

OFFICIAL STATEMENT DATED JULY 10, 2018

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

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

NEW ISSUE – Book-Entry-Only

**RATINGS: S&P Global Ratings (AGM Insured)..... "AA" (stable outlook)
 Moody's Investors Service, Inc. (AGM Insured) "A2" (stable outlook)
 Moody's Investors Service, Inc. (Underlying) "Baa3"
 See "MUNICIPAL BOND INSURANCE" and "RATINGS" herein.**

\$4,425,000

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 161
 (A Political Subdivision of the State of Texas, located within Fort Bend County)
UNLIMITED TAX BONDS, SERIES 2018

Dated: August 1, 2018

Due: September 1, as shown below

The \$4,425,000 Fort Bend County Municipal Utility District No. 161 Unlimited Tax Bonds, Series 2018 (the "Bonds"), are obligations of Fort Bend County Municipal Utility District No. 161 (the "District") and are not obligations of the State of Texas; Fort Bend County, Texas; the City of Katy, Texas (the "City"); or any political subdivision or entity other than the District. Neither the full faith and credit nor the taxing power of the State of Texas; Fort Bend County, Texas; the City; nor any entity other than the District is pledged to the payment of principal of or interest on the Bonds.

Principal of the Bonds is payable upon presentation at the principal payment office of the paying agent/registrars, initially, Regions Bank, an Alabama banking corporation, Houston, Texas (the "Paying Agent/Registrar"). Interest accrues from August 1, 2018, and is payable March 1, 2019, and on each September 1 and March 1 thereafter (each an "Interest Payment Date") until the earlier of maturity or redemption. Interest on the Bonds will be payable by check dated as of the Interest Payment Date, and mailed by the Paying Agent/Registrar to registered owners ("Registered Owners") as shown on the records of the Paying Agent/Registrar at the close of business on the 15th calendar day of the month next preceding each Interest Payment Date (the "Record Date"). The Bonds are fully registered bonds in principal denominations of \$5,000 or any integral multiple thereof.

The Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Beneficial owners 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 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 as described herein. See "THE BONDS – Book-Entry-Only System."

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



PRINCIPAL AMOUNTS, MATURITIES, INTEREST RATES, INITIAL REOFFERING YIELDS AND CUSIPS

\$2,485,000 Serial Bonds

Maturity (September 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Nos. 34683G (b)	Maturity (September 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Nos. 34683G (b)
2020	\$150,000	5.500%	2.000%	DC8	2028 (c)	\$170,000	3.000%	3.100%	DL8
2021	145,000	5.500%	2.150%	DD6	2029 (c)	170,000	3.000%	3.200%	DM6
2022	150,000	5.500%	2.300%	DE4	2030 (c)	175,000	3.000%	3.300%	DN4
2023	160,000	5.500%	2.450%	DF1	2031 (c)	175,000	3.250%	3.400%	DP9
2024 (c)	165,000	4.500%	2.550%	DG9	2032 (c)	180,000	3.250%	3.450%	DQ7
2025 (c)	165,000	3.000%	2.800%	DH7	2033 (c)	175,000	3.250%	3.500%	DR5
2026 (c)	160,000	3.000%	3.000%	DJ3	2034 (c)	185,000	3.375%	3.550%	DS3
2027 (c)	160,000	3.000%	3.050%	DK0					

\$1,940,000 Term Bonds

\$555,000 Term Bonds due September 1, 2037 (c)(d) Interest Rate 3.500% (Price: \$97.279) (a) CUSIP No. 34683G DV6 (b)
 \$590,000 Term Bonds due September 1, 2040 (c)(d) Interest Rate 3.625% (Price: \$97.985) (a) CUSIP No. 34683G DY0 (b)
 \$795,000 Term Bonds due September 1, 2043 (c)(d) Interest Rate 3.625% (Price: \$97.185) (a) CUSIP No. 34683G EB9 (b)

- (a) Information with respect to the initial reoffering yields of the Bonds is the responsibility of the Initial Purchaser (herein defined). Initial reoffering yields represent the initial offering price, which may be changed for subsequent purchasers. The initial yield indicated above represents the lower of the yields resulting when priced to maturity or to the first call date.
- (b) CUSIP numbers have been assigned to the Bonds by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association and are included solely for the convenience of the owners of the Bonds.
- (c) Bonds maturing on September 1, 2024, and thereafter, shall be subject to redemption and payment at the option of the District, in whole or from time to time in part, on September 1, 2023, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption.
- (d) Subject to mandatory redemption by lot or customary method of random selection on September 1 in the years and in the amounts set forth herein under the caption "THE BONDS – Redemption of the Bonds – Mandatory Redemption."

The Bonds, when issued, will constitute valid and binding obligations of the District and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District, as further described herein. The Bonds are obligations solely of the District and are not obligations of the State of Texas; Fort Bend County, Texas; the City; or any entity other than the District. Investment in the Bonds is subject to the investment considerations as described herein. See "INVESTMENT CONSIDERATIONS."

The Bonds are offered subject to prior sale, when, as and if issued by the District and accepted by the winning bidder for the Bonds (the "Initial Purchaser"), subject to the approval of the Attorney General of Texas and of Allen Boone Humphries Robinson LLP, Houston, Texas, Bond Counsel. Certain legal matters will be passed on for the District by Orrick, Herrington & Sutcliffe LLP, Houston, Texas, as Disclosure Counsel. Delivery of the Bonds is expected on or about August 7, 2018.

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 or the Initial Purchaser.

All of the summaries of the statutes, resolutions, orders, contracts, audits, engineering and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions and reference is made to such documents, copies of which are available from Bond Counsel, for further information.

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

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

Assured Guaranty Municipal Corp. ("AGM") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "MUNICIPAL BOND INSURANCE" and "APPENDIX B - SPECIMEN MUNICIPAL BOND INSURANCE POLICY".

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

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INTRODUCTION

This Official Statement provides certain information in connection with the issuance by Fort Bend County Municipal Utility District No. 161 (the "District") of its \$4,425,000 Unlimited Tax Bonds, Series 2018 (the "Bonds").

The Bonds are issued pursuant to: a resolution adopted by the Board of Directors of the District on the date of sale of the Bonds (the "Bond Resolution"); the Constitution and general laws of the State of Texas, particularly Chapters 49 and 54, as amended; an election held within the District and passed by a majority of the participating voters; and an order of the Texas Commission on Environmental Quality.

Certain capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Bond Resolution, 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.

SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Bonds, the District has accepted the bid resulting in the lowest net effective interest rate to the District, which was tendered by SAMCO Capital Markets, Inc. (the "Initial Purchaser") to purchase the Bonds bearing the interest rates shown on the cover page hereof at a price of 97.024977% of the par value thereof plus accrued interest to the date of delivery, which resulted in a net effective interest rate of 3.737827%, as calculated pursuant to Chapter 1204 of the Texas Government Code.

Prices and Marketability

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

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

Subject to certain hold-the-offering-price requirements described in the Notice of Sale, the prices and other terms with respect to the offering and sale of the Bonds may be changed from time-to-time by the Initial Purchaser after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Bonds into investment accounts.

IN CONNECTION WITH THIS OFFERING, THE INITIAL PURCHASER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Securities Laws

No registration statement relating to the Bonds has been filed with the United States Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon 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.

MUNICIPAL BOND INSURANCE

Bond Insurance Policy

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

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

Assured Guaranty Municipal Corp.

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

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

Current Financial Strength Ratings

On June 26, 2018, S&P announced it had affirmed AGM's financial strength rating of "AA" (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On May 7, 2018, Moody's announced it had affirmed AGM's insurance financial strength rating of "A2" (stable outlook). AGM can give no assurance as to any further ratings action that Moody's may take.

On January 23, 2018, KBRA announced it had affirmed AGM's insurance financial strength rating of "AA+" (stable outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

Capitalization of AGM

At March 31, 2018:

- The policyholders' surplus of AGM was approximately \$2,247 million.
- The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. ("MAC") (as described below) were approximately \$1,133 million. Such amount includes 100% of AGM's contingency reserve and 60.7% of MAC's contingency reserve.
- The net unearned premium reserves of AGM and its subsidiaries (as described below) were approximately \$1,646 million. Such amount includes (i) 100% of the net unearned premium reserves of AGM and AGM's wholly owned subsidiaries Assured Guaranty (Europe) plc, Assured Guaranty (UK) plc, CIFG Europe S.A. and Assured Guaranty (London) plc (together, the "AGM European Subsidiaries") and (ii) 60.7% of the net unearned premium reserve of MAC.

The policyholders' surplus of AGM and the contingency reserves and net unearned premium reserves of AGM and MAC were determined in accordance with statutory accounting principles. The net unearned premium reserves of the AGM

European Subsidiaries were determined in accordance with accounting principles generally accepted in the United States of America.

Incorporation of Certain Documents by Reference

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

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2017 (filed by AGL with the SEC on February 23, 2018); and
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2018 (filed by AGL with the SEC on May 4, 2018).

All consolidated financial statements of AGM and all other information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 1633 Broadway, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

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

Miscellaneous Matters

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

RATINGS

S&P 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 S&P reflect its analysis of the overall level of credit risk involved in financings. At present S&P assigns long-term debt ratings with symbols "AAA" (the highest rating) through "D" (the lowest rating). The Bonds are expected to receive an insured rating of "AA" (stable outlook) from S&P solely in reliance upon the issuance of the municipal bond insurance policy issued by AGM at the time of the delivery of the Bonds.

Moody's has assigned an initial rating of "A2" (stable outlook) solely in reliance upon the issuance of the municipal bond insurance policy issued by AGM at the time of delivery of the Bonds. An explanation of the ratings may be obtained from Moody's, 7 World Trade Center at 250 Greenwich Street, New York, New York 10007. Moody's has assigned an underlying credit rating of "Baa3" to the Bonds.

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

The District is not aware of any ratings assigned the Bonds other than the ratings of S&P and Moody's.

OFFICIAL STATEMENT SUMMARY

The following is a summary of certain information contained herein and is qualified in its entirety by the more detailed information and financial statements elsewhere in this Official Statement. The summary should not be detached and should be used in conjunction with the more complete information contained herein. A full review should be made of this entire Official Statement and of the documents summarized or described herein.

THE BONDS

The Issuer	Fort Bend County Municipal Utility District No. 161 (the "District"), a political subdivision of the State of Texas, is located in Fort Bend County, Texas. See "THE DISTRICT."
The Issue	\$4,425,000 Fort Bend County Municipal Utility District No. 161 Unlimited Tax Bonds, Series 2018 (the "Bonds"), are dated August 1, 2018. Interest accrues from August 1, 2018, at the rates set forth on the cover page hereof, and is payable March 1, 2019, and each September 1 and March 1 thereafter until the earlier of stated maturity or redemption. The Bonds maturing on September 1, 2020, through September 1, 2034, inclusive, are serial bonds (the "Serial Bonds"). The Bonds maturing on September 1 in the years 2037, 2040 and 2043 are term bonds (the "Term Bonds") which have certain mandatory redemption amounts as set forth under the caption "THE BONDS - Redemption of the Bonds - <i>Mandatory Redemption</i> ." The Serial Bonds and the Term Bonds are collectively referred to herein as the "Bonds." The bonds maturing on or after September 1, 2024, are subject to redemption, in whole or from time to time in part, on September 1, 2023, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. See "THE BONDS - General" and "- Redemption of the Bonds - <i>Optional Redemption</i> ."
Book-Entry-Only System.....	The Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in principal denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the Beneficial Owners (hereinafter defined) thereof. Principal of and interest on the Bonds will be payable by Regions Bank, an Alabama banking corporation, Houston, Texas (the "Paying Agent/Registrar"), to Cede & Co., which 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."
Source of Payment	The Bonds are payable from a continuing, direct annual ad valorem tax, unlimited as to rate or amount, levied against all taxable property within the District. The Bonds are obligations of the District and are not obligations of the State of Texas; Fort Bend County, Texas; the City of Katy, Texas; or any entity other than the District. See "THE BONDS - Source of Payment."
Principal Use of Proceeds	A portion of the proceeds of the sale of the Bonds will be used to reimburse the Developer (hereinafter defined) for: (i) drainage improvements for Spring Green Boulevard and Farm-to-Market 1463; (ii) regrading of detention pond "A"; (iii) water, sewer, and drainage for: (a) the Reserve at Katy, Sections 1, 2, 3 and 4; and (b) Spring Green Boulevard, Phase 2; (iv) associated engineering costs; and (v) fees associated with capital recovery. In addition, proceeds will be used to pay developer interest, operating costs, costs of issuance of the Bonds, and those other costs set out hereinafter under "THE BONDS - Use and Distribution of Bond Proceeds."
Qualified Tax-Exempt Obligations	The Bonds have been designated "qualified tax-exempt obligations" for financial institutions. See "TAX MATTERS - Qualified Tax-Exempt Obligations."

Municipal Bond Insurance.....	Assured Guaranty Municipal Corp. (“AGM”). See “MUNICIPAL BOND INSURANCE.”
Ratings	S&P (AGM Insured) – “AA” (stable outlook). Moody’s (AGM Insured) – “A2” (stable outlook). Moody’s (Underlying) – “Baa3”. See “MUNICIPAL BOND INSURANCE” and “RATINGS.”
Outstanding Bonds	The District has previously issued the following series of bonds: \$5,100,000 Unlimited Tax Bonds, Series 2015 (the “Series 2015 Bonds”); \$4,000,000 Unlimited Tax Bonds, Series 2017 (the “Series 2017 Bonds”); and \$3,385,000 Unlimited Tax Road Bonds, Series 2017 (the “Series 2017 Road Bonds”). As of May 1, 2018, a total of \$12,365,000 principal amount of said series of bonds remains outstanding (the “Outstanding Bonds”).
Payment Record.....	The District has never defaulted on the payment of its bonded indebtedness.
Authority for Issuance.....	The Bonds represent the third series of bonds issued out of an aggregate of \$22,000,000 principal amount of unlimited tax bonds authorized by the District’s voters for the purpose of purchasing, constructing, operating and maintaining a water, wastewater and a storm drainage system (the “System”) to serve the District. Voters in the District have also authorized the District’s issuance of \$26,500,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing roads to serve the District (the “Road System”) and for the refunding of same, \$5,000,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing parks and recreational facilities within the District, and \$22,000,000 principal amount of unlimited tax bonds for the purpose of refunding of bonds issued by the District. After issuance of the Bonds, the following principal amounts of unlimited tax bonds will remain authorized but unissued: \$8,475,000 for water, wastewater and storm drainage facilities, \$23,115,000 for roads and the refunding of same, \$5,000,000 for parks and recreational improvements, and \$22,000,000 for refunding. The Bonds are issued pursuant to an order of the Texas Commission on Environmental Quality (“TCEQ”); a resolution authorizing the issuance of the Bonds approved by the District’s Board of Directors; Chapters 49 and 54, Texas Water Code, Article XVI, Section 59 of the Texas Constitution; and the general laws of the State of Texas. See “THE BONDS – Authority for Issuance.”
Bond Counsel	Allen Boone Humphries Robinson LLP, Houston, Texas.
Financial Advisor.....	Robert W. Baird & Co. Incorporated, Houston, Texas.
Disclosure Counsel.....	Orrick, Herrington & Sutcliffe LLP, Houston, Texas.

THE DISTRICT

Description.....	The District was created by the TCEQ on February 14, 2006, and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. At the time of its creation, the District comprised approximately 211.2 acres. As a result of two annexations subsequent to its creation, the District currently comprises approximately 218.5 acres. The District is located entirely within Fort Bend County, Texas, approximately 30 miles west of the central business district of the City of Houston, Texas. The District is located entirely within the corporate limits of the City of Katy, Texas (the “City”). See “THE DISTRICT – Authority” and “– Description.”
Development within the District	Approximately 99.72 acres (219 lots) within the District have been developed as the single-family subdivisions of The Reserve at Katy, Sections 1, 2, 3, 4, 5 and 6. Additionally, approximately 13.03 acres (32 lots) are currently under development as The Reserve at Katy, Section 7. Further, approximately 32.07 acres in the District have been developed

as commercial property, known as the Shops at the Reserve, that currently includes the following: Kroger Marketplace, a 123,000-square foot grocery store; 24 Hour Fitness, a 37,000-square foot fitness center; First Choice Emergency Room, an 8,000-square foot emergency healthcare facility; Chase Bank, a 3,500-square foot banking center; Katy Star Dental, a dental spa; several restaurants such as Subway and Wendy's; as well as other commercial users.

As of May 1, 2018, single-family residential development in the District included: approximately 134 completed homes (126 occupied, 6 unoccupied, and 2 model homes), 34 homes under construction, 51 vacant developed lots, and 32 lots under development. The remaining land within the District consists of approximately 26 undeveloped but developable acres and approximately 47.69 undevelopable acres. See "PRINCIPAL LANDOWNER/DEVELOPER," "DEVELOPMENT OF THE DISTRICT," and "THE DISTRICT."

Developer.....The Developer of land within the District is Toll Houston TX, LLC (the "Developer"). See "PRINCIPAL LANDOWNER/DEVELOPER" and "DEVELOPMENT OF THE DISTRICT."

Homebuilder in the District.....The homebuilder active within the District is Toll Brothers, Inc. Prices of new homes being constructed within the District range from \$350,000 to over \$1,000,000. See "PRINCIPAL LANDOWNER/DEVELOPER - Homebuilder within the District."

INVESTMENT CONSIDERATIONS

THE DISTRICT'S TAX IS LEVIED ONLY ON THE PROPERTY LOCATED WITHIN THE DISTRICT. THEREFORE, THE INVESTMENT SECURITY AND QUALITY OF THE BONDS IS DEPENDENT UPON THE SUCCESSFUL DEVELOPMENT OF PROPERTY LOCATED WITHIN THE DISTRICT AND THE PAYMENT AND COLLECTION OF TAXES LEVIED THEREON.

