |
|--|---|-----------------------------------|---------------|
| | <u>Total Principal Due</u> | <u>Total Interest Due</u> | <u>Total</u> |
| 2013 | \$ 740,000 | \$ 1,411,432 | \$ 2,151,432 |
| 2014 | 785,000 | 1,372,795 | 2,157,795 |
| 2015 | 830,000 | 1,331,447 | 2,161,447 |
| 2016 | 880,000 | 1,290,696 | 2,170,696 |
| 2017 | 935,000 | 1,249,865 | 2,184,865 |
| 2018 | 985,000 | 1,205,545 | 2,190,545 |
| 2019 | 1,040,000 | 1,157,784 | 2,197,784 |
| 2020 | 1,100,000 | 1,106,385 | 2,206,385 |
| 2021 | 1,160,000 | 1,051,029 | 2,211,029 |
| 2022 | 1,235,000 | 991,241 | 2,226,241 |
| 2023 | 1,295,000 | 926,875 | 2,221,875 |
| 2024 | 1,370,000 | 858,193 | 2,228,193 |
| 2025 | 1,455,000 | 784,946 | 2,239,946 |
| 2026 | 1,540,000 | 704,393 | 2,244,393 |
| 2027 | 1,635,000 | 616,237 | 2,251,237 |
| 2028 | 1,725,000 | 522,250 | 2,247,250 |
| 2029 | 1,835,000 | 421,675 | 2,256,675 |
| 2030 | 1,945,000 | 313,715 | 2,258,715 |
| 2031 | 2,055,000 | 198,482 | 2,253,482 |
| 2032 | 2,180,000 | 76,213 | 2,256,213 |
| 2033 | 265,000 | 6,625 | 271,625 |
| TOTALS | \$ 26,990,000 | \$ 17,597,823 | \$ 44,587,823 |

See accompanying independent auditors' report.

OAKMONT PUBLIC UTILITY DISTRICT
ANALYSIS OF CHANGES IN GENERAL LONG-TERM BONDED DEBT
FOR THE YEAR ENDED SEPTEMBER 30, 2012

| | <u>(1)</u> | <u>(2)</u> | <u>(3)</u> |
|---|-------------------------|-------------------------|-------------------------|
| Bond Series: | 2005 | 2007 | 2008 |
| Interest Rate: | 4.20% to 5.00% | 4.50% to 7.00% | 5.50% to 7.50% |
| Dates Interest Payable: | March 1/ September 1 | March 1/ September 1 | March 1/ September 1 |
| Maturity Dates: | March 1, 2013/2025 | March 1, 2013/2032 | March 1, 2013/2032 |
| Bonds Outstanding at Beginning of Current Year | \$ 1,625,000 | \$ 5,080,000 | \$ 5,350,000 |
| Less Retirements | <u>(80,000)</u> | <u>(135,000)</u> | <u>(90,000)</u> |
| Bonds Outstanding at End of Current Year | <u>\$ 1,545,000</u> | <u>\$ 4,945,000</u> | <u>\$ 5,260,000</u> |
| Current Year Interest Paid: | <u>\$ 73,990</u> | <u>\$ 238,625</u> | <u>\$ 376,140</u> |

Bond Descriptions and Original Amount of Issue

- (1) Oakmont Public Utility District Unlimited Tax Bonds, Series 2005 (\$1,840,000)
(2) Oakmont Public Utility District Unlimited Tax Bonds, Series 2007 (\$5,450,000)
(3) Oakmont Public Utility District Unlimited Tax Bonds, Series 2008 (\$5,510,000)

Paying Agent/Registrar

(1) (2) (3) Wells Fargo Bank, N.A., Houston, Texas

| <u>Bond Authority</u> | <u>Tax Bonds</u> | <u>Other Bonds</u> | <u>Refunding Bonds</u> |
|------------------------------|------------------|--------------------|------------------------|
| Amount Authorized by Voters: | \$50,000,000 | \$10,000,000 | \$0 |
| Amount Issued: | 28,540,000 | 0 | |
| Remaining to be Issued: | 21,460,000 | 10,000,000 | |

Net Debt Service Fund deposits balances as of September 30, 2012: \$1,659,972
Average annual debt service payment for remaining term of all debt: 2,123,230

See accompanying independent auditors' report.