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

SELECTED FINANCIAL INFORMATION

(UNAUDITED)

2017 Assessed Taxable Valuation	\$ 111,046,660	(a)
See "TAX DATA" and "TAXING PROCEDURES."		
2018 Preliminary Valuation	\$ 140,540,207	(b)
See "TAX DATA" and "TAXING PROCEDURES."		
Estimate of Valuation as of April 15, 2018	\$ 158,078,587	(c)
See "TAX DATA" and "TAXING PROCEDURES."		
Direct Debt:		
The Outstanding Bonds	\$ 12,365,000	
The Bonds	\$ 4,425,000	
Total.....	\$ 16,790,000	
Estimated Overlapping Debt	\$ 13,813,689	(d)
Total Direct and Estimated Overlapping Debt	\$ 30,603,689	
Direct Debt Ratios:		
As a percentage of 2017 Assessed Taxable Valuation	15.12	%
As a percentage of 2018 Preliminary Valuation	11.95	%
As a percentage of Estimate of Valuation as of April 15, 2018	10.62	%
Direct and Estimated Overlapping Debt Ratios:		
As a percentage of 2017 Assessed Taxable Valuation	27.56	%
As a percentage of 2018 Preliminary Valuation	21.78	%
As a percentage of Estimate of Valuation as of April 15, 2018	19.36	%
System Debt Service Fund Balance (as of June 26, 2018)	\$ 617,781	(e)
Road System Debt Service Fund Balance (as of June 26, 2018)	\$ 328,586	(f)
General Fund Balance (as of June 26, 2018)	\$ 539,005	
Capital Projects Fund Balance (as of June 26, 2018).....	\$ 36,302	
2017 Tax Rate per \$100 of Assessed Taxable Valuation		
System Debt Service	\$0.490	
Road System Debt Service.....	\$0.210	
Maintenance and Operation	<u>\$0.200</u>	
Total.....	\$0.900	
Average Annual Debt Service Requirement (2018-2043)	\$ 974,233	(g)
Maximum Annual Debt Service Requirement (2020).....	\$ 1,095,015	(g)
Tax Rate per \$100 of Assessed Taxable Valuation Required to Pay Average Annual Debt Service Requirement (2018-2043) on the Bonds and the Outstanding Bonds at 95% Tax Collections		
Based on 2017 Assessed Taxable Valuation (\$111,046,660).....	\$0.93	
Based on 2018 Preliminary Valuation (\$140,540,207)	\$0.73	
Based on Estimate of Valuation as of April 15, 2018 (\$158,078,587).....	\$0.65	
Tax Rate per \$100 of Assessed Taxable Valuation Required to Pay Maximum Annual Debt Service Requirement (2020) on the Bonds and the Outstanding Bonds at 95% Tax Collections		
Based on 2017 Assessed Taxable Valuation (\$111,046,660).....	\$1.04	
Based on 2018 Preliminary Valuation (\$140,540,207)	\$0.83	
Based on Estimate of Valuation as of April 15, 2018 (\$158,078,587).....	\$0.73	
Single-Family Homes (including 34 under construction) as of May 1, 2018	168	(h)
District Population.....	441	(i)

-
- (a) Provided by the Fort Bend Central Appraisal District (the "Appraisal District"). All property located in the District is valued on the appraisal rolls by the Appraisal District as of January 1 of each year.
 - (b) Provided by the Appraisal District as the preliminary value as of January 1, 2018. This value represents the preliminary determination of the taxable value in the District as of January 1, 2018. No taxes will be levied on this preliminary value, which is subject to protest by the landowners. The value will be certified by the Appraisal Review Board and taxes will be levied on the certified value.
 - (c) Provided by the Appraisal District for information purposes only. Represents new construction within the District from January 1, 2017 to April 15, 2018. This estimate is based upon the same unit value used in the assessed taxable value. No taxes will be levied on this estimate.
 - (d) See "DISTRICT DEBT - Estimated Direct and Overlapping Debt Statement."
 - (e) Neither Texas law nor the Bond Resolution requires that the District maintain any particular sum in the System Debt Service Fund. Funds in the System Debt Service Fund are not available to pay debt service on bonds issued for road purposes.
 - (f) Neither Texas law nor the Bond Resolution requires that the District maintain any particular sum in the Road Debt Service Fund. Funds in the Road Debt Service Fund are not available to pay debt service on bonds issued for the System, such as the Bonds.
 - (g) Requirement of debt service on the Outstanding Bonds and the Bonds. See "DISTRICT DEBT - Debt Service Requirement Schedule."
 - (h) Approximately 126 homes are occupied, 6 homes are unoccupied, and 2 homes are model homes.
 - (i) Estimate based upon 3.5 residents per each occupied single-family home in the District.

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\$4,425,000

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 161

UNLIMITED TAX BONDS

SERIES 2018

INTRODUCTION

This Official Statement of Fort Bend County Municipal Utility District No. 161 (the "District") is provided to furnish information with respect to the issuance by the District of its \$4,425,000 Unlimited Tax Bonds, Series 2018 (the "Bonds"). The Bonds are issued pursuant to: (i) Article XVI, Section 59 of the Texas Constitution; (ii) the general laws of the State of Texas, including particularly Chapters 49 and 54 of the Texas Water Code; (iii) various elections held within the District; (iv) a resolution (the "Bond Resolution") adopted by the Board of Directors of the District (the "Board"); and (v) an order of the Texas Commission on Environmental Quality (the "TCEQ").

There follow in this Official Statement descriptions of the Bonds, the Developer (hereinafter defined), the Bond Resolution, and certain information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from Allen Boone Humphries Robinson LLP, 3200 Southwest Freeway, Suite 2600, Houston, Texas, 77027, upon payment of the costs of duplication therefor. Certain capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Bond Resolution, except as otherwise indicated herein.

THE BONDS

General

The following is a description of some of the terms and conditions of the Bonds, which description is qualified in its entirety by reference to the Bond Resolution. A copy of the Bond Resolution may be obtained from the District upon written request made to the District's Bond Counsel, Allen Boone Humphries Robinson LLP, Phoenix Tower, 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027.

The Bonds are dated August 1, 2018, with interest payable March 1, 2019, and each September 1 and March 1 thereafter (each an "Interest Payment Date") until the earlier of maturity or redemption. The Bonds are fully registered serial bonds maturing on September 1 of the years shown under "PRINCIPAL AMOUNTS, MATURITIES, INTEREST RATES, INITIAL REOFFERING YIELDS AND CUSIPS" on the cover page of this Official Statement. Principal of the Bonds will be payable to the registered owners (the "Registered Owners") at maturity or redemption upon presentation at the principal payment office of the paying agent/registrars, initially, Regions Bank, an Alabama banking corporation, Houston, Texas (the "Paying Agent/Registrar").

Record Date for Interest Payment

Interest on the Bonds will be paid to the Registered Owners appearing on the registration and transfer books (the "Register") of the Paying Agent/Registrar at the close of business on the fifteenth calendar day of the month next preceding each Interest Payment Date ("Record Date") and shall be paid by the Paying Agent/Registrar (i) by check sent United States mail, first class postage prepaid, to the address of the Registered Owner recorded in the Register of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the Registered Owner. If the date for the payment of the principal or interest on the Bonds shall be a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the principal payment office of the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day when banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

In the event of non-payment of interest on a scheduled payment date and for thirty (30) days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar when funds for the payment of such interest have been received. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date" which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each registered owner of a Bond appearing in the Register of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing such notice.

Book-Entry-Only System

This section describes how ownership of the Bonds is to be transferred and how the principal of and interest on the Bonds are to be paid to and credited by The Depository Trust Company, New York, New York ("DTC"), while the Bonds are registered in

its nominee's name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

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

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

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC.

DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission ("SEC"). 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 Bonds ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

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

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

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

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

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

Successor Paying Agent/Registrar

Provision is made in the Bond Resolution for replacing the Paying Agent/Registrar. If the District replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar's records to the successor Paying Agent/Registrar, and the successor Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the District shall be a commercial bank; a trust company organized under the laws of the State of Texas; or other entity duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Bonds.

Registration, Transfer and Exchange

In the event the Book-Entry-Only system is discontinued, the Bonds are transferable only on the bond register kept by the Paying Agent/Registrar upon surrender at the corporate trust office of the Paying Agent/Registrar in Houston, Texas. A Bond may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. At any time after the date of initial delivery, any Bond may be transferred upon its presentation and surrender at the designated offices of the Paying Agent/Registrar, duly endorsed for transfer or accompanied by an assignment duly executed by the Bondholder. The Bonds are exchangeable upon presentation at the designated office(s) of the Paying Agent/Registrar, for an equal principal amount of Bonds of the same maturity in authorized denominations. To the extent possible, new Bonds issued in exchange or transfer of Bonds will be delivered to the Bondholder or assignee of the Bondholder within not more than three (3) business days after the receipt by the Paying Agent/Registrar of the request in proper form to transfer or exchange the Bonds. New Bonds registered and delivered in an exchange or transfer shall be in the denomination of \$5,000 in principal amount for a Bond, or any integral multiple thereof for any one maturity and shall bear interest at the same rate and be for a like aggregate principal or maturity amount as the Bond or Bonds surrendered for exchange or transfer. Neither the Paying Agent/Registrar nor the District is required to issue, transfer, or exchange any Bond during a period beginning at the opening of business on a Record Date and ending at the close of business on the next succeeding Interest Payment Date or to transfer or exchange any Bond selected for redemption, in whole or in part, beginning fifteen (15) calendar days prior to, and ending on the date of the mailing of notice of redemption, or where such redemption is scheduled to occur within thirty (30) calendar days. No service charge will be made for any transfer or exchange, but the District or the Paying Agent/Registrar may require payment of a sum sufficient to cover any tax or governmental charge payable in connection therewith.

Redemption of the Bonds

- Optional Redemption -

Bonds maturing on September 1, 2024, and thereafter shall be subject to redemption and payment at the option of the District, in whole or from time to time in part, on September 1, 2023, 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.

- Mandatory Redemption -

Bonds maturing on September 1 in the years 2037, 2040 and 2043 (the "Term Bonds"), shall be redeemed by lot or other customary method of random selection (or by DTC in accordance with its procedures while the Bonds are in book-entry-only-form) prior to maturity, at a price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption (the "Redemption Date"), on September 1 in each of the years and in the principal amounts set forth in the following schedule:

<u>\$555,000 Term Bonds Maturing on September 1, 2037</u>	
<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
September 1, 2035	\$180,000
September 1, 2036	185,000
September 1, 2037 (maturity)	190,000
<u>\$590,000 Term Bonds Maturing on September 1, 2040</u>	
<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
September 1, 2038	\$195,000
September 1, 2039	195,000
September 1, 2040 (maturity)	200,000
<u>\$795,000 Term Bonds Maturing on September 1, 2043</u>	
<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
September 1, 2041	\$255,000
September 1, 2042	265,000
September 1, 2043 (maturity)	275,000

The principal amount of the Term Bonds of a maturity required to be redeemed pursuant to the operation of the mandatory sinking fund redemption provisions shall be reduced, at the direction of the District, by the principal amount of any Term Bonds of such maturity which, at least 50 days prior to a mandatory redemption date, (1) shall have been acquired by the District at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and cancelled by the Paying Agent/Registrar at the request of the District with monies in the Debt Service Fund at a price not exceeding the principal amount of the Term Bonds plus accrued interest to the date of purchase thereof, or (3) shall have been redeemed pursuant to the optional redemption provision and not theretofore credited against a mandatory sinking fund redemption requirement

Mutilated, Lost, Stolen or Destroyed Bonds

In the event the book-entry-only system is 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 Paying Agent/Registrar of security or indemnity as may be required by either of them to hold them harmless. The District may require payment of taxes, governmental charges and other expenses in connection with any such replacement.

Outstanding Bonds

The District has previously issued the following series of bonds: \$5,100,000 Unlimited Tax Bonds, Series 2015 (the "Series 2015 Bonds"); \$4,000,000 Unlimited Tax Bonds, Series 2017 (the "Series 2017 Bonds"); and \$3,385,000 Unlimited Tax Road Bonds, Series 2017 (the "Series 2017 Road Bonds"). As of May 1, 2018, a total of \$12,365,000 principal amount of said series of bonds remains outstanding (the "Outstanding Bonds").

Authority for Issuance

The Bonds represent the third series of bonds issued out of an aggregate \$22,000,000 principal amount of unlimited tax bonds authorized by the District's voters for the purpose of purchasing, constructing, operating and maintaining a water, wastewater, and drainage system to serve the District (the "System"). Voters in the District have also authorized the District's issuance of \$26,500,000 principal amount of unlimited tax bonds for the purpose of purchasing, constructing, operating, and maintaining a road system to serve the District (the "Road System") and for the refunding of bonds issued by the District for the Road System; \$5,000,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing parks and recreational facilities within the District; and \$22,000,000 principal amount of unlimited tax bonds for the purpose of refunding of bonds issued by the District.

After issuance of the Bonds, the following principal amounts of unlimited tax bonds will remain authorized but unissued: \$8,475,000 for the System, \$23,115,000 for the Road System and for the refunding of bonds issued by the District for the Road System, \$5,000,000 for parks and recreational improvements, and \$22,000,000 for refunding.

The Bonds are issued pursuant to (i) Article XVI, Section 59 of the Texas Constitution; (ii) the general laws of the State of Texas, including particularly Chapters 49 and 54 of the Texas Water Code; (iii) various elections held within the District; (iv) the Bond Resolution adopted by the Board on the date of the sale of the Bonds; and (v) an order of the TCEQ.

Source of Payment

The Bonds are payable from the proceeds of a continuing, direct annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. In the Bond Resolution, the District covenants to levy a sufficient tax to pay principal of and interest on the Bonds, with full allowance being made for delinquencies, costs of collections, Paying Agent/Registrar fees and Appraisal District (herein defined) fees. Tax proceeds, after deduction for collection costs, will be placed in the debt service fund and used solely to pay principal of and interest on the Bonds, and additional bonds payable from taxes which may be issued, and Paying Agent/Registrar fees.

The Bonds are obligations solely of the District and are not the obligations of the State of Texas; Fort Bend County, Texas; the City of Katy, Texas (the "City"); or any entity other than the District.

Issuance of Additional Debt

The District may issue additional bonds with the approval of the TCEQ, 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 \$22,000,000 unlimited tax bonds for the System and could authorize additional amounts. The District's voters have also authorized \$22,000,000 unlimited tax bonds for refunding, \$5,000,000 unlimited tax bonds for parks and recreational facilities, and \$26,500,000 unlimited tax bonds for the Road System and for the refunding of bonds for the Road System.

The Bonds are the third series of unlimited tax bonds issued by the District for the purpose of acquiring or constructing the System. After issuance of the Bonds, the following principal amounts will remain authorized but unissued: \$8,475,000 of unlimited tax bonds for the System, \$22,000,000 of unlimited tax bonds for refunding, \$5,000,000 of unlimited tax bonds for parks and recreational facilities, and \$23,115,000 of unlimited tax bonds for the Road System and for the refunding of bonds for the Road System. The Bond Resolution 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, in the case of bonds for the System and for recreational facilities, approved by the TCEQ). The District's issuance of bonds for the Road System is not subject to approval by the TCEQ.

Following the issuance of the Bonds, the District will owe Developer approximately \$5,600,000 for existing System facilities located within the District, \$2,571,326 for the existing Road System located within the District, and no reimbursement for the recreational facilities located within the District.

The District is also authorized by statute to engage in fire-fighting activities, including the issuing of bonds payable from taxes for such purposes. Before the District could issue such bonds, the following actions would be required: (a) authorization of a detailed fire protection plan; (b) approval of the fire plan by the TCEQ; (c) approval of the fire plan by the voters of the District; and (d) approval of bonds, if any, by the Attorney General of Texas. The Board has not considered adoption of a fire plan or calling an election at this time for such purposes. If additional debt obligations are issued in the future by the District, such issuance may increase gross debt/property ratios and might adversely affect the investment security of 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. The District prepared a parks master plan, and, as noted above, on May 13, 2006, the District's voters authorized \$5,000,000 in unlimited tax bonds for the purpose of acquiring and constructing parks and recreational facilities. Before the District could issue park bonds payable from taxes, the following actions would be required: (a) approval of the park bond application for the issuance of bonds by the TCEQ; and (b) approval of the bonds by the Attorney General of Texas. The District has not considered the preparation of a parks bond application at this time. 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.

No Arbitrage

The District will certify, on the date of delivery of the Bonds, that based upon all facts and estimates now known or reasonably expected to be in existence on the date the Bonds are delivered and paid for, the District reasonably expects that the proceeds of the Bonds will not be used in a manner that would cause the Bonds, or any portion of the Bonds, to be "arbitrage bonds" under the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations prescribed thereunder. Furthermore, all officers, employees and agents of the District have been authorized and directed to provide certifications of facts and estimates that are material to the reasonable expectations of the District as of the date the

Bonds are delivered and paid for. In particular, all or any officers of the District are authorized to certify to the facts and circumstances and reasonable expectations of the District on the date the Bonds are delivered and paid for regarding the amount and use of the proceeds of the Bonds. Moreover, the District covenants that it shall make such use of the proceeds of the Bonds, regulate investment of proceeds of the Bonds and take such other and further actions and follow such procedures, including, without limitation, calculating the yield on the Bonds, as may be required so that the Bonds shall not become "arbitrage bonds" under the Code and the regulations prescribed from time to time thereunder.

Consolidation and Dissolution

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) and liabilities (such as the Bonds and the Outstanding Bonds), with the assets and liabilities of districts with which it is consolidating. Although no consolidation is presently contemplated by the District, no representation is made concerning the likelihood of consolidation in the future.

The City has the right to abolish and dissolve the District and to acquire the District's assets and assume the District's obligations in accordance with state law, subject, however to the terms of the Utility Agreement (herein defined) between the District and the City. See "UTILITY SERVICE AGREEMENT BETWEEN THE DEVELOPER AND THE CITY." If any of the Bonds are outstanding at the time of dissolution, the payment of such Bonds becomes the obligation of the City. Dissolution of the District is a policy matter for the City. The District can make no representation regarding the likelihood that the City will dissolve the District.

Defeasance

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

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

There is no assurance that the current law will not be changed in the future in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds.

Legal Investment and Eligibility to Secure Public Funds in Texas

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

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

(b) A district's bonds, notes, and other obligations are eligible and lawful security for all deposits of public funds of the state, and all agencies, subdivisions, and instrumentalities of the state, including all counties, cities, towns, villages, school districts, and all other kinds and types of districts, public

agencies, and bodies politic, to the extent of the market value of the bonds, notes, and other obligations when accompanied by any unmatured interest coupons attached to them.

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

Registered Owners' Remedies

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

In the event of default in the payment of principal of or interest on the Bonds, the Registered Owners may seek a writ of mandamus requiring the District to levy adequate taxes to make such payments. Except for the remedy of mandamus, the Bond Resolution does not specifically provide for remedies to a Registered Owner in the event of a District default, nor does it provide for the appointment of a trustee to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Although the Registered Owners could obtain a judgment against the District, such a judgment could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on the property of the District or sell property within the District in order to pay the principal of or interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may be further limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. For example, a Chapter 9 bankruptcy proceeding by the District could delay or eliminate payment of principal or interest to the Registered Owners.

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Use and Distribution of Bond Proceeds

The construction costs below were compiled by the District’s Engineer (hereinafter defined) and were submitted to the TCEQ in the District’s Bond Application Report. Non-construction costs are based upon either contract amounts, or estimates of various costs by the Engineer and the Financial Advisor. The actual amounts to be reimbursed by the District and the non-construction costs will be finalized after the sale of the Bonds and completion of agreed-upon procedures by the District’s auditor. The surplus funds may be expended for any lawful purpose for which surplus construction funds may be used, if approved by the TCEQ, where required.

	<u>District’s Share</u>
<u>Construction Costs</u>	
A. Developer Contribution Items	
1. Spring Green Blvd./F.M. 1463 Drainage Improvements	\$ 189,534
2. Regrading of Detention Pond “A”	26,535
3. Reserve at Katy, Section 1 – W, WW, D	1,115,691
4. Spring Green Blvd., Phase 2 – W, WW, D	422,687
5. Reserve at Katy, Sections 3 & 4 – W, WW, D	573,114
6. Reserve at Katy, Section 2 – W, WW, D	127,193
7. Engineering	<u>400,330</u>
Total Developer Contribution Items	\$ 2,855,084
B. District Items	
1. Capital Recovery Fee	<u>\$ 323,175</u>
Total District Contribution Items	<u>\$ 323,175</u>
TOTAL CONSTRUCTION COSTS	\$ 3,178,259
 <u>Non-Construction Costs</u>	
A. Legal Fees	\$ 125,625
B. Fiscal Agent Fees	88,500
C. Developer Interest	632,964
D. Bond Discount	131,645
E. Bond Issuance Expenses	26,077
F. Bond Application Report Cost	55,000
G. Advanced Operating Costs	170,337
H. Attorney General’s Fee	4,425
I. TCEQ Bond Issuance Fee	11,063
J. Contingency (a)	1,105
TOTAL NON-CONSTRUCTION COSTS	<u>\$ 1,246,741</u>
TOTAL BOND ISSUE REQUIREMENT	\$ 4,425,000

(a) Represents the difference in estimated and actual costs and can be used for purposes allowed and approved by the TCEQ.

In the instance that approved estimated amounts exceed the actual costs, the difference comprises a surplus which may be expended for uses approved by the TCEQ. In the instance that actual costs exceed previously approved estimated amounts and contingencies, additional TCEQ approval and the issuance of additional bonds may be required. However, the District cannot and does not guarantee the sufficiency of such funds for such purposes.

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THE DISTRICT

Authority

The District was created by order of the TCEQ, dated February 14, 2006, and by a confirmation election held within the District on May 13, 2006, and operates under Chapters 49 and 54 of the Texas Water Code and other general laws of the State of Texas applicable to municipal utility districts.

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 also is authorized to construct, develop and maintain park and recreational facilities using operating revenues or by issuing bonds payable from taxes, and, under certain limited circumstances, with TCEQ approval, to construct roads. In addition, the District is authorized, upon TCEQ and voter approval, to establish, operate and maintain a fire department, independently or with one or more other conservation and reclamation districts, and provide such facilities and services to the customers of the District.

Description

The District was created by the TCEQ on February 14, 2006, and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. At the time of its creation, the District comprised approximately 211.2 acres. As a result of two annexations subsequent to its creation, the District currently comprises approximately 218.5 acres. The District is located entirely within Fort Bend County, Texas, approximately 30 miles west of the central business district of the City of Houston, Texas. The District is located entirely within the corporate limits of the City.

Management of the District

The District is governed by the Board consisting of five directors, who have control over and management supervision of all affairs of the District. All of the Directors own property in the District. The directors serve four-year staggered terms. Elections are held in even numbered years in May. The current members and officers of the Board are listed below:

Name	Title	Term Expires May
Tracie B. Palmer	President	2022
Catherine D. Kight	Vice President	2022
Jane Schubert	Secretary	2022
Janet L. Kaiser	Assistant Secretary	2020
Meredith Harris	Assistant Secretary	2020

Investment Policy

The District has adopted an Investment Policy (the "Policy") as required by the Public Funds Investment Act, Chapter 2256, Texas Government Code (the "Act"). The District's goal is to preserve principal and maintain liquidity in a diversified portfolio while securing a competitive yield on its portfolio. Funds of the District are to be invested only in accordance with the Policy. The Policy states that the funds of the District may be invested in short term obligations of the U.S. or its agencies or instrumentalities, in certificates of deposits insured by the Federal Deposit Insurance Corporation ("FDIC") and secured by collateral authorized by the Act, and in TexPool and TexStar, which are public funds investment pools rated in the highest rating category by a nationally recognized rating service. The District does not currently own, nor does it anticipate, the inclusion of long term securities or derivative products in the portfolio.

Consultants

Although the District does not have a general manager or any other full-time employees, it has contracted for utility system operating, bookkeeping, tax assessing and collecting, auditing, engineering, and legal services as follows:

Tax Assessor/Collector: The tax assessor/collector for the District is of Tax Tech, Inc. According to Tax Tech, Inc., its employees currently serve approximately 90 other special districts as tax assessor/collector.

Bookkeeper: The District's bookkeeper is F. Matuska Inc. Such firm acts as bookkeeper for approximately 35 utility districts.

Utility System Operator: The City, pursuant to the Utility Agreement (hereinafter defined) by and between the District and the City, operates the District's water and sewer system. See "UTILITY SERVICE AGREEMENT BETWEEN THE DEVELOPER AND THE CITY."

Auditor: As required by the Texas Water Code, the District retains an independent auditor to audit the District's financial statements annually, which annual audit is filed with the TCEQ. The District engaged McGrath & Co., PLLC as its auditor for the fiscal year ended May 31, 2017, which audit is included under "APPENDIX A."

Engineer: The District's engineer is Costello Inc. (the "Engineer"). Such firm acts as engineer for many residential and commercial developments in Texas.

Bond Counsel: The District has engaged Allen Boone Humphries Robinson LLP, Houston, Texas, as general counsel to the District and as bond counsel ("Bond Counsel") in connection with the issuance of the Bonds. The fees to be paid Bond Counsel in connection with the issuance of the Bonds are contingent upon the sale and delivery of the Bonds. See "LEGAL MATTERS."

Financial Advisor: Robert W. Baird & Co. Incorporated is employed as Financial Advisor to the District in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement.

Disclosure Counsel: The District has engaged Orrick, Herrington & Sutcliffe LLP, Houston, Texas, as disclosure counsel ("Disclosure Counsel") in connection with the issuance of the Bonds. The fees to be paid to Disclosure Counsel in connection with the issuance of the Bonds are contingent upon the sale and delivery of the Bonds.

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DEVELOPMENT OF THE DISTRICT

Approximately 99.72 acres (219 lots) within the District have been developed as the single-family subdivisions of The Reserve at Katy, Sections 1, 2, 3, 4, 5 and 6. Additionally, approximately 13.03 acres (32 lots) are currently under development as The Reserve at Katy, Section 7. Further, approximately 32.07 acres in the District have been developed as commercial property, known as the Shops at the Reserve, that currently includes the following: Kroger Marketplace, a 123,000-square foot grocery store; 24 Hour Fitness, a 37,000-square foot fitness center; First Choice Emergency Room, an 8,000-square foot emergency healthcare facility; Chase Bank, a 3,500-square foot banking center; Katy Start Dental, a dental spa; several restaurants such as Subway and Wendy's; as well as other commercial users.

As of May 1, 2018, single-family residential development in the District included: approximately 134 completed homes (126 occupied, 6 unoccupied, and 2 model homes), 34 homes under construction, 51 vacant developed lots, and 32 lots under development. The remaining land within the District consists of approximately 26 undeveloped but developable acres and approximately 47.69 undevelopable acres.

Status of Development within the District

The following table sets out the status of single-family residential development within the District as of May 1, 2018:

	Acres	Total Lots	Homes		Vacant Lots
			Complete	Under Construction	
The Reserve at Katy,					
Section 1	39.90	84	75	6	3
Section 2	11.44	28	12	4	12
Section 3	9.59	23	17	5	1
Section 4	15.82	30	20	6	4
Section 5	10.85	19	0	0	19
Section 6	<u>12.11</u>	<u>35</u>	<u>10</u>	<u>13</u>	<u>12</u>
Total Developed Residential	99.72	219	134	34	51
Residential Under Development	13.03				
Developed Commercial	32.07				
Undeveloped but Developable	26.00				
Undevelopable	<u>47.69</u>				
District Total	218.51				

PRINCIPAL LANDOWNER/DEVELOPER

Role of the Developer

In general, the activities of a developer in a municipal utility district such as the District include purchasing the land within the District, designing the subdivision, designing the utilities and streets to be constructed in the subdivision, designing 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 (including, in some cases, water, wastewater, and drainage facilities pursuant to the rules of the TCEQ, as well as gas, telephone, and electric service) and selling improved lots and commercial reserves to builders, developers, or other third parties. In most instances, the developer will be required to pay up to thirty percent of the cost of constructing certain of the water, wastewater and drainage facilities in a utility district pursuant to the rules of the TCEQ. The relative success or failure of a developer to perform such activities in development of the property within a utility district may have a profound effect on the security of the unlimited tax bonds issued by a district. A developer is generally under no obligation to a district to develop the property which it owns in a district. Furthermore, there is no restriction on a developer's right to sell any or all of the land which it owns within a district. In addition, a developer is ordinarily a major taxpayer within a municipal utility district during the development phase of the property.

Principal Landowner/Developer

The developer of land within the District is Toll Houston TX, LLC (the "Developer"), which is a subsidiary of Toll Brothers, Inc. Toll Brothers, Inc. is a publicly traded corporation whose stock is listed on the New York Stock Exchange as TOL. Audited financial statements for Toll Brothers, Inc. can be found online at https://www.tollbrothers.com/investor_relations. Toll Brothers, Inc. is subject to the information requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith files reports and other information with the SEC. Reports, proxy statements and other information filed by Toll Brothers, Inc. can be inspected at the office of the SEC

at Judiciary Plaza, Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such material can be obtained from the Public Reference Section of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. Copies of the above reports, proxy statements and other information may also be inspected at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005. The SEC maintains a website at <http://www.sec.gov> that contains reports, proxy information statements and other information regarding registrants that file electronically with the SEC.

Certain financial information concerning the Developer is included as part of the consolidated financial statements of Toll Brothers, Inc. However, Toll Brothers, Inc. is not legally obligated to provide funds for the development of the District, to provide funds to pay taxes on property in the District owned by the Developer, or to pay any other obligations of the Developer. Further, neither the Developer nor Toll Brothers, Inc. is responsible for, is liable for or has made any commitment for payment of the Bonds or other obligations of the District, and the inclusion of such financial statements and description of financial arrangements herein should not be construed as an implication to that effect. Neither the Developer nor Toll Brothers, Inc. has any legal commitment to the District or owners of the Bonds to continue development of the land within the District and the Developer may sell or otherwise dispose of its property within the District, or any other assets, at any time. Further, the financial condition of the Developer and Toll Brothers, Inc. is subject to change at any time. Because of the foregoing, financial information concerning the Developer and Toll Brothers, Inc. will neither be updated nor provided following issuance of the Bonds.

Homebuilder within the District

Homebuilding within the District began in 2013. Toll Brothers, Inc. is the active homebuilder in the District. Homes in the District range in price from \$350,000 to over \$1,000,000.

UTILITY SERVICE AGREEMENT BETWEEN THE DEVELOPER AND THE CITY

The District operates pursuant to a Utility Functions and Services Allocation Agreement between the City and the Developer (the "Utility Agreement"). Pursuant to the Utility Agreement, the District assumed responsibility for acquiring and constructing for the benefit of, and for ultimate conveyance to, the City, the water distribution and wastewater collection facilities to serve development occurring within the boundaries of the District (the "Facilities" within this section regarding the Utility Agreement) and the City agreed to provide the District with its ultimate capacity needs for water and wastewater service and to make an annual payment to the District in consideration of the District's financing, acquisition and construction of the Facilities.

The Facilities: The Utility Agreement provides that the Facilities shall be designed and constructed in accordance with the City's requirements and criteria. The City agrees to provide the District with its ultimate requirements for water supply subject to a per-connection capital recovery fee. The Utility Agreement authorizes the District to purchase capacity in the City's Sewage Treatment Plant based on the City's capital recovery fee. The capital recovery fee for water supply is \$1,075 per connection and for wastewater treatment plant capacity is \$1,250 per connection. The District agrees to limit the quantity of wastewater delivered to the amount of wastewater treatment plant capacity purchased through one point of discharge, which is metered. The City agrees to acknowledge any purchase by the District and agrees to hold such capacity for the sole benefit of the District. The District has the right to assign all or any part of its capacity to subsequent purchasers, landowners and developers within the District's boundaries. Prior to making any connection to the District's sanitary sewer system, the District agrees to issue an assignment of capacity and ensure that all required inspections are conducted by the City.

Authority of District to Issue Bonds: The District has the authority to issue, sell and deliver unlimited tax bonds as permitted by law and the City's consent ordinance. Bonds issued by the District are obligations solely of the District and shall not be construed to be obligations or indebtedness of the City.

Ownership, Operation and Maintenance of the Facilities: Upon completion of construction of the Facilities, the District agrees to convey the Facilities to the City, reserving for itself a security interest in the Facilities for the purpose of securing the performance of the City under the Utility Agreement. When all bonds issued by the District to acquire and construct the Facilities have been issued and subsequently paid or redeemed and discharged in full, the District agrees to execute a release of the security interest retained by the District and the City shall own the Facilities without encumbrance. As each phase of the Facilities is completed, the City agrees to inspect the same and upon approval, will accept the Facilities for operation and maintenance. The accepted Facilities shall be operated and maintained by the City at its sole cost and expense. Prior to accepting such Facilities, if the City determines that the Facilities or any portion thereof have not been constructed in accordance with approved plans and specifications, the City agrees to notify the District, and the District shall correct any deficiency noted by the City.

Rates for Service: The City agrees to bill and collect from customers of the District such rates and charges for such customers as the City, in its sole discretion, determines are necessary, provided that the rates and charges will be equal and uniform to those charged to other similar users outside the District. The City may impose a charge for connection to

Facilities at a rate to be determined from time to time by the City, provided that the charge is equal to the amount charged other City users for comparable connections.

Annual Payment: The City agrees to make an annual payment (the "Annual Payment") based on the City's property tax rate that is attributable to water, sewer and drainage facilities based on a formula provided in the Utility Agreement. Under such formula, for a given year, the Annual Payment is equal to the amount of the City's property tax rate (per \$100 in valuation) that is attributable to debt service or operation of water, sewer and drainage facilities multiplied by the assessed valuation in the District. The City's property tax rate attributable to water, sewer and drainage facilities may change from year to year. The District does not expect to receive any significant amount of money from the City based upon the Annual Payment. The District has not pledged the Annual Payment to the Bonds.

Dissolution of the District: The City has the right to abolish and dissolve the District and to acquire the District's assets and assume the District's obligations in accordance with state law. In the Utility Agreement, the City agrees that it will not abolish and dissolve the District until (1) the Facilities required to serve the District have been completed, (2) bonds have been issued to finance the Facilities, and (3) the Developer developing Facilities has been reimbursed by the District to the maximum extent permitted by the rules of the TCEQ or the City assumes the obligation to reimburse the Developer.

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AERIAL PHOTOGRAPH OF THE DISTRICT



PHOTOGRAPHS TAKEN WITHIN THE DISTRICT
(May 2018)



Single-Family Residential



Single-Family Residential



Single-Family Residential



Single-Family Residential



Single-Family Residential



Single-Family Residential

**PHOTOGRAPHS TAKEN WITHIN THE DISTRICT
(May 2018)**



Single-Family Residential Under Construction



Single-Family Residential Under Construction



Kroger Marketplace



Chase Bank



Katy Star Dental



24 Hour Fitness

DISTRICT DEBT

Debt Service Requirement Schedule

The following schedule sets forth the principal and interest requirements on the Outstanding Bonds and the Bonds.