OAKMONT PUBLIC UTILITY DISTRICT

ANALYSIS OF CHANGES IN GENERAL LONG-TERM BONDED DEBT, (Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2012

| | <u>(4)</u> | <u>(5)</u> | <u>(6)</u> | <u>Totals</u> |
|---|-------------------------|-------------------------|-------------------------|----------------------|
| Bond Series: | 2009 | 2010 | 2011 | |
| Interest Rate: | 4.00% to 6.00% | 4.00% to 6.50% | 2.50% to 5.00% | |
| Dates Interest Payable: | March 1/ September 1 | March 1/ September 1 | March 1/ September 1 | |
| Maturity Dates: | March 1, 2013/2032 | March 1, 2013/2032 | March 1, 2013/2033 | |
| Bonds Outstanding at Beginning of Current Year | \$ 8,365,000 | \$ 3,820,000 | \$ 0 | \$ 24,240,000 |
| Add Bonds Sold | | | 3,360,000 | 3,360,000 |
| Less Retirements | <u>(205,000)</u> | <u>(100,000)</u> | <u>0</u> | <u>(610,000)</u> |
| Bonds Outstanding at End of Current Year | <u>\$ 8,160,000</u> | <u>\$ 3,720,000</u> | <u>\$ 3,360,000</u> | <u>\$ 26,990,000</u> |
| Current Year Interest Paid: | <u>\$ 449,437</u> | <u>\$ 162,132</u> | <u>\$ 109,355</u> | <u>\$ 1,409,679</u> |

Bond Descriptions and Original Amount of Issue

(4) Oakmont Public Utility District Unlimited Tax Bonds, Series 2009 (\$8,560,000)

(5) Oakmont Public Utility District Unlimited Tax Bonds, Series 2010 (\$3,820,000)

(6) Oakmont Public Utility District Unlimited Tax Bonds, Series 2011 (\$3,360,000)

Paying Agent/Registrar

(4) (5) (6) Wells Fargo Bank, N.A., Houston, Texas

See accompanying independent auditors' report.

OAKMONT PUBLIC UTILITY DISTRICT
COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,
GENERAL FUND
FOR YEARS ENDED SEPTEMBER 30

| | AMOUNT | | | | | PERCENT OF TOTAL REVENUES | | | | |
|---|-------------------|-------------------|--------------------|------------------|-------------------|---------------------------|---------------|----------------|--------------|---------------|
| | 2012 | 2011 | 2010 | 2009 | 2008 | 2012 | 2011 | 2010 | 2009 | 2008 |
| REVENUES | | | | | | | | | | |
| Property taxes for maintenance | \$ 281,484 | \$ 357,039 | \$ 330,502 | \$ 312,431 | \$ 182,111 | 18.7 % | 25.4 % | 29.0 % | 30.9 % | 17.1 % |
| Property taxes for parks and recreation | 187,565 | 169,887 | 155,282 | 112,098 | 61,756 | 12.4 | 12.1 | 13.7 | 11.1 | 5.8 |
| Water service | 217,314 | 204,598 | 134,168 | 146,157 | 104,030 | 14.4 | 14.6 | 11.8 | 14.5 | 9.8 |
| Sewer service | 316,735 | 271,684 | 229,321 | 182,327 | 143,199 | 20.9 | 19.3 | 20.2 | 18.1 | 13.4 |
| Surface water fees | 284,797 | 281,566 | 155,794 | 156,193 | 75,794 | 18.9 | 20.0 | 13.7 | 15.5 | 7.1 |
| Penalty | 12,704 | 12,070 | 12,046 | 15,593 | 7,295 | 0.8 | 0.9 | 1.1 | 1.5 | 0.7 |
| Tap connection and inspection fees | 194,040 | 91,520 | 105,120 | 61,680 | 472,659 | 12.9 | 6.5 | 9.2 | 6.1 | 44.3 |
| Interest on deposits | 1,501 | 2,077 | 2,703 | 4,523 | 4,965 | 0.1 | 0.1 | 0.2 | 0.4 | 0.5 |
| Other revenues | 12,903 | 15,314 | 12,034 | 19,027 | 13,508 | 0.9 | 1.1 | 1.1 | 1.9 | 1.3 |
| TOTAL REVENUES | 1,509,043 | 1,405,755 | 1,136,970 | 1,010,029 | 1,065,317 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| EXPENDITURES | | | | | | | | | | |
| Current: | | | | | | | | | | |
| Purchased services | 144,257 | 141,230 | 158,770 | 176,423 | 230,178 | 9.6 | 10.0 | 13.9 | 17.4 | 21.5 |
| Professional fees | 161,271 | 165,809 | 156,803 | 216,895 | 144,586 | 10.7 | 11.8 | 13.8 | 21.5 | 13.6 |
| Contracted services | 57,512 | 52,259 | 47,337 | 39,959 | 35,736 | 3.8 | 3.7 | 4.2 | 4.0 | 3.4 |
| Utilities | 66,702 | 61,004 | 40,549 | 29,085 | 0 | 4.4 | 4.3 | 3.6 | 2.9 | 0.0 |
| Surface water pumpage fees | 269,822 | 278,752 | 153,601 | 125,214 | 0 | 17.9 | 19.9 | 13.5 | 12.4 | 0.0 |
| Repairs and maintenance | 125,233 | 153,880 | 182,914 | 72,495 | 67,146 | 8.3 | 10.9 | 16.0 | 7.2 | 6.3 |
| Other operating expenditures | 45,430 | 47,766 | 46,215 | 31,831 | 31,478 | 3.0 | 3.4 | 4.1 | 3.2 | 3.0 |
| Recreation facilities | 169,540 | 119,153 | 134,731 | 127,236 | 112,894 | 11.2 | 8.5 | 11.9 | 12.6 | 10.6 |
| Garbage disposal | 143,429 | 122,962 | 98,711 | 74,984 | 55,662 | 9.5 | 8.7 | 8.7 | 7.4 | 5.2 |
| Administrative expenditures | 28,828 | 26,024 | 23,409 | 26,750 | 18,014 | 1.9 | 1.9 | 2.1 | 2.6 | 1.7 |
| Capital outlay | 140,380 | 54,170 | 190,234 | 20,010 | 82,609 | 9.3 | 3.9 | 16.7 | 2.0 | 7.8 |
| TOTAL EXPENDITURES | 1,352,404 | 1,223,009 | 1,233,274 | 940,882 | 778,303 | 89.6 | 87.0 | 108.5 | 93.2 | 73.1 |
| EXCESS REVENUES (EXPENDITURES) | \$ 156,639 | \$ 182,746 | \$ (96,304) | \$ 69,147 | \$ 287,014 | 10.4 % | 13.0 % | (8.5) % | 6.8 % | 26.9 % |
| TOTAL ACTIVE RETAIL WATER CONNECTIONS | 864 | 725 | 659 | 570 | 531 | | | | | |
| TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS | 846 | 710 | 648 | 560 | 521 | | | | | |