Calendar Year	Outstanding System Debt Service	Outstanding Road System Debt Service	The Bonds			Total Debt Service
			Principal	Interest	Debt Service	
2018	\$377,213	\$181,853	\$ -	\$ -	\$177,450	\$559,066
2019	541,901	242,956	-	177,450	313,800	962,308
2020	544,009	237,206	150,000	163,800	300,550	1,095,015
2021	550,749	231,456	145,000	155,550	297,575	1,082,755
2022	551,991	230,706	150,000	147,575	299,325	1,080,273
2023	547,566	234,706	160,000	139,325	295,525	1,081,598
2024	552,691	223,206	165,000	130,525	288,100	1,071,423
2025	554,763	221,956	165,000	123,100	278,150	1,064,819
2026	565,938	210,456	160,000	118,150	273,350	1,054,544
2027	571,333	204,206	160,000	113,350	278,550	1,048,889
2028	570,633	202,956	170,000	108,550	273,450	1,052,139
2029	574,608	196,456	170,000	103,450	273,350	1,044,514
2030	577,515	194,956	175,000	98,350	268,100	1,045,821
2031	584,685	185,738	175,000	93,100	267,413	1,038,523
2032	586,048	186,675	180,000	87,413	256,563	1,040,135
2033	596,638	177,288	175,000	81,563	260,875	1,030,488
2034	595,763	177,738	185,000	75,875	249,631	1,034,375
2035	604,063	173,013	180,000	69,631	248,331	1,026,706
2036	606,413	168,288	185,000	63,331	246,856	1,023,031
2037	608,013	168,563	190,000	56,856	245,206	1,023,431
2038	613,581	163,663	195,000	50,206	238,138	1,022,450
2039	618,188	159,463	195,000	43,138	236,069	1,015,788
2040	621,550	160,263	200,000	36,069	283,819	1,017,881
2041	263,938	211,275	255,000	28,819	284,575	759,031
2042	269,750	215,775	265,000	19,575	284,969	770,100
2043	-	-	275,000	9,969	177,450	284,969
Total	\$13,649,534	\$4,960,816	\$4,425,000	\$2,294,719	\$6,719,719	\$25,330,069

Average Annual Requirement (2018-2043)..... \$ 974,233
 Maximum Annual Requirement (2020)..... \$ 1,095,015

Bonded Indebtedness

2017 Assessed Taxable Valuation	\$ 111,046,660	(a)
See "TAX DATA" and "TAXING PROCEDURES."		
2018 Preliminary Valuation	\$ 140,540,207	(b)
See "TAX DATA" and "TAXING PROCEDURES."		
Estimate of Valuation as of April 15, 2018	\$ 158,078,587	(c)
See "TAX DATA" and "TAXING PROCEDURES."		
Direct Debt:		
The Outstanding Bonds	\$ 12,365,000	
The Bonds	\$ 4,425,000	
Total.....	\$ 16,790,000	
Estimated Overlapping Debt	\$ 13,813,689	(d)
Total Direct and Estimated Overlapping Debt.....	\$ 30,603,689	
Direct Debt Ratios:		
As a percentage of 2017 Assessed Taxable Valuation.....	15.12	%
As a percentage of 2018 Preliminary Valuation	11.95	%
As a percentage of Estimate of Valuation as of April 15, 2018.....	10.62	%
Direct and Estimated Overlapping Debt Ratios:		
As a percentage of 2017 Assessed Taxable Valuation.....	27.56	%
As a percentage of 2018 Preliminary Valuation	21.78	%
As a percentage of Estimate of Valuation as of April 15, 2018.....	19.36	%
System Debt Service Fund Balance (as of June 26, 2018).....	\$ 617,781	(e)
Road System Debt Service Fund Balance (as of June 26, 2018)	\$ 328,586	(f)
General Fund Balance (as of June 26, 2018).....	\$ 539,005	
Capital Projects Fund Balance (as of June 26, 2018).....	\$ 36,302	
2017 Tax Rate per \$100 of Assessed Taxable Valuation		
System Debt Service	\$0.490	
Road System Debt Service.....	\$0.210	
Maintenance and Operation	\$0.200	
Total.....	\$0.900	
Average Annual Debt Service Requirement (2018-2043)	\$ 974,233	(g)
Maximum Annual Debt Service Requirement (2020).....	\$ 1,095,015	(g)
Tax Rate per \$100 of Assessed Taxable Valuation Required to Pay Average Annual Debt Service Requirement (2018-2043) on the Bonds and the Outstanding Bonds at 95% Tax Collections		
Based on 2017 Assessed Taxable Valuation (\$111,046,660).....	\$0.93	
Based on 2018 Preliminary Valuation (\$140,540,207)	\$0.73	
Based on Estimate of Valuation as of April 15, 2018 (\$158,078,587).....	\$0.65	
Tax Rate per \$100 of Assessed Taxable Valuation Required to Pay Maximum Annual Debt Service Requirement (2020) on the Bonds and the Outstanding Bonds at 95% Tax Collections		
Based on 2017 Assessed Taxable Valuation (\$111,046,660).....	\$1.04	
Based on 2018 Preliminary Valuation (\$140,540,207)	\$0.83	
Based on Estimate of Valuation as of April 15, 2018 (\$158,078,587).....	\$0.73	

- (a) As provided by the Fort Bend Central Appraisal District (the "Appraisal District"). All property located in the District is valued on the appraisal rolls by the Appraisal District as of January 1 of each year.
- (b) Provided by the Appraisal District as the preliminary value as of January 1, 2018. This value represents the preliminary determination of the taxable value in the District as of January 1, 2018. No taxes will be levied on this preliminary value, which is subject to protest by the landowners. The value will be certified by the Appraisal Review Board and taxes will be levied on the certified value. See "TAXING PROCEDURES."
- (c) Provided by the Appraisal District for information purposes only. Represents new construction within the District from January 1, 2017 to April 15, 2018. This estimate is based upon the same unit value used in the assessed taxable value. No taxes will be levied on this estimate.
- (d) See "Estimated Direct and Overlapping Debt Statement" below.
- (e) Neither Texas law nor the Bond Resolution requires that the District maintain any particular sum in the System Debt Service Fund. Funds in the System Debt Service Fund are not available to pay debt service on bonds issued for road purposes.
- (f) Neither Texas law nor the Bond Resolution requires that the District maintain any particular sum in the Road Debt Service Fund. Funds in the Road Debt Service Fund are not available to pay debt service on bonds issued for the System, such as the Bonds.
- (g) Requirement of debt service on the Bonds and the Outstanding Bonds. See "Debt Service Requirement Schedule" above.

Estimated Direct and Overlapping Debt Statement

Other governmental entities whose boundaries overlap the District have outstanding bonds payable from ad valorem taxes. The following statement of direct and estimated overlapping ad valorem tax debt was developed from information contained in "Texas Municipal Reports," published by the Municipal Advisory Council of Texas, or other available information. Except for the amount relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person is entitled to rely upon such information as being accurate or complete. Furthermore, certain of the entities listed below may have issued additional bonds since the dates stated in this table, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot presently be determined. Political subdivisions overlapping the District are authorized by Texas law to levy and collect ad valorem taxes for operation, maintenance and/or general revenue purposes in addition to taxes for payment of their debt, and some are presently levying and collecting such taxes.

Taxing Jurisdiction	Outstanding Debt June 30, 2018	Estimated Overlapping	
		Percent	Amount
Fort Bend County	\$593,940,527	0.17%	\$ 1,030,594
Katy Independent School District	1,741,495,000	0.69%	12,033,468
City of Katy	15,475,000	4.84%	<u>749,627</u>
Total Estimated Overlapping Debt.....			\$13,813,689
The District			<u>\$16,790,000(a)</u>
Total Direct & Estimated Overlapping Debt			\$30,603,689(a)

(a) Includes the Bonds.

Debt Ratios

	2017 Assessed Taxable Valuation	2018 Preliminary Valuation	Estimate of Valuation as of April 15, 2018
Direct Debt (a)	15.12%	11.95%	10.62%
Total Direct and Estimated Overlapping Debt (a)	27.56%	21.78%	19.36%

(a) Includes the Bonds.

TAXING PROCEDURES

Authority to Levy Taxes

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in sufficient amount to pay the principal of and interest on the Outstanding Bonds, the Bonds, and any additional bonds payable from taxes which the District may hereafter issue (see "INVESTMENT CONSIDERATIONS - Future Debt"), and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Resolution 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. See "TAX DATA - Maintenance Tax."

Property Tax Code and County-Wide Appraisal District

The Texas Property Tax Code (the "Property Code") specifies the taxing procedures of all political subdivisions of the State of Texas, including the District. Provisions of the Property Code are complex and are not fully summarized herein. The Property 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 Fort Bend Central Appraisal District (the "Appraisal District") has the responsibility of appraising property for all taxing units within Fort Bend County, including the District. Such appraisal values will be subject to review and change by the Fort Bend Central 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.

Property Subject to Taxation by the District

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; travel trailers; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons 65 years of age 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 the 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 certain surviving dependents of disabled veterans, if requested, but only to the maximum extent of between \$5,000 and \$12,000 depending upon the disability rating of the veteran claiming the exemption. A veteran who receives a disability rating of 100% is entitled to an exemption of full value of the veteran's residential homestead. Furthermore, qualifying surviving spouses of persons 65 years of age and older are entitled to receive a resident homestead exemption equal to the exemption received by the deceased spouse, and surviving spouses of a deceased veteran who had received a disability rating of 100% are entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries.

A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. This exemption also applies to a residence homestead that was donated by a charitable organization at some cost to such veterans. Also, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. For the 2017 tax year, the District has not granted an exemption for residents who are disabled or 65 and older.

The surviving spouse of a first responder who is killed or fatally injured in the line of duty is entitled to an exemption of the total appraised value of the surviving spouse's residence homestead if the surviving spouse has not remarried since the first responder's death, and said property was the first responder's residence homestead at the time of death. Such exemption would be transferred to a subsequent residence homestead of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

Residential Homestead Exemptions: The Property Tax Code authorizes the governing body of each political subdivision in the State to exempt up to twenty percent (20%) of the appraised market value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of a homestead exemption may be considered each year, but must be adopted by before July 1. The District has never adopted a homestead exemption. See "TAX DATA - Exemptions."

Freeport Goods and Goods-in-Transit 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 2013 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

The County may designate all or part of the area within the District as a reinvestment zone. Thereafter, the County and 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 jurisdictions. At this time, Fort Bend County has not designated any of the area within the District as a reinvestment zone.

Valuation of Property for Taxation

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

The Property 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 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 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 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.

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

On August 26, 2017, Hurricane Harvey made landfall on the Texas Gulf Coast, severely impacting the entire region and resulting in a disaster declaration by the Governor of the State of Texas and the President of the United States. See "INVESTMENT CONSIDERATIONS – Extreme Weather Events." When requested by a local taxing unit, such as the District, the Appraisal District is required to complete a reappraisal as soon as practicable of all property damaged in an area that the Governor declares a disaster area. For reappraised property, the taxes are pro-rated for the year in which the disaster occurred. The taxing unit assesses taxes prior to the date the disaster occurred based upon market value as of January 1. Beginning on the date of the disaster and for the remainder of the year, the taxing unit applies its tax rate to the reappraised market value of the property. On September 12, 2017, Fort Bend County and Fort Bend County Drainage District adopted a resolution requesting a reappraisal of property damaged by Hurricane Harvey. The District has not yet determined whether it will request a reappraisal due to Hurricane Harvey.

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 Code.

The Property Code sets forth notice and hearing procedures for certain tax rate increases by the District and provides for taxpayer referenda which could result in the repeal of certain tax increases. The Property Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property values, appraisals that are higher than renditions and appraisals of property not previously on an appraisal roll.

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 rate of taxation is set by the Board of Directors, after the legally required notice has been given to owners of property within the District, based upon: a) the valuation of property within the District as of the preceding January 1, and b) the amount required to be raised for debt service, maintenance purposes, and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent if not paid before February 1 of the year following the year in which imposed. 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 for collection costs of an amount established by the District and a delinquent tax attorney. A delinquent tax on personal property incurs an additional penalty, in an amount established by the District and a delinquent tax attorney, 60 days after the date the taxes become delinquent. The delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, which may be rejected by taxing units. The District's tax collector is required to enter into an installment payment agreement with any person who is delinquent on the payment of tax on a residence homestead for payment of tax, penalties and interest, if the person requests an installment agreement and has not entered into an installment agreement with the collector in the preceding 24 months. The installment agreement must provide for payments to be made in monthly installments and must extend for a period of at least 12 months and no more than 36 months. Additionally, the owner of a residential homestead property who is (i) sixty-five (65) years of age or older, (ii) disabled, or (iii) a disabled veteran, is entitled by law to pay current taxes on a residential homestead in installments without penalty or to defer the payment of taxes during the time of ownership. In the instance of tax deferral, a tax lien remains on the property and interest continue to accrue during the period of deferral.

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 current year's debt service tax rate plus 1.08 times the previous year's operation and maintenance tax rate. Thus, debt service tax rate cannot be changed by a rollback election.

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 years for residential and agricultural property and six months for commercial property and all other types of property after the purchaser's deed at the foreclosure sale is filed in the county records.

TAX DATA

General

All taxable property within the District is subject to the assessment, levy and collection by the District of a continuing, direct annual ad valorem tax without legal limitation as to rate or amount, sufficient to pay principal of and interest on the Bonds (see "TAXING PROCEDURES"). The Board has in its Bond Resolution covenanted 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 (see "THE BONDS" and "INVESTMENT CONSIDERATIONS"). For the 2017 tax year, the District levied a maintenance tax of \$0.20 per \$100 of assessed taxable valuation, a system debt service tax of \$0.49 per \$100 of assessed taxable valuation and a road system debt service tax of \$0.21 per \$100 of assessed taxable valuation.

Tax Rate Limitation

Debt Service:	Unlimited (no legal limit as to rate or amount).
Maintenance:	\$1.50 per \$100 assessed taxable valuation.
Maintenance (Roads):	\$0.25 per \$100 assessed taxable valuation.

Maintenance Tax

The Board has the statutory authority to levy and collect an annual ad valorem tax for maintenance of the District's improvements if such maintenance tax is authorized by vote of the District's electors. The Board is authorized by the District's voters to levy such maintenance tax in an amount not to exceed \$1.50 per \$100 of assessed valuation. Such tax, when levied, is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds and any parity bonds which may be issued in the future. The District has levied a maintenance tax every year since the 2005 tax year. The Board is authorized by the District's voters to levy a maintenance tax for roads in an amount not to exceed \$0.25 per \$100 of assessed valuation. To date, the District has not levied a maintenance tax for roads. See "Tax Rate Distribution" below.

Additional Penalties

The District has contracted with a delinquent tax attorney to collect certain delinquent taxes. In connection with that contract, the District can establish an additional penalty of twenty percent (20%) of the tax to defray the costs of collection. This 20% penalty applies to taxes that either: (1) become delinquent on or after February 1 of a year, but not later than June 1 of that year, and that remain delinquent on April 1 (for personal property) and July 1 (for real property) of the year in which they become delinquent or (2) become delinquent on or after June 1, pursuant to the Texas Tax Code.

Tax Rate Calculations

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 of assessed taxable value that would be required to meet certain debt service requirements on the Bonds and the Outstanding Bonds if no growth in the District's tax base occurs beyond the 2017 Assessed Taxable Valuation (\$111,046,660), the 2018 Preliminary Valuation (\$140,540,207) or the Estimate of Valuation as of April 15, 2018 (\$158,078,587). The calculations assume collection of 95% of taxes levied, the sale of the Bonds but not the sale of any additional bonds by the District.

Average Annual Debt Service Requirement (2018-2043).....	\$ 974,233
Tax Rate of \$0.93 on the 2017 Assessed Taxable Valuation produces.....	\$ 981,097
Tax Rate of \$0.73 on the 2018 Preliminary Valuation produces.....	\$ 974,646
Tax Rate of \$0.65 on the Estimate of Valuation as of April 15, 2018 produces.....	\$ 976,135
Maximum Annual Debt Service Requirement (2020).....	\$ 1,095,015
Tax Rate of \$1.04 on the 2017 Assessed Taxable Valuation produces.....	\$ 1,097,141
Tax Rate of \$0.83 on the 2018 Preliminary Valuation produces.....	\$ 1,108,160
Tax Rate of \$0.73 on the Estimate of Valuation as of April 15, 2018 produces.....	\$ 1,096,275

Estimated Overlapping Taxes

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

Set forth below is an estimation of all taxes per \$100 of assessed valuation levied by such jurisdictions. No recognition is given to local assessments for civic association dues, emergency medical service contributions, fire department contributions or any other charges made by entities other than political subdivisions. The following chart includes the 2017 taxes per \$100 of assessed taxable valuation levied by all such taxing jurisdictions.

<u>Taxing Jurisdiction</u>	<u>2017 Tax Rate</u>
The District	\$0.900000
Fort Bend County General	0.453000
Fort Bend County Drainage	0.016000
City of Katy	0.486720
Katy Independent School District	<u>1.516600</u>
	\$3.372320

Historical Tax Collections

The following table illustrates the collection history of the District for each of the 2013 -2017 tax years:

<u>Tax Year</u>	<u>Taxable Valuation</u>	<u>Tax Rate Per \$100 (a)</u>	<u>Adjusted Levy</u>	<u>Collections Current Year</u>	<u>Current Year Ended 9/30</u>	<u>Collections 5/31/18</u>
2013	\$11,380,299	\$0.90620	\$103,128	100.00%	2014	100.00%
2014	23,684,865	0.90620	214,632	99.29%	2015	100.00%
2015	39,513,111	0.90000	355,618	100.00%	2016	100.00%
2016	84,744,680	0.90000	762,702	99.25%	2017	100.00%
2017	111,046,660	0.90000	999,420	99.61%(b)	2018	99.61%(b)

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

(b) In process of collections.