See accompanying independent auditors' report.

OAKMONT PUBLIC UTILITY DISTRICT
COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,
DEBT SERVICE FUND
FOR YEARS ENDED SEPTEMBER 30

| | AMOUNT | | | | | PERCENT OF TOTAL REVENUES | | | | |
|--|---------------------|---------------------|--------------------|-------------------|-------------------|---------------------------|-----------------|----------------|---------------|---------------|
| | 2012 | 2011 | 2010 | 2009 | 2008 | 2012 | 2011 | 2010 | 2009 | 2008 |
| REVENUES | | | | | | | | | | |
| Property taxes | \$ 1,875,517 | \$ 1,590,332 | \$ 1,461,700 | \$ 972,674 | \$ 547,117 | 98.9 % | 97.7 % | 95.2 % | 91.3 % | 91.1 % |
| Penalty and interest | 9,010 | 17,974 | 52,753 | 20,960 | 20,709 | 0.5 | 1.1 | 3.4 | 2.0 | 3.4 |
| Accrued interest on bonds received at date of sale | 2,430 | 5,972 | 0 | 37,517 | 0 | 0.1 | 0.4 | 0.0 | 3.5 | 0.0 |
| Interest on deposits | <u>8,790</u> | <u>13,126</u> | <u>20,876</u> | <u>33,663</u> | <u>32,818</u> | <u>0.5</u> | <u>0.8</u> | <u>1.4</u> | <u>3.2</u> | <u>5.5</u> |
| TOTAL REVENUES | <u>1,895,747</u> | <u>1,627,404</u> | <u>1,535,329</u> | <u>1,064,814</u> | <u>600,644</u> | <u>100.0</u> | <u>100.0</u> | <u>100.0</u> | <u>100.0</u> | <u>100.0</u> |
| EXPENDITURES | | | | | | | | | | |
| Current: | | | | | | | | | | |
| Professional fees | 1,017 | 5,673 | 17,565 | 6,074 | 5,145 | 0.1 | 0.3 | 1.1 | 0.6 | 0.9 |
| Contracted services | 33,439 | 30,450 | 27,868 | 23,259 | 13,716 | 1.8 | 1.9 | 1.8 | 2.2 | 2.3 |
| Other expenditures | 4,166 | 4,402 | 3,050 | 1,876 | 2,009 | 0.2 | 0.3 | 0.2 | 0.2 | 0.3 |
| Debt service: | | | | | | | | | | |
| Principal retirement | 610,000 | 485,000 | 270,000 | 185,000 | 0 | 32.2 | 29.8 | 17.6 | 17.4 | 0.0 |
| Interest and fees | <u>1,412,179</u> | <u>1,317,019</u> | <u>1,262,400</u> | <u>638,956</u> | <u>420,290</u> | <u>74.4</u> | <u>80.9</u> | <u>82.3</u> | <u>59.9</u> | <u>69.9</u> |
| TOTAL EXPENDITURES | <u>2,060,801</u> | <u>1,842,544</u> | <u>1,580,883</u> | <u>855,165</u> | <u>441,160</u> | <u>108.7</u> | <u>113.2</u> | <u>103.0</u> | <u>80.3</u> | <u>73.4</u> |
| EXCESS REVENUES (EXPENDITURES) | <u>\$ (165,054)</u> | <u>\$ (215,140)</u> | <u>\$ (45,554)</u> | <u>\$ 209,649</u> | <u>\$ 159,484</u> | <u>(8.7) %</u> | <u>(13.2) %</u> | <u>(3.0) %</u> | <u>19.7 %</u> | <u>26.6 %</u> |