Tax Rate Distribution

The following illustrates the composition of the District's tax rate levied in each of the 2013-2017 tax years:

<u>Tax Rate</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
System Debt Service	\$0.4900	\$0.3700	\$0.4900	\$0.0000	\$0.0000
Road System Debt Service	\$0.2100	\$0.0000	\$0.0000	\$0.0000	\$0.0000
Maintenance and Operations	<u>\$0.2000</u>	<u>\$0.5300</u>	<u>\$0.4100</u>	<u>\$0.9062</u>	<u>\$0.9062</u>
Total	\$0.9000	\$0.9000	\$0.9000	\$0.9062	\$0.9062

Assessed Taxable Valuation Summary

The following illustrates the types of property that compose the District’s assessed taxable value, as certified by the Appraisal District, for each of the 2013-2017 tax years:

Type of Property	2017 Taxable Value	2016 Taxable Value	2015 Taxable Value	2014 Taxable Value	2013 Taxable Value
Land	\$27,788,420	\$26,413,780	\$19,171,760	\$18,781,010	\$11,443,900
Improvements	73,317,300	51,256,610	20,726,720	4,989,090	27,720
Personal Property	10,178,720	7,577,600	50,510	67,450	0
Exemptions	<u>(237,780)</u>	<u>(503,310)</u>	<u>(435,879)</u>	<u>(152,685)</u>	<u>(91,321)</u>
Total	\$111,046,660	\$84,744,680	\$39,513,111	\$23,684,865	\$11,380,299

Principal Taxpayers

The following are the principal taxpayers in the District as shown on the Appraisal District’s certified appraisal rolls for the 2017 tax year.

Taxpayer	Types of Property	Taxable Valuation 2017 Tax Roll	Percentage of District’s 2017 Taxable Value
Kroger Texas LP	Land, Improvements, & Personal	\$22,359,830	20.14%
A-S 117 Shops at the Reserve LP	Land & Improvements	12,682,630	11.42%
Toll Houston TX LLC (a)	Land, Improvements, & Personal	6,806,000	6.13%
A-S 118 Spring Green-FM 1463 LP	Land & Improvements	4,415,600	3.98%
Homeowner	Land & Improvements	852,690	0.77%
Homeowner	Land & Improvements	811,160	0.73%
Homeowner	Land & Improvements	781,540	0.70%
Homeowner	Land & Improvements	779,820	0.70%
Homeowner	Land & Improvements	776,620	0.70%
Homeowner	Land & Improvements	<u>764,080</u>	<u>0.69%</u>
Total		\$51,029,970	45.95%

(a) See “PRINCIPAL LANDOWNER/DEVELOPER.”

THE SYSTEM

Regulation

According to the Engineer, the District’s water distribution, wastewater collection and drainage facilities (the “System,” as previously defined herein) 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, and Fort Bend County Drainage District. According to the Engineer, the design of all such facilities has been approved by all required governmental agencies, and the construction has been inspected by the TCEQ.

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

Source of Water Supply and Wastewater Treatment

Water supply and wastewater treatment capacity is provided by the City. All water and wastewater treatment facilities are owned and maintained by the City as stipulated by the Utility Agreement between the City and the District. Residents in the District pay the City for water service and wastewater treatment in accordance with the City’s water and sewer rate order. See “UTILITY SERVICE AGREEMENT BETWEEN THE DEVELOPER AND THE CITY.”

Storm Drainage

The land in the District generally drains to concrete roads with curbs and gutters, where the water is directed into a regional storm sewer system. The collector system then directly discharges to the District’s detention pond facilities located generally on the east side of the District. These District ponds then continue to drain through neighboring Woodcreek Reserve Municipal Utility District via a combination of storm sewer conduit and open ditch section referred to as Drainage Ditch “B.” This shared drainage ditch thence flows to the north and ultimately discharges into existing Willow Fork Buffalo Bayou.

General Fund Operating Statement

The following statement sets forth in condensed form the historical results of operation of the District's System. The figures for the fiscal years ending May 31, 2014 through May 31, 2017, were obtained from the District's audited financial statements, reference to which is hereby made. The District is required by statute to have a certified public accountant audit its financial statements annually, which audit is to be filed with the TCEQ. See "APPENDIX A."

	05/31/2018*	Fiscal Year Ending May 31,			
		2017	2016	2015	2014
Revenues					
Property taxes	\$ 224,085	\$ 439,210	\$ 164,663	\$ 219,317	\$ 102,860
Penalties and interest	6	0	572	501	0
Investment earnings	934	280	165	79	78
Total Revenues	\$ 225,025	\$ 439,490	\$ 165,400	\$ 219,897	\$ 102,938
Expenditures					
Professional fees	\$ 109,872	\$ 67,891	\$ 89,208	\$ 75,928	\$ 32,614
Contracted services	9,960	9,580	13,100	15,557	15,167
Repairs and maintenance	37,737	47,177	54,587	15,557	3,724
Administrative	16,842	12,283	12,013	15,869	9,179
Total Expenditures	\$ 174,411	\$ 139,931	\$ 168,908	\$ 122,911	\$ 60,684
Revenues Over (Under) Expenditures	\$ 50,614	\$ 302,559	\$ (3,508)	\$ 96,986	\$ 42,254

* Unaudited. Information obtained from the District's bookkeeper.

INVESTMENT CONSIDERATIONS

General

The Bonds, which are obligations of the District and not of the State of Texas; Fort Bend County, Texas; the City; or any political subdivision other than the District, will be secured by a continuing, direct, annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. Therefore, 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. See "DEVELOPMENT OF THE DISTRICT," "TAXING PROCEDURES," and "TAX DATA."

Factors Affecting Taxable Values and Tax Payments

Economic Factors: The rate of development of the District is directly related to the vitality of the residential housing industry. New residential housing construction can be significantly affected by factors such as interest rates, construction costs, and consumer demand. Decreased levels of home construction activity would restrict the growth of property values in the District. The District cannot predict the pace or magnitude of any future development or home construction in the District.

Principal Landowner/Developer: There is no commitment by or legal requirement of the principal landowners/developers 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 homebuilder 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 "DEVELOPMENT OF THE DISTRICT," "PRINCIPAL LANDOWNER/DEVELOPER," and "TAX DATA - Principal Taxpayers."

Dependence on Principal Taxpayers: The ability of any principal landowner to make full and timely payments of taxes levied against its property by the District and similar taxing authorities will directly affect the District's ability to meet its debt service obligations. As illustrated in this Official Statement under the caption

“TAX DATA – Principal Taxpayers,” the District’s principal taxpayers in 2017 owned property located within the District the aggregate assessed valuation of which comprised approximately 45.95% of the District’s 2017 Assessed Taxable Valuation. Kroger Texas LP, the District’s top taxpayer, owns approximately 20.14% of the District’s 2017 Assessed Taxable Valuation. The Developer is the second largest owner of property (by value) in the District and owns approximately 11.42% of the District’s 2017 Assessed Taxable Valuation. In the event that the Developer or any other taxpayer, or any combination of taxpayers, should default in the payment of taxes in an amount which exceeds the District’s debt service fund surplus, the ability of the District to make timely payment of debt service on the Bonds will be dependent on its ability to enforce and liquidate its tax liens, which is a time-consuming process. Failure to recover or borrow funds in a timely fashion could result in an excessive District tax rate. The District is not required by law or the Bond Resolution to maintain any specified amount of surplus in its interest and sinking fund. See “TAX DATA – Principal Taxpayers” and “TAXING PROCEDURES – Levy and Collection of Taxes.”

Maximum Impact on District Tax Rates: Assuming no further development or home construction, 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 2017 Assessed Taxable Valuation of property located within the District is \$111,046,660, the 2018 Preliminary Valuation is \$140,540,207, and the Estimate of Valuation as of April 15, 2018 is \$158,078,587 (see “TAX DATA”). After issuance of the Bonds, the maximum annual debt service requirement on the Bonds and the Outstanding Bonds will be \$1,095,015 (2020) and the average annual debt service requirement on the Bonds and the Outstanding Bonds will be \$974,233 (2018–2043). Assuming no increase to nor decrease from the 2017 Assessed Taxable Valuation, tax rates of \$1.04 and \$0.93 per \$100 of assessed taxable 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, respectively. Assuming no increase to nor decrease from the 2018 Preliminary Valuation, tax rates of \$0.83 and \$0.73 per \$100 of assessed taxable valuation at 95% tax collection rate would be necessary to pay the maximum annual debt service requirement and the average annual debt service requirement, respectively. Assuming no increase to nor decrease from the Estimate of Valuation as of April 15, 2018, tax rates of \$0.73 and \$0.65 per \$100 of assessed taxable valuation at 95% tax collection rate would be necessary to pay the maximum annual debt service requirement and the average annual debt service requirement, respectively.

The District can make no representation that the taxable property values in the District will increase in the future or will maintain a value sufficient to support the proposed District tax rate or to justify continued payment of taxes by property owners. In 2017, the District levied a maintenance and operations tax of \$0.20 per \$100 of assessed taxable valuation, a system debt service tax of \$0.49 per \$100 of assessed taxable valuation and a road system debt service tax of \$0.21 per \$100 of assessed taxable valuation.

Potential Impact of Natural Disaster

The District is located approximately 80 miles from the Texas Gulf Coast and has been and could again be impacted by high winds, heavy rains, and flooding caused by hurricane, tornado, tropical storm, or other adverse weather events. In the event that a natural disaster should damage or destroy improvements and personal property in the District, the assessed value of such taxable properties could be substantially reduced, resulting in a decrease in the assessed taxable value of the District and an increase in the District’s tax rates. See “TAXING PROCEDURES – Property Tax Code and County-Wide Appraisal District” and “– Valuation of Property for Taxation.”

There can be no assurance that a casualty will be covered by insurance (certain casualties, including flood, are usually excepted unless specific insurance is purchased), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild, repair, or replace any taxable properties in the District that were damaged. Even if insurance proceeds are available and damaged properties are rebuilt, there could be a lengthy period in which assessed values in the District would be adversely affected. There can be no assurance the District will not sustain damage from meteorological events.

Extreme Weather Events

On August 26, 2017, Hurricane Harvey (“Harvey”) made landfall on the Texas Gulf Coast, severely impacting the entire region, including the District. Harvey created a significant amount of rainfall over several days, well in excess of the 100-year threshold across most of the Houston metropolitan area. According to the District’s engineer, the District did not experience any street flooding and no homes had water damage from flooding. See “TAXING PROCEDURES – Valuation of Property for Taxation.”

The District cannot predict the effect that additional extreme weather events may have upon the District or the District’s drainage system. Additional extreme weather event have the potential to cause damage within the District that could have a negative effect on taxable assessed valuations in the District which could cause tax rates to rise. See “INVESTMENT CONSIDERATIONS – Factors Affecting Taxable Values and Tax Payments” and “– Maximum Impact on District Tax Rates.”

Competitive Nature of Houston Residential Housing Market

The housing industry in the Houston area is very competitive, but the District can give no assurance that the building programs which are planned by any homebuilder will be continued or completed. The respective competitive position of the homebuilders listed herein and any other developer or homebuilder that might attempt future home building or development projects in the District, the sale of developed lots or in the construction and sale of single-family residential units, 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.

Tax Collection Limitations

The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other state and local taxing authorities on the property against which taxes are levied, and such lien may be enforced by foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time-consuming and expensive collection procedures, (b) a bankruptcy court's stay of tax collection procedures against a taxpayer, (c) market conditions limiting the proceeds from a foreclosure sale of taxable property, or (d) the taxpayer's right to redeem the property within two years of foreclosure for residential homestead and agricultural use property and within six (6) months of foreclosure for other property. While the District has a lien on taxable property within the District for taxes levied against such property, such lien can be foreclosed only in a judicial proceeding. Moreover, the value of property to be sold for delinquent taxes and thereby the potential sales proceeds available to pay debt service on the Bonds, may be limited by among other factors, the existence of other tax liens on the property, by the current aggregate tax rate being levied against the property, or by the taxpayers' right to redeem residential or agricultural use property within two (2) years of foreclosure and all other property within six (6) months of foreclosure. Finally, a bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes assessed against such taxpayer. See "TAXING PROCEDURES."

Registered Owners' Remedies and Bankruptcy

In the event of default in the payment of principal of or interest on the Bonds, the Registered Owners have a right to seek a writ of mandamus requiring the District to levy sufficient taxes each year to make such payments. Except for mandamus, the Bond Resolution does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Although the Registered Owners could obtain a judgment against the District, such a judgment could not be enforced by a direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District in order to pay the principal of and interest on the Bonds. Since there is no trust indenture or trustee, the Registered Owners would have to initiate and finance the legal process to enforce their remedies. The enforceability of the rights and remedies of the Registered Owners may be limited further 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. In this regard, should the District file a petition for protection from creditors under federal bankruptcy laws, the remedy of mandamus or the right of the District to seek judicial foreclosure of its tax lien would be automatically stayed and could not be pursued unless authorized by a federal bankruptcy judge.

Marketability

The District has no understanding (other than the initial reoffering yields) with the winning bidder for the Bonds (the "Initial Purchaser") regarding the reoffering yields or prices of the Bonds and has no control over the trading of the Bonds in the secondary market. Moreover, there is no assurance that a secondary market will be made for the Bonds. If there is a secondary market, the difference between the bid and asked price of the Bonds may be greater than the bid and asked spread of other bonds generally bought, sold or traded in the secondary market. See "SALE AND DISTRIBUTION OF THE BONDS."

Future Debt

The District has the right to issue additional bonds from its remaining voted authorization. At an election held within the District on May 13, 2006, voters authorized the District's issuance of an aggregate \$22,000,000 principal amount of unlimited tax bonds for the purpose of purchasing, constructing, operating and maintaining the System, \$5,000,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing parks and recreational facilities within the District, and \$22,000,000 principal amount of unlimited tax bonds for the purpose of refunding of bonds issued by the District. Additionally, at an election held within the District on November 6, 2012, voters authorized the District's issuance of \$26,500,000 principal amount of unlimited tax bonds for the purpose of purchasing, constructing, operating, and maintaining the Road System and for the refunding of bonds issued by the District for the Road System.

After issuance of the Bonds, the following principal amounts will remain authorized but unissued: \$8,475,000 of unlimited tax bonds for the System, \$5,000,000 of unlimited tax bonds for parks and recreational improvements, \$22,000,000 of unlimited tax bonds for refunding, and \$23,115,000 of unlimited tax bonds for the Road System and for the refunding of same (see “THE BONDS – Issuance of Additional Debt”). The District may issue additional such bonds as may hereafter be approved by both the Board and voters of the District.

The District also has the right to issue certain other additional bonds, revenue bonds, special project bonds, and other obligations described in the Bond Resolution. All of the remaining \$8,475,000 in unlimited tax bonds for the System which have heretofore been authorized by the voters of the District may be issued by the District from time to time as needed. Issuance of the Bonds and the remaining \$8,475,000 in unlimited tax bonds for the System is subject to approval by the TCEQ. The District’s issuance of bonds for the Road System is not subject to approval by the TCEQ.

Following the issuance of the Bonds, the District will owe Developer approximately \$5,600,000 for existing System facilities located within the District, \$2,571,326 for the existing Road System located within the District, and no reimbursement for the recreational facilities located within the District. If additional bonds are issued in the future and property values have not increased proportionately, such issuance may increase gross debt/property valuation ratios and thereby adversely affect the investment quality or security of the Bonds. See “THE BONDS – Issuance of Additional Debt.”

The Engineer estimates that the aforementioned \$8,475,000 authorized unlimited tax bonds which remain unissued will be adequate to finance the construction of all water, wastewater and drainage facilities to provide service to all of the currently undeveloped portions of the District.

Continuing Compliance with Certain Covenants

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

Environmental Regulations

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

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

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

Air Quality/Greenhouse Gas Issues. Air quality control measures required by the United States Environmental Protection Agency (the “EPA”) and the Texas Commission on Environmental Quality (the “TCEQ”) may impact new industrial, commercial and residential development in the Houston area. Under the Clean Air Act (“CAA”) Amendments of 1990, the eight-county Houston Galveston area (“HGB area”)—Harris, Galveston, Brazoria, Chambers, Fort Bend, Waller, Montgomery and Liberty counties—was designated by the EPA in 2008 as a severe ozone nonattainment area under the 1997 “eight-hour” ozone standards (“the 1997 Ozone Standards”). In December 2015, the EPA determined that the HGB area has reached attainment under the 1997 Ozone Standards, and in May 2016, the EPA issued a proposed rule approving Texas’s redesignation substitute demonstration for the HGB area. However, until the EPA issues a final ruling, the HGB area is still subject to anti-backsliding obligations and nonattainment new source review requirements associated with the 1997 Ozone Standards.

In 2008, the EPA lowered the ozone standard from 80 parts per billion (“ppb”) to 75 ppb (“the 2008 Ozone Standard”), and designated the HGB area as a marginal ozone nonattainment area, effective July 20, 2012. Such nonattainment areas are required to demonstrate progress in reducing ozone concentrations each year until the EPA’s 2008 Ozone Standard is met. The HGB area did not reach attainment under the 2008 Ozone Standard by the 2016 deadline, and on September 21, 2016, the EPA proposed to reclassify the HGB area from marginal to moderate under the 2008 Ozone Standard. If reclassified, the HGB area’s 2008 Ozone Standard attainment deadline must be met as expeditiously as practicable, but in

any event no later than July 20, 2018. If the HGB area fails to demonstrate progress in reducing ozone concentration or fails to meet the EPA's 2008 Ozone Standard, the EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects, as well as severe emissions offset requirements on new major sources of air emissions for which construction has not already commenced.