OAKMONT PUBLIC UTILITY DISTRICTBOARD MEMBERS, KEY PERSONNEL AND CONSULTANTSSEPTEMBER 30, 2012

Complete District Mailing Address: Oakmont Public Utility District
c/o Coats, Rose, Yale, Ryman & Lee, P.C.
3 Greenway Plaza, Suite 2000
Houston, Texas 77046

District Business Telephone No.: 713-651-0111

Submission date of the most recent District Registration Form: December 6, 2012

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> |
|--|--|------------------------------------|---------------------------|------------------------------|
| Ken Streeter 400 Randal Way, No. 106 Spring, Texas 77388 | Elected 5/08/10- 5/09/15 | \$ 1,800 | \$ 0 | President |
| Michael P. Arden 32411 Courtney Road Navasota, Texas 77368 | Elected 5/08/10- 5/09/15 | 1,350 | 699 | Vice President |
| Sylvia Sullivan 6306 B Taggart Houston, Texas 77007 | Elected 5/10/08- 5/11/13 | 1,350 | 0 | Secretary |
| Brad Tinder 22434 Serraro Lake Court Tomball, Texas 77375 | Elected 5/10/08- 5/11/13 | 1,500 | 222 | Assistant Secretary |
| Randa Langerud 2808 Creek Bend Wharton, Texas 77488 | Elected 5/08/10- 5/09/15 | 1,950 | 779 | Assistant Secretary |

See accompanying independent auditors' report.

OAKMONT PUBLIC UTILITY DISTRICTBOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS (Continued)SEPTEMBER 30, 2012CONSULTANTS

| <u>Name and Address</u> | <u>Date Hired</u> | <u>Fees and Expense Reimbursements</u> | <u>Title at Year End</u> |
|--|-----------------------|--|----------------------------------|
| Coats, Rose Yale, Ryman & Lee, P.C. 3 Greenway Plaza, Suite 2000 Houston, Texas 77046 | 3/02/93 | \$ 61,193 122,286 Bonds | Attorney |
| Perdue, Brandon, Fielder, Collins & Mott, L.L.P. 1235 North Loop West, Suite 600 Houston, Texas 77008 | Resigned 5/14/12 | 940 | Delinquent Tax Attorney |
| Cindy Schmidt P.O. Box 80 Tomball, Texas 77377 | 11/20/03 | 13,424 | Bookkeeper |
| Cindy Schmidt P.O. Box 80 Tomball, Texas 77377 | 11/20/03 | 0 | Investment Officer |
| Hays Utility South Corporation P.O. Box 1209 Spring, Texas 77383 | 4/09/92 | 189,310 | Operator |
| Jones & Carter, Inc. 6335 Gulfton, Suite 200 Houston, Texas 77081 | 3/10/05 | 164,419 | Engineer |
| Kenneth R. Byrd P.O. Box 73109 Houston, Texas 77273 | 3/10/05 | 15,956 | Tax Assessor- Collector |
| Harris County Appraisal District P.O. Box 900275 Houston, Texas 77292 | Legislative Action | 19,502 | Central Appraisal District |
| RBC Capital Markets, L.L.C. 1001 Fannin, Suite 400 Houston, Texas 77002 | 10/22/92 | 88,171 Bonds | Financial Advisor |
| Roth & Eyring, PLLC 4915 S. Main, Suite 114 Stafford, Texas 77477 | 9/22/05 | 9,500 7,225 Bonds | Independent Auditors |

See accompanying independent auditors' report.

APPENDIX B

AERIAL PHOTOGRAPH OF THE DISTRICT