On October 1, 2015, the EPA lowered the ozone standard from 75 ppb to 70 ppb ("the 2015 Ozone Standard"). On May 1, 2018, the EPA designated the HGB area as nonattainment for the 2015 Ozone Standard, and submitted this ruling for publication in the Federal Register. The HGB area nonattainment designation will become effective sixty days after publication in the Federal Register. A designation of nonattainment for ozone or any pollutant can negatively impact business due to the additional permitting/regulatory constraints that accompany this designation and because of the community stigma associated with a nonattainment designation. This designation could make it more difficult for the HGB area to demonstrate progress in reducing ozone concentration.

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

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

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

Texas Pollutant Discharge Elimination System ("TPDES") permits set limits on the type and quantity of discharge, in accordance with state and federal laws and regulations. The TCEQ reissued the TPDES Construction General Permit (TXR150000), with an effective date of March 5, 2018, which is a general permit authorizing the discharge of stormwater runoff associated with small and large construction sites and certain nonstormwater discharges into surface water in the state. It has a 5-year permit term, and is then subject to renewal. Moreover, the Clean Water Act ("CWA") and Texas Water Code require municipal wastewater treatment plants to meet secondary treatment effluent limitations and must establish the total maximum allowable daily load ("TMDL") of certain pollutants into the water bodies. The TMDLs that municipal utility districts may discharge may have an impact on the municipal utility district's ability to obtain and maintain TPDES permits.

On May 27, 2015, the EPA and the United States Army Corps of Engineers ("USACE") jointly issued a final version of the Clean Water Rule ("CWR"), which expands the scope of the federal government's CWA jurisdiction over intrastate water bodies and wetlands. The final rule became effective on August 28, 2015. On June 29, 2015, Texas, along with Louisiana and Mississippi, filed a lawsuit seeking a nationwide stay of the CWR in the United States District Court of the Southern District of Texas. On August 25, 2015, the United States District Court for North Dakota granted a motion for a preliminary injunction that prevents implementation of the CWR in thirteen states. On February 22, 2018, after the United States Supreme Court ruled that federal district courts have proper jurisdiction over the CWR, the Southern District of Texas heard arguments on preliminary relief staying the CWR. On June 11, 2018, the United States District Court for the Southern District of Georgia granted a motion for a preliminary injunction that prevents implementation of the CWR in eleven states.

On February 28, 2017, the President signed an executive order ordering the EPA and USACE to modify or rescind the CWR. On June 27, 2017, the EPA and the USACE released a proposed rule rescinding the CWR, reinstating language in place before 2015 changes, and proposing the development of a revised definition of "waters of the United States." This proposed rule was published in the Federal Register on July 27, 2017, the comment period ended on September 28, 2017, and comments are currently under review by the agencies. On June 15, 2018, the EPA and the USACE sent a proposed "Step 2" rule that would redefine "waters of the United States" to the Office of Management and Budget for interagency review.

On January 31, 2018, the EPA and the USACE finalized a rule extending the effective date of the CWR by two years from the date the rule is published in the Federal Register, until 2020. In response, a coalition of states filed a lawsuit in the U.S. District Court for the Southern District of New York alleging the EPA violated the Administrative Procedure Act by enacting this rule without the customary 30-day comment period.

If the CWR is not rescinded, operations of municipal utility districts, including the District, are potentially subject to additional restrictions and requirements, including permitting requirements, if construction or maintenance activities require the dredging, filling or other physical alteration of jurisdictional waters of the United States or associated wetlands that are within the “waters of the United States.”

The District is subject to the TCEQ’s General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the “MS4 Permit”), which was renewed by the TCEQ on December 11, 2013. The MS4 Permit authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems. The renewed MS4 Permit contains more stringent requirements than the standards contained in the previous MS4 Permit. In order to maintain MS4 Permit compliance, the District is partnering with the city of Katy (the “City”), to participate in the City’s program to develop and implement the required plan (the “MS4 Permit Plan”) as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff. While the District does not have its own independent MS4 Permit Plan, the District has taken all necessary steps required by the City to be included in the City’s MS4 Permit Plan in order to obtain MS4 Permit compliance with the TCEQ. If at any time in the future the District were required to maintain independent coverage under the MS4 Permit, it is anticipated that the District could incur substantial additional costs to develop and implement its own program necessary to comply with the MS4 Permit.

Changes in Tax Legislation

Certain tax legislation, whether currently proposed or proposed in the future, may directly or indirectly reduce or eliminate the benefit of the exclusion of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation, whether or not enacted, may also affect the value and liquidity of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed, pending or future legislation.

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 RATING.”

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 the Initial Purchaser (hereinafter defined) 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 "MUNICIPAL BOND INSURANCE AND RATING" 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

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

Bond Counsel has reviewed the information appearing in this Official Statement under "THE BONDS" (except for information under the subheadings "- Book-Entry-Only System" and "Use and Distribution of Bond Proceeds"), "THE DISTRICT - Authority," "TAXING PROCEDURES," "UTILITY SERVICE AGREEMENT BETWEEN THE DEVELOPER AND THE CITY," "LEGAL MATTERS," "TAX MATTERS," and "CONTINUING DISCLOSURE OF INFORMATION" solely to determine whether such information, insofar as it relates to matters of law, is true and correct and whether such information fairly summarizes matters of law and the provisions of the documents referred to therein. Bond Counsel has not, however, independently verified any of the factual information contained in this Official Statement nor has it conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of any information contained herein.

Allen Boone Humphries Robinson LLP, also serves as general counsel to the District on matters other than the issuance of bonds. The legal fees paid to 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 upon the sale and delivery of the Bonds.

No-Litigation Certificate

The District will furnish the Initial Purchaser a certificate, executed by the President and Secretary of the Board, and dated as of the date of delivery of the Bonds, that to their knowledge, no litigation is pending or threatened affecting the validity of the Bonds, or the levy and/or collection of taxes for the payment thereof, or the organization or boundaries of the District, or the title of the officers thereof to their respective offices.

No Material Adverse Change

The obligations of the Initial Purchasers 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 MATTERS

In the opinion of Allen Boone Humphries Robinson LLP, Bond Counsel, (i) interest on the Bonds is excludable from gross income for federal income tax purposes under existing law, and (ii) interest on the Bonds is not subject to the alternative minimum tax on individuals.

The Internal Revenue Code of 1986, as amended (the "Code") imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of proceeds and the source of repayment, limitations on the investment of proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of proceeds be paid periodically to the United States and a requirement that the issuer file an information report with the Internal Revenue Service (the "Service"). The District has covenanted in the Bond Resolution that it will comply with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants of the Bond Resolution pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Bonds for federal income tax purpose, and in addition, will rely on representations by the District and the Initial Purchaser with respect to matters solely within the knowledge of the District and the Initial Purchaser, respectively, which Bond Counsel has not independently verified. If the District should fail to comply with the covenants in the Bond Resolution or if the foregoing representations or report should be determined to be inaccurate or incomplete, interest on the Bonds could become taxable from the date of delivery of the Bonds, regardless of the date on which the event causing such taxability occurs.

Under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Bonds, received or accrued during the year. Payments of interest on tax-exempt obligations such as the Bonds are in many cases required to be reported to the Service. Additionally, backup withholding may apply to any such payments to any owner who is not an "exempt recipient" and who fails to provide certain identifying information. Individuals generally are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients.

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt of interest on, or disposition of, the Bonds.

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations, and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively-connected earnings and profits, including tax-exempt interest such as interest on the Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date hereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the District as the taxpayer and the owners of the Bonds may not have a right to participate in such audit. 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 the ultimate outcome of the audit.

Tax Accounting Treatment of Original Issue Discount Bonds

The issue price of certain of the Bonds (the "Original Issue Discount Bonds") is less than the stated redemption price at maturity. In such case, under existing law, and based upon the assumptions hereinafter stated (a) the difference between (i) the stated amount payable at the maturity of each Original Issue Discount Bond and (ii) the issue price of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond at the initial public offering price in the initial public offering of the Bonds; and (b) such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Bond was held by such initial owner) is includable in gross income. (Because original issue discount is treated as interest for federal income tax purposes, the discussion regarding interest on the Bonds under the caption "TAX MATTERS" generally applies, except as otherwise provided below, to original issue discount on an Original Issue Discount Bond held by an owner who purchased such Bond at the initial offering price in the initial public offering of the Bonds, and should be considered in connection with the discussion in this portion of the Official Statement.)

The foregoing is based on the assumptions that (a) the Initial Purchaser has purchased the Bonds for contemporaneous sale to the general public and not for investment purposes, and (b) all of the Original Issue Discount Bonds have been offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm's-length

transactions for a cash price (and with no other consideration being included) equal to the initial offering prices thereof stated on the cover page of this Official Statement, and (c) the respective initial offering prices of the Original Issue Discount Bonds to the general public are equal to the fair market value thereof. Neither the District nor Bond Counsel warrants that the Original Issue Discount Bonds will be offered and sold in accordance with such assumptions.

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

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

Qualified Tax-Exempt Obligations

The Code requires a pro rata reduction in the interest expense deduction of a financial institution to reflect such financial institution's investment in tax-exempt obligations acquired after August 7, 1986. An exception to the foregoing provision is provided in the Code for "qualified tax-exempt obligations," which include tax-exempt obligations, such as the Bonds, (a) designated by the issuer as "qualified tax-exempt obligations" and (b) issued by or on behalf of a political subdivision for which the aggregate amount of tax-exempt obligations (not including private activity bonds other than qualified 501(c)(3) bonds) to be issued during the calendar year is not expected to exceed \$10,000,000.

The District has designated the Bonds as "qualified tax-exempt obligations" and has represented that the aggregate amount of tax-exempt bonds (including the Bonds) issued by the District and entities aggregated with the District under the Code during calendar year 2018 is not expected to exceed \$10,000,000 and that the District and entities aggregated with the District under the Code have not designated more than \$10,000,000 in "qualified tax-exempt obligations" (including the Bonds) during calendar year 2018.

Notwithstanding these exceptions, financial institutions acquiring the Bonds will be subject to a 20% disallowance of allocable interest expense.

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 certain information to the Municipal Securities Rulemaking Board ("MSRB"). The MSRB has established the Electronic Municipal Market Access ("EMMA") system.

Annual Reports

The District will provide certain updated financial information and operating data to 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 Estimated Direct and Overlapping Debt Statement), "TAX DATA," and "APPENDIX A." The District will update and provide this information within six months after the end of each of its fiscal years ending in or after 2018.

Any information so provided shall be prepared in accordance with generally accepted accounting principles 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 May 31. Accordingly, it must provide updated information by November 30 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

Material Event Notices

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax 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. 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 the Rule, taking into account any amendments and interpretations of the Rule to the date of such amendment, as well as changed circumstances, and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. The District may also amend or repeal the agreement if the 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 Initial Purchaser from lawfully purchasing the Bonds in the offering described herein. If the District so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance with Prior Undertakings

During the last five years, the District has complied in all material respects with its continuing disclosure agreements made in accordance with SEC Rule 15c2-12.

OFFICIAL STATEMENT

General

The information contained in this Official Statement has been obtained primarily from the Developer, the District's records, the Engineer, the Tax Assessor/Collector 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, resolutions and engineering and other related reports set forth herein are included subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information.

Experts

The information contained in the Official Statement relating to engineering and to the description of the System, and, in particular, that engineering information included in the sections entitled "THE DISTRICT - Description" and "THE SYSTEM" has been provided by the Engineer and has been included herein in reliance upon the authority of the Engineer as expert in the field of civil engineering.

The information contained in the Official Statement relating to assessed valuations of property generally and, in particular, that information concerning collection rates and valuations contained in the sections captioned "TAX DATA" and "DISTRICT DEBT" was provided by Tax Tech, Inc. and the Appraisal District. Such information has been included herein in reliance upon the authority of Tax Tech, Inc. as an expert in the field of tax collection and the Appraisal District's authority as an expert in the field of property appraisal.

Certification as to Official Statement

The District, acting by and through its Board in its official capacity and in reliance upon the experts listed above, hereby certifies, as of the date hereof, that to the best of its knowledge and belief, 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.

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 Initial Purchaser, of any adverse event which causes the Official Statement to be materially misleading, and unless the Initial Purchaser elects to terminate its obligation to purchase the Bonds, the District will promptly prepare and supply to the Initial Purchaser an appropriate amendment or supplement to the Official Statement satisfactory to the Initial Purchaser; 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 Initial Purchaser, unless the Initial Purchaser notify the District in writing 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.

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 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 Fort Bend County Municipal Utility District No. 161 as of the date shown on the first page hereof.

/s/ Tracie B. Palmer
President, Board of Directors
Fort Bend County Municipal Utility District No. 161

ATTEST:

/s/ Jane Schubert
Secretary, Board of Directors
Fort Bend County Municipal Utility District No. 161

APPENDIX A
FINANCIAL STATEMENTS OF THE DISTRICT

**FORT BEND COUNTY MUNICIPAL
UTILITY DISTRICT NO. 161**

FORT BEND COUNTY, TEXAS

FINANCIAL REPORT

May 31, 2017

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Independent Auditors' Report

Board of Directors
Fort Bend County Municipal Utility District No. 161
Fort Bend County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Fort Bend County Municipal Utility District No. 161, as of and for the year ended May 31, 2017, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these basic 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 basic financial statements are free of material misstatement.

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

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

***Board of Directors
Fort Bend County Municipal Utility District No. 161
Fort Bend County, Texas***

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Fort Bend County Municipal Utility District No. 161, as of May 31, 2017, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other-Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it 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 the District's financial statements as a whole. The Texas Supplementary Information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Texas Supplementary 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. The information has been subjected to the auditing procedures applied to the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

McGuire & Co, P.C.

Houston, Texas
August 22, 2017

Management's Discussion and Analysis

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***Fort Bend County Municipal Utility District No. 161
Management's Discussion and Analysis
May 31, 2017***

Using this Annual Report

Within this section of the financial report of Fort Bend County Municipal Utility District No. 161 (the "District"), the District's Board of Directors provides a narrative discussion and analysis of the financial activities of the District for the fiscal year ended May 31, 2017. This analysis should be read in conjunction with the independent auditors' report and the basic financial statements that follow this section.

In addition to this discussion and analysis, this annual report consists of:

- The District's basic financial statements;
- Notes to the basic financial statements, which provide additional information essential to a full understanding of the data provided in the financial statements;
- Supplementary information required by the Governmental Accounting Standards Board (GASB) concerning the District's budget; and
- Other Texas supplementary information required by the District's state oversight agency, the Texas Commission on Environmental Quality (TCEQ).

Overview of the Financial Statements

The District prepares its basic financial statements using a format that combines fund financial statements and government-wide statements onto one financial statement. The combined statements are the *Statement of Net Position and Governmental Funds Balance Sheet* and the *Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances*. Each statement contains an adjustments column which quantifies the differences between the government-wide and fund level statements. Additional details of the adjustments are provided in Note 2 to the basic financial statements.

Government-Wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the District, both long-term and short-term. The District's government-wide financial statements consist of the *Statement of Net Position* and the *Statement of Activities*, which are prepared using the accrual basis of accounting. The *Statement of Net Position* includes all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the residual reported as net position. Over time, changes in net position may provide a useful indicator of whether the financial position of the District as a whole is improving or deteriorating.

Accounting standards establish three components of net position. The net investment in capital assets component represents the District's investments in capital assets, less any outstanding debt or other borrowings used to acquire those assets. Resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The restricted component of net position consists of financial resources that are restricted for a specific purpose by enabling legislation or external parties. The unrestricted component of net position represents resources not included in the other components.

Fort Bend County Municipal Utility District No. 161
Management's Discussion and Analysis
May 31, 2017

The *Statement of Activities* reports how the District's net position has changed during the fiscal year. All revenues and expenses are included on this statement, regardless of whether cash has been received or paid.

Fund Financial Statements

The fund financial statements include the *Governmental Funds Balance Sheet* and the *Governmental Funds Revenues, Expenditures and Changes in Fund Balances*. The focus of fund financial statements is on specific activities of the District rather than the District as a whole, reported using modified accrual accounting. These statements report on the District's use of available financial resources and the balances of available financial resources at the end of the year. 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, governmental statutes or regulations.

For further discussion on the government-wide and fund financial statements, please refer to Note 1 in the financial statements.

Financial Analysis of the District as a Whole

The District's net position at May 31, 2017, was negative \$14,674,958. The District's net position is negative because the District incurs debt to construct water, sewer, drainage and road facilities which it conveys to the City of Katy. A comparative summary of the District's overall financial position, as of May 31, 2017 and 2016, is as follows:

	2017	2016
Current and other assets	\$ 1,569,933	\$ 582,631
Capital assets	3,252,836	2,891,565
Total assets	<u>4,822,769</u>	<u>3,474,196</u>
Current liabilities	238,543	55,816
Long-term liabilities	19,259,184	16,766,592
Total liabilities	<u>19,497,727</u>	<u>16,822,408</u>
Net position		
Net investment in capital assets	(906,269)	(445,406)
Restricted	699,385	339,140
Unrestricted	(14,468,074)	(13,241,946)
Total net position	<u>\$ (14,674,958)</u>	<u>\$ (13,348,212)</u>

Fort Bend County Municipal Utility District No. 161
Management's Discussion and Analysis
May 31, 2017

The total net position of the District decreased during the current fiscal year by \$1,326,746. A comparative summary of the District's *Statement of Activities* for the past two years is as follows:

	<u>2017</u>	<u>2016</u>
Revenues		
Property taxes, penalties and interest	\$ 758,718	\$ 364,847
Other	979	753
Total revenues	<u>759,697</u>	<u>365,600</u>
Expenses		
Operating and administrative	159,970	346,439
Interest and fees	963,153	849,911
Debt issuance costs	562,383	276,739
Amortization	17,704	4,169
Total expenses	<u>1,703,210</u>	<u>1,477,258</u>
Change in net position before other item	(943,513)	(1,111,658)
Other item		
Transfers to other governments	<u>(383,233)</u>	<u>(727,716)</u>
Change in net position	(1,326,746)	(1,839,374)
Net position, beginning of year	<u>(13,348,212)</u>	<u>(11,508,838)</u>
Net position, end of year	<u>\$ (14,674,958)</u>	<u>\$ (13,348,212)</u>

Financial Analysis of the District's Funds

The District's combined fund balances, as of May 31, 2017, were \$1,532,833, which consists of \$488,639 in the General Fund, \$787,030 in the Debt Service Fund and \$257,164 in the Capital Projects Fund.

General Fund

A comparative summary of the General Fund's financial position as of May 31, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Total assets	<u>\$ 518,190</u>	<u>\$ 171,398</u>
Total liabilities	\$ 23,349	\$ 9,393
Total deferred inflows	6,202	2,914
Total fund balance	<u>488,639</u>	<u>159,091</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 518,190</u>	<u>\$ 171,398</u>

Fort Bend County Municipal Utility District No. 161
Management's Discussion and Analysis
May 31, 2017

A comparative summary of the General Fund's activities for the current and prior fiscal year is as follows:

	<u>2017</u>	<u>2016</u>
Total revenues	\$ 439,490	\$ 165,400
Total expenditures	<u>(136,931)</u>	<u>(168,908)</u>
Revenues over/(under) expenditures	302,559	(3,508)
Other changes in fund balance	26,989	
Net change in fund balance	<u>\$ 329,548</u>	<u>\$ (3,508)</u>

The District manages its activities with the objectives of ensuring that expenditures will be adequately covered by revenues each year and that an adequate fund balance is maintained. The District's primary financial resources in the General Fund are from property tax revenues which are dependent upon assessed values in the District and the maintenance tax rate set by the District. Property tax revenues increased from prior year because the District increased the maintenance and operations component of the levy and because assessed values increased from prior year

Debt Service Fund

A comparative summary of the Debt Service Fund's financial position as of May 31, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Total assets	<u>\$ 792,729</u>	<u>\$ 385,418</u>
Total deferred inflows	\$ 5,699	3,482
Total fund balance	787,030	381,936
Total deferred inflows and fund balance	<u>\$ 792,729</u>	<u>\$ 385,418</u>

A comparative summary of the Debt Service Fund's activities the current and prior fiscal year is as follows:

	<u>2017</u>	<u>2016</u>
Total revenues	\$ 335,171	\$ 207,401
Total expenditures	<u>(201,529)</u>	<u>(100,081)</u>
Revenues over expenditures	133,642	107,320
Other changes in fund balance	271,452	274,616
Net change in fund balance	<u>\$ 405,094</u>	<u>\$ 381,936</u>

The District's financial resources in the Debt Service Fund in both the current year and prior year are from property tax revenues and capitalized interest from the sale of bond. The difference between these financial resources and debt service requirements resulted in an increase in fund balance each year. It is important to note that the District sets its annual debt service tax rate as recommended by its financial advisor, who monitors projected cash flows in the Debt Service Fund to ensure that the District will be able to meet its future debt service requirements.

Fort Bend County Municipal Utility District No. 161
Management's Discussion and Analysis
May 31, 2017

Capital Projects Fund

A comparative summary of the Capital Projects Fund's financial position as of May 31, 2017 and 2016 is as follows:

	2017	2016
Total assets	<u>\$ 259,014</u>	<u>\$ 25,815</u>
Total liabilities	\$ 1,850	\$ 145
Total fund balance	<u>257,164</u>	<u>25,670</u>
Total liabilities and fund balance	<u>\$ 259,014</u>	<u>\$ 25,815</u>

A comparative summary of activities in the Capital Projects Fund for the current and prior fiscal year is as follows:

	2017	2016
Total revenues	\$ 82	\$ 284
Total expenditures	<u>(6,498,469)</u>	<u>(2,311,405)</u>
Revenues under expenditures	(6,498,387)	(2,311,121)
Other changes in fund balance	<u>6,729,881</u>	<u>2,331,634</u>
Net change in fund balance	<u>\$ 231,494</u>	<u>\$ 20,513</u>

The District has had considerable capital asset activity in the last two years, which was financed with proceeds from the issuance of its \$4,000,000 Series 2017 Unlimited Tax Bonds and its \$3,385,000 Series 2017 Unlimited Tax Road Bonds in the current year and the issuance of its \$5,100,000 Series 2015 Unlimited Tax Bonds in the prior year.

General Fund Budgetary Highlights

The Board of Directors adopts an annual unappropriated budget for the General Fund prior to the beginning of each fiscal year. The Board did not amend the budget during the fiscal year.

Since the District's budget is primarily a planning tool, actual results varied from the budgeted amounts. Actual net change in fund balance was \$33,522 less than budgeted. The *Budgetary Comparison Schedule* on page 32 of this report provides variance information per financial statement line item.

Capital Assets

The District has entered into financing agreements with its developer for the financing of the construction of capital assets within the District. The developer will be reimbursed from proceeds of future bond issues or other lawfully available funds. These developer funded capital assets are recorded on the District's financial statements upon completion of construction.

Fort Bend County Municipal Utility District No. 161
Management's Discussion and Analysis
May 31, 2017

Capital assets held by the District at May 31, 2017 and 2016 are summarized as follows:

	<u>2017</u>	<u>2016</u>
Capital assets not being amortized		
Land and improvements	<u>\$ 2,774,834</u>	<u>\$ 2,774,834</u>
Capital assets being amortized		
Capital recovery fees	499,875	120,900
Less accumulated amortization	<u>(21,873)</u>	<u>(4,168)</u>
Amortizable capital assets, net	<u>478,002</u>	<u>116,732</u>
Capital assets, net	<u><u>\$ 3,252,836</u></u>	<u><u>\$ 2,891,566</u></u>

The District's capital additions in the current year consisted of capital recovery fees paid to the City of Katy.

The District and the City of Katy (the "City") have entered into an agreement which obligates the District to construct water, wastewater, and certain storm drainage facilities to serve the District and, when completed, to convey title to the facilities to the City. Detention facilities and certain other capital assets are retained by the District. For the year ended May 31, 2017, capital assets in the amount of \$383,233 have been completed and recorded as transfers to other governments in the government-wide statements. Additional information is presented in Note 11.

Long-Term Debt and Related Liabilities

As of May 31, 2017, the District owes \$7,199,131 to the developer for completed projects and operating advances. As discussed in Note 7, the District has contractual commitments for ongoing construction projects in the amount of \$1,211,237 for projects under construction by the developer. As previously mentioned, the District will owe its developer for these projects upon completion of construction, at which time the capital assets and related liability will be recorded on the District's financial statements. The District intends to reimburse the developer from proceeds of future bond issues.

At May 31, 2017 and 2016, the District had total bonded debt outstanding as shown below:

<u>Series</u>	<u>2017</u>	<u>2016</u>
2015	\$ 5,100,000	\$ 5,100,000
2017	4,000,000	
2017 Road	3,385,000	
	<u><u>\$ 12,485,000</u></u>	<u><u>\$ 5,100,000</u></u>

During the year, the District issued \$7,385,000 in unlimited tax bonds. At May 31, 2017, the District had \$12,900,000 unlimited tax bonds authorized, but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District; \$5,000,000 for parks and recreational facilities; \$23,115,000 for road improvements and \$22,000,000 for refunding purposes.

Fort Bend County Municipal Utility District No. 161
Management's Discussion and Analysis
May 31, 2017

Next Year's Budget

In establishing the budget for the next fiscal year, the Board considered various economic factors that may affect the District, most notably projected revenues from property taxes and the projected cost of operating the District.

A comparison of next year's budget to current year actual amounts for the General Fund is as follows:

	<u>2017 Actual</u>	<u>2018 Budget</u>
Total revenues	\$ 439,490	\$ 443,700
Total expenditures	<u>(136,931)</u>	<u>(134,130)</u>
Revenues over expenditures	302,559	309,570
Other changes in fund balance	-	
Net change in fund balance	<u>302,559</u>	<u>309,570</u>
Beginning fund balance	159,091	461,650
Ending fund balance	<u><u>\$ 461,650</u></u>	<u><u>\$ 771,220</u></u>

Property Taxes

The District's property tax base increased approximately \$27,391,000 for the 2017 tax year from \$85,375,150 to \$112,766,120. This increase was primarily due to new construction in the District and increased property values.

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Basic Financial Statements

Fort Bend County Municipal Utility District No. 161
Statement of Net Position and Governmental Funds Balance Sheet
May 31, 2017

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
Assets						
Cash	\$ 501,321	\$ 786,914	\$ 269,797	\$ 1,558,032	\$ -	\$ 1,558,032
Taxes receivable	6,202	5,699		11,901		11,901
Internal balances	10,667	116	(10,783)			
Capital assets not being depreciated					2,774,834	2,774,834
Capital assets, net					478,002	478,002
Total Assets	\$ 518,190	\$ 792,729	\$ 259,014	\$ 1,569,933	3,252,836	4,822,769
Liabilities						
Accounts payable	\$ 22,823	\$ -	\$ 1,850	\$ 24,673		24,673
Other payables	526			526		526
Accrued interest payable					93,344	93,344
Due to developer					7,199,131	7,199,131
Long-term debt						
Due within one year					120,000	120,000
Due after one year					12,060,053	12,060,053
Total Liabilities	23,349		1,850	25,199	19,472,528	19,497,727
Deferred Inflows of Resources						
Deferred property taxes	6,202	5,699		11,901	(11,901)	
Fund Balances/Net Position						
Fund Balances						
Restricted		787,030	257,164	1,044,194	(1,044,194)	
Unassigned	488,639			488,639	(488,639)	
Total Fund Balances	488,639	787,030	257,164	1,532,833	(1,532,833)	
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 518,190	\$ 792,729	\$ 259,014	\$ 1,569,933		
Net Position						
Net investment in capital assets					(906,269)	(906,269)
Restricted for debt service					699,385	699,385
Unrestricted					(14,468,074)	(14,468,074)
Total Net Position					\$ (14,674,958)	\$ (14,674,958)

See notes to basic financial statements.

Fort Bend County Municipal Utility District No. 161
Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances
For the Year Ended May 31, 2017

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
Revenues						
Property taxes	\$ 439,210	\$ 310,377	\$ -	\$ 749,587	\$ 4,136	\$ 753,723
Penalties and interest		3,625		3,625	1,370	4,995
Accrued interest on bonds sold		20,552		20,552	(20,552)	
Investment earnings	280	617	82	979		979
Total Revenues	439,490	335,171	82	774,743	(15,046)	759,697
Expenditures/Expenses						
Operating and administrative						
Professional fees	67,891	404	5,232	73,527		73,527
Contracted services	9,580	16,155		25,735		25,735
Repairs and maintenance	47,177			47,177		47,177
Administrative	12,283	1,086	162	13,531		13,531
Capital outlay			5,190,006	5,190,006	(5,190,006)	
Debt service						
Interest and fees		183,884	740,686	924,570	38,583	963,153
Debt issuance costs			562,383	562,383		562,383
Amortization					17,704	17,704
Total Expenditures/Expenses	136,931	201,529	6,498,469	6,836,929	(5,133,719)	1,703,210
Revenues Over (Under)						
Expenditures/Expenses	302,559	133,642	(6,498,387)	(6,062,186)	5,118,673	(943,513)
Other Financing Sources/(Uses)						
Repayment of bond anticipation note			(1,400,000)	(1,400,000)	1,400,000	
Proceeds from sale of bonds		271,452	7,113,548	7,385,000	(7,385,000)	
Bond discount			(206,678)	(206,678)	206,678	
Bond anticipation note proceeds			1,400,000	1,400,000	(1,400,000)	
Internal transfers	26,989		(26,989)			
Repayment of developer advances			(150,000)	(150,000)	150,000	
Other Item						
Transfers to other governments					(383,233)	(383,233)
Net Change in Fund Balances	329,548	405,094	231,494	966,136	(966,136)	
Change in Net Position					(1,326,746)	(1,326,746)
Fund Balance/Net Position						
Beginning of the year	159,091	381,936	25,670	566,697	(13,914,909)	(13,348,212)
End of the year	\$ 488,639	\$ 787,030	\$ 257,164	\$ 1,532,833	\$ (16,207,791)	\$ (14,674,958)

See notes to basic financial statements.

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Fort Bend County Municipal Utility District No. 161
Notes to Basic Financial Statements
May 31, 2017

Note 1 – Summary of Significant Accounting Policies

The accounting policies of Fort Bend County Municipal Utility District No. 161 (the “District”) conform with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board. The following is a summary of the most significant policies:

Creation

The District was organized, created and established pursuant to an order of the Texas Commission on Environmental Quality dated February 14, 2006, and operates in accordance with the Texas Water Code, Chapters 49 and 54. The Board of Directors held its first meeting on March 3, 2006 and the first bonds were sold on September 24, 2015.

The District is responsible for providing water, sewer, certain drainage and road facilities within the District. As further discussed in Note 11, the District transfers these facilities to the City of Katy for operation and maintenance upon completion of construction. The District has contracted with various consultants to provide services to operate and administer the affairs of the District. The District has no employees, related payroll or pension costs.

Reporting Entity

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

Government-Wide and Fund Financial Statements

Government-wide financial statements display information about the District as a whole. These statements focus on the sustainability of the District as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. Interfund activity, if any, has been removed from these statements. These aggregated statements consist of the *Statement of Net Position* and the *Statement of Activities*.

Fund financial statements display information at the individual fund level. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for a specific purpose. Each fund is considered to be a separate accounting entity. Most governments typically have many funds; however, governmental financial statements focus on the most important or “major” funds with non-major funds aggregated in a single column. The District has three governmental funds, which are all considered major funds.

Note 1 – Summary of Significant Accounting Policies (continued)

Government-Wide and Fund Financial Statements (continued)

The following is a description of the various funds used by the District:

- The General Fund is used to account for the operations of the District and all other financial transactions not reported in other funds. The principal source of revenue is property taxes. Expenditures include costs associated with the daily operations of the District.
- The Debt Service Fund is used to account for the payment of interest and principal on the District's general long-term debt. The primary source of revenue for debt service is property taxes. Expenditures include costs incurred in assessing and collecting these taxes.
- The Capital Projects Fund is used to account for the expenditures of bond proceeds for the construction of the District's water, sewer and drainage facilities.

As a special-purpose government engaged in a single governmental program, the District has opted to combine its government-wide and fund financial statements in a columnar format showing an adjustments column for reconciling items between the two.

Measurement Focus and Basis of Accounting

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied.

The fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized in the accounting period in which it becomes both available and measurable to finance expenditures of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Revenues susceptible to accrual include property taxes and interest earned on investments. Property taxes receivable at the end of the fiscal year are treated as deferred inflows because they are not considered available to pay liabilities of the current period. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for unmatured interest on long-term debt, which is recognized when due.

Note 2 further details the adjustments from the governmental fund presentation to the government-wide presentation.

Use of Restricted Resources

When both restricted and unrestricted resources are available for use, the District uses restricted resources first, then unrestricted resources as they are needed.

Note 1 – Summary of Significant Accounting Policies (continued)

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Receivables from and payables to external parties are reported separately and are not offset, unless a legal right of offset exists. At May 31, 2017, an allowance for uncollectible accounts was not considered necessary.

Interfund Activity

During the course of operations, transactions occur between individual funds. This can include internal transfers, payables and receivables. This activity is combined as internal balances and is eliminated in both the government-wide and fund financial statement presentation.

Capital Assets

Capital assets do not provide financial resources at the fund level, and, therefore, are reported only in the government-wide statements. The District defines capital assets as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of one year. Capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at the estimated fair market value at the date of donation. The District has not capitalized interest incurred during the construction of its capital assets. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Depreciable capital assets, which consist of capital recovery fees, are amortized using the straight-line method over the remaining life of the utility agreement with the City of Katy. The District's detention facilities and drainage channels are considered improvements to land and are non-depreciable.

Deferred Inflows and Outflows of Financial Resources

A deferred inflow of financial resources is the acquisition of resources in one period that is applicable to a future period, while a deferred outflow of financial resources is the consumption of financial resources in one period that is applicable to a future period. A deferred inflow results from the acquisition of an asset without a corresponding revenue or assumption of a liability. A deferred outflow results from the use of an asset without a corresponding expenditure or reduction of a liability.

At the fund level, property taxes receivable not collected within 60 days of fiscal year end do not meet the availability criteria required for revenue recognition and are recorded as deferred inflows of financial resources.

Note 1 – Summary of Significant Accounting Policies (continued)

Fund Balances – Governmental Funds

Governmental accounting standards establish the following fund balance classifications:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The District does not have any nonspendable fund balances.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments. The District's restricted fund balances consist of unspent bond proceeds in the Capital Projects Fund and capitalized interest from the sale of bonds and property taxes levied for debt service in the Debt Service Fund.

Committed - amounts that can be used only for specific purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. The District does not have any committed fund balances.

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

Unassigned - all other spendable amounts in the General Fund.

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses/expenditures during the period reported. These estimates include, among others, the collectibility of receivables; the useful lives and impairment of capital assets; the value of amounts due to developer; the value of capital assets transferred to the City of Katy and the value of capital assets for which the developer has not been fully reimbursed. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from the estimates.

Fort Bend County Municipal Utility District No. 161
Notes to Basic Financial Statements
May 31, 2017

Note 2 – Adjustment from Governmental to Government-wide Basis

Reconciliation of the *Governmental Funds Balance Sheet* to the *Statement of Net Position*

Total fund balance, governmental funds		\$ 1,532,833
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.</p>		
Historical cost	\$ 3,274,709	
Less accumulated amortization	<u>(21,873)</u>	
Change due to capital assets		3,252,836
<p>Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. The difference consists of:</p>		
Bonds payable, net	(12,180,053)	
Interest payable on bonds	<u>(93,344)</u>	
Change due to long-term debt		(12,273,397)
<p>Amounts due to the District's developer for prefunded construction and operating advances are recorded as a liability in the <i>Statement of Net Position</i>.</p>		
		(7,199,131)
<p>Property taxes receivable have been levied and are due, but are not available soon enough to pay current period expenditures and, therefore, are deferred in the funds.</p>		
		11,901
Total net position - governmental activities		<u><u>\$ (14,674,958)</u></u>

Fort Bend County Municipal Utility District No. 161
Notes to Basic Financial Statements
May 31, 2017

Note 2 – Adjustment from Governmental to Government-wide Basis (continued)

Reconciliation of the *Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances* to the *Statement of Activities*

Net change in fund balances - total governmental funds \$ 966,136

Governmental funds do not report revenues that are not available to pay current obligations. In contrast, such revenues are reported in the *Statement of Activities* when earned. The difference is for property taxes. 5,506

Governmental funds report capital outlays for developer reimbursements and construction costs as expenditures in the funds; however, in the *Statement of Activities*, impact fees paid to the City of Katy are capitalized and charged to expense over the remaining life of the contract.

Capital outlays	\$ 5,190,006	
Repayment of developer advances	150,000	
Amortization expense	<u>(17,704)</u>	
		5,322,302

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal uses current financial resources. However, neither transaction has any effect on net assets. Other elements of debt financing are reported differently between the fund and government wide statements.

Issuance of long term debt	(7,385,000)	
Repayment of bond anticipation note	1,400,000	
Bond discount	206,678	
Issuance of bond anticipation note	(1,400,000)	
Interest expense accrual	<u>(59,135)</u>	
		(7,237,457)

The District conveys its infrastructure to the City of Katy upon completion of construction. Since these improvements are funded by the developer, financial resources are not expended in the fund financial statements; however, in the *Statement of Activities*, these amounts are reported as transfers to other governments. (383,233)

Change in net position of governmental activities	\$ (1,326,746)
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Fort Bend County Municipal Utility District No. 161
Notes to Basic Financial Statements
May 31, 2017

Note 3 – Deposits and Investments

Deposit Custodial Credit Risk

Custodial credit risk as it applies to deposits (i.e. cash) is the risk that, in the event of the failure of the depository institution, a government will not be able to recover its deposits or will not be able to recover collateral securities. The *Public Funds Collateral Act* (Chapter 2257, Texas Government Code) requires that all of the District’s deposits with financial institutions be covered by federal depository insurance and, if necessary, pledged collateral held by a third party custodian. The act further specifies the types of securities that can be used as collateral. The District’s written investment policy establishes additional requirements for collateralization of deposits.

Investments

The District is authorized by the *Public Funds Investment Act* (Chapter 2256, Texas Government Code) to invest in the following: (1) obligations of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies or instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (5) certain A rated or higher obligations of states and political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) insured or collateralized certificates of deposit, (8) certain fully collateralized repurchase agreements, (9) bankers’ acceptances with limitations, (10) commercial paper rated A-1 or P-1 or higher and a maturity of 270 days or less, (11) no-load money market mutual funds and no-load mutual funds, with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools and (14) a qualified securities lending program.

The District has adopted a written investment policy to establish the principles by which the District’s investment program should be managed. This policy further restricts the types of investments in which the District may invest.

Note 4 – Amounts Due to/from Other Funds

Amounts due to/from other funds at May 31, 2017, consist of the following:

	Interfund	
	Receivable	Payable
General Fund	\$ 10,783	\$ 116
Debt Service Fund	116	
Capital Projects Fund		10,783
	<u>\$ 10,899</u>	<u>\$ 10,899</u>

Amounts reported as internal balances between funds are considered temporary balances and will be paid during the following fiscal year.

Fort Bend County Municipal Utility District No. 161
Notes to Basic Financial Statements
May 31, 2017

Note 4 – Amounts Due to/from Other Funds (continued)

During the year, the District transferred \$26,989 from the Capital Projects Fund to the General Fund to reimburse bond application fees.

Note 5 – Capital Assets

A summary of changes in capital assets, for the year ended May 31, 2017, is as follows:

	Beginning Balances	Additions	Ending Balances
Capital assets not being amortized			
Land and improvements	\$ 2,774,834	\$ -	\$ 2,774,834
Capital assets being amortized			
Capital recovery fees	120,900	378,975	499,875
Less accumulated amortization	(4,169)	(17,704)	(21,873)
Subtotal amortizable capital assets, net	<u>116,731</u>	<u>361,271</u>	<u>478,002</u>
Capital assets, net	<u>\$ 2,891,565</u>	<u>\$ 361,271</u>	<u>\$ 3,252,836</u>

Amortization expense for the current year was \$17,704.

Note 6 – Bond Anticipation Note

The District uses a bond anticipation note (BAN) to provide short term financing for reimbursements to its developers. Despite its short term nature, a BAN is not recorded as a fund liability, since it will not be repaid from current financial resources and will be repaid through the issuance of long term debt or another BAN. It is, however, recorded as a liability at the government-wide level.

On August 30, 2016, the District issued a \$1,400,000 BAN with an interest rate of 1.44%, which was due on August 29, 2017. The district paid this BAN on March 27, 2017 with proceeds from the issuance of its Series 2017 unlimited tax bonds.

The effect of this transaction on the District’s short term obligations are as follows:

Amounts borrowed	\$ 1,400,000
Amounts repaid	<u>(1,400,000)</u>
Ending balance	<u>\$ -</u>

Fort Bend County Municipal Utility District No. 161
Notes to Basic Financial Statements
May 31, 2017

Note 7 – Due to Developer

The District has entered into financing agreements with its developer for the financing of the construction of water, sewer, and drainage facilities and road improvements. Under the agreements, the developer will advance funds for the construction of facilities to serve the District. The developer will be reimbursed from proceeds of future bond issues or other lawfully available funds, subject to approval by TCEQ, as applicable. The District does not record the capital asset and related liability on the government-wide statements until construction of the facilities is complete. The District's developer has also advanced funds to the District for operating expenses.

Changes in amounts due to developer during the year are as follows:

Due to developer, beginning of year	\$ 11,776,929
Developer reimbursements	(4,961,031)
Developer funded construction	383,233
Due to developer, end of year	<u>\$ 7,199,131</u>

In addition, the District will owe the developer approximately \$1,211,237, which is included in the following schedule of contractual commitments. The exact amount is not known until approved by the TCEQ and verified by the District's auditor. As previously noted, these projects will be reported in the government-wide financial statements upon completion of construction.

	Contract Amount	Amounts Paid	Remaining Commitment
The Reserve at Katy, section 6 - water, sewer and drainage	\$ 435,460	\$ 370,266	\$ 435,460
The Reserve at Katy, section 6 - paving	384,265	301,499	384,265
The Reserve at Katy, section 6 - landscaping	391,513		391,513
	<u>\$ 1,211,237</u>	<u>\$ 671,765</u>	<u>\$ 1,211,237</u>

Note 8 – Long-Term Debt

Long-term debt is comprised of the following:

Bonds payable	\$ 12,485,000
Unamortized discounts	(304,947)
	<u>\$ 12,180,053</u>
Due within one year	<u>\$ 120,000</u>

Fort Bend County Municipal Utility District No. 161
Notes to Basic Financial Statements
May 31, 2017

Note 8 – Long-Term Debt (continued)

The District’s bonds payable at May 31, 2017, consists of unlimited tax bonds as follows:

Series	Amounts Outstanding	Original Issue	Interest Rates	Maturity Date, Serially, Beginning/ Ending	Interest Payment Dates	Call Dates
2015	\$ 5,100,000	\$ 5,100,000	2.60% - 4.00%	September 1, 2017-2040	September 1, March 1	September 1, 2023
2017	4,000,000	4,000,000	2.375% - 4.75%	September 1, 2018-2042	September 1, March 1	September 1, 2024
2017 Road	3,385,000	3,385,000	2.75% - 5.00%	September 1, 2018-2042	September 1, March 1	September 1, 2024
	<u>\$ 12,485,000</u>					

Payments of principal and interest on all series of bonds are to be provided from taxes levied on all properties within the District. Investment income realized by the Debt Service Fund from investment of idle funds will be used to pay outstanding bond principal and interest. The District is in compliance with the terms of its bond resolutions.

At May 31, 2017, the District had authorized but unissued bonds in the amount of \$12,900,000 for water, sewer and drainage facilities; \$5,000,000 for park and recreational facilities; \$23,115,000 for road facilities and \$22,000,000 for refunding purposes.

On March 30, 2017, the District issued its \$4,000,000 Series 2017 Unlimited Tax Bonds at a net effective interest rate of 3.726021%. Proceeds of the bonds were used (1) to reimburse developers for the cost of capital assets constructed within the District, and operating advances, plus interest expense at the net effective interest rate of the bonds, (2) to repay a \$1,400,000 BAN issued in the current fiscal year and (3) to pay capitalized interest into the Debt Service Fund.

On May 25, 2017, the District issued its \$3,385,000 Series 2017 Unlimited Tax Road Bonds at a net effective interest rate of 3.717862%. Proceeds of the bonds were used to (1) reimburse developers for the cost of capital assets constructed within the District plus interest expense at the net effective interest rate of the bonds and (2) to pay capitalized interest into the Debt Service Fund.

The change in the District’s long term debt during the year is as follows:

Bonds payable, beginning of year	\$ 5,100,000
Bonds issued	7,385,000
Bonds payable, end of year	<u>\$ 12,485,000</u>

Fort Bend County Municipal Utility District No. 161
Notes to Basic Financial Statements
May 31, 2017

Note 8 – Long-Term Debt (continued)

As of May 31, 2017, annual debt service requirements on bonds outstanding are as follows:

Year	Principal	Interest	Totals
2018	\$ 120,000	\$ 437,408	\$ 557,408
2019	330,000	451,496	781,496
2020	340,000	438,036	778,036
2021	350,000	424,211	774,211
2022	365,000	409,951	774,951
2023	380,000	394,986	774,986
2024	395,000	379,085	774,085
2025	405,000	363,807	768,807
2026	420,000	349,057	769,057
2027	435,000	333,466	768,466
2028	450,000	317,064	767,064
2029	465,000	299,827	764,827
2030	480,000	281,768	761,768
2031	500,000	263,947	763,947
2032	515,000	246,572	761,572
2033	535,000	228,324	763,324
2034	555,000	208,713	763,713
2035	575,000	187,788	762,788
2036	600,000	165,888	765,888
2037	620,000	143,138	763,138
2038	645,000	119,409	764,409
2039	670,000	94,947	764,947
2040	695,000	69,731	764,731
2041	725,000	43,513	768,513
2042	445,000	22,869	467,869
2043	470,000	7,763	477,763
	<u>\$ 12,485,000</u>	<u>\$ 6,682,759</u>	<u>\$ 19,167,759</u>

Note 9 – Property Taxes

On May 13, 2006, the voters of the District authorized the District’s Board of Directors to levy taxes annually for use in financing general operations limited to \$1.50 per \$100 of assessed value. Additionally, on November 6, 2012, the voters of the District authorized the District’s Board of Directors to levy a road operation and maintenance tax not to exceed \$0.25 per \$100 of assessed value. The District did not levy a road maintenance tax during the current fiscal year. The District’s bond resolutions require that property taxes be levied for use in paying interest and principal on long-term debt and for use in paying the cost of assessing and collecting taxes. Taxes levied to finance debt service requirements on long-term debt are without limitation as to rate or amount.

Fort Bend County Municipal Utility District No. 161
Notes to Basic Financial Statements
May 31, 2017

Note 9 – Property Taxes (continued)

All property values and exempt status, if any, are determined by the Fort Bend Appraisal District. Assessed values are determined as of January 1 of each year, at which time a tax lien attaches to the related property. Taxes are levied around October/November, are due upon receipt and are delinquent the following February 1. Penalty and interest attach thereafter.

Property taxes are collected based on rates adopted in the year of the levy. The District’s 2017 fiscal year was financed through the 2016 tax levy, pursuant to which the District levied property taxes of \$0.90 per \$100 of assessed value, of which \$0.53 was allocated to maintenance and operations and \$0.37 was allocated to debt service. The resulting tax levy was \$768,376 on the adjusted taxable value of \$85,375,150.

Property taxes receivable, at May 31, 2017, consisted of the following:

Current year taxes receivable	\$	10,532
Penalty and interest receivable		1,369
Net property taxes receivable	<u>\$</u>	<u>11,901</u>

Note 10 – Transfers to Other Governments

In accordance with an agreement between the District and the City of Katy (the “City”), the District transfers all of its water, sewer, and drainage facilities to the City (see Note 11). The District also constructs road facilities which are conveyed to the Texas Department of Transportation for maintenance. Accordingly, the District does not record these capital assets in the *Statement of Net Position*, but instead reports the completed projects as transfers to other governments on the *Statement of Activities*. For the year ended May 31, 2017, the total amount of projects completed and transferred to the City was \$383,233.

Note 11 – Utility Agreement with the City of Katy

On August 22, 2005, the District entered into a Utility Agreement with the City of Katy (the “City”) for construction and extension of water distribution lines, sanitary sewer collection systems and drainage facilities to serve the District. As the facilities are acquired or constructed, the District shall transfer the facilities (excluding storm water detention facilities) to the City, but will reserve a security interest in the facilities. The City will operate and maintain the facilities and will provide service to all users in the District. The term of the agreement is 40 years or upon dissolution of the District by the City.

Water and sewer rates charged by the City to users in the District, shall be the same rates charged to similar users within the City. All revenue derived from these charges belongs to the City.

Fort Bend County Municipal Utility District No. 161
Notes to Basic Financial Statements
May 31, 2017

Note 12 – Risk Management

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

Note 13 – Concentration of Risk

Approximately 50% of the taxable property within the District is owned by the top 10 taxpayers. Since property taxes are the only source of revenue for both the General Fund and the Debt Service Fund, the continued ability of these taxpayers to pay their property taxes is an important factor in the District's ability to meet its future obligations.

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Required Supplementary Information

Fort Bend County Municipal Utility District No. 161
Required Supplementary Information - Budgetary Comparison Schedule - General Fund
For the Year Ended May 31, 2017

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues			
Property taxes	\$ 491,000	\$ 439,210	\$ (51,790)
Penalties and interest	500		(500)
Investment earnings	200	280	80
Total Revenues	<u>491,700</u>	<u>439,490</u>	<u>(52,210)</u>
Expenditures			
Operating and administrative			
Professional fees	62,500	67,891	(5,391)
Contracted services	9,200	9,580	(380)
Repairs and maintenance	35,650	47,177	(11,527)
Administrative	21,280	12,283	8,997
Total Expenditures	<u>128,630</u>	<u>136,931</u>	<u>(8,301)</u>
Revenues Over Expenditures	363,070	302,559	(60,511)
Other Financing Source			
Internal transfers		26,989	26,989
Net Change in Fund Balance	363,070	329,548	(33,522)
Fund Balance			
Beginning of the year	159,091	159,091	
End of the year	<u>\$ 522,161</u>	<u>\$ 488,639</u>	<u>\$ (33,522)</u>

*Fort Bend County Municipal Utility District No. 161
Notes to Required Supplementary Information
May 31, 2017*

Budgets and Budgetary Accounting

An annual unappropriated budget is adopted for the General Fund by the District's Board of Directors. The budget is prepared using the same method of accounting as for financial reporting. There were no amendments to the budget during the year.

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Texas Supplementary Information

Fort Bend County Municipal Utility District No. 161
TSI-1. Services and Rates
May 31, 2017

1. Services provided by the District During the Fiscal Year:

- | | | | |
|---|---|--|--|
| <input type="checkbox"/> Retail Water | <input type="checkbox"/> Wholesale Water | <input type="checkbox"/> Solid Waste/Garbage | <input checked="" type="checkbox"/> Drainage |
| <input type="checkbox"/> Retail Wastewater | <input type="checkbox"/> Wholesale Wastewater | <input type="checkbox"/> Flood Control | <input type="checkbox"/> Irrigation |
| <input type="checkbox"/> Parks / Recreation | <input type="checkbox"/> Fire Protection | <input type="checkbox"/> Roads | <input type="checkbox"/> Security |
| <input type="checkbox"/> Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect) | | | |
| <input checked="" type="checkbox"/> Other (Specify): <u>Water and sewer services are provided by the City of Katy.</u> | | | |

2. Retail Service Providers

(You may omit this information if your district does not provide retail services)

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

	Minimum Charge	Minimum Usage	Flat Rate (Y / N)	Rate per 1,000 Gallons Over Minimum Usage	Usage Levels
Water:	_____	_____	_____	_____	_____ to _____
Wastewater:	_____	_____	_____	_____	_____ to _____
Surcharge:	_____	_____	_____	_____	_____ to _____

District employs winter averaging for wastewater usage? Yes No

Total charges per 10,000 gallons usage: Water _____ Wastewater _____

b. Water and Wastewater Retail Connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFC'S
Unmetered	_____	_____	x 1.0	_____
less than 3/4"	_____	_____	x 1.0	_____
1"	_____	_____	x 2.5	_____
1.5"	_____	_____	x 5.0	_____
2"	_____	_____	x 8.0	_____
3"	_____	_____	x 15.0	_____
4"	_____	_____	x 25.0	_____
6"	_____	_____	x 50.0	_____
8"	_____	_____	x 80.0	_____
10"	_____	_____	x 115.0	_____
Total Water	_____	_____	_____	_____
Total Wastewater	_____	_____	x 1.0	_____

See accompanying auditor's report.

Fort Bend County Municipal Utility District No. 161
TSI-1. Services and Rates
May 31, 2017

3. Total Water Consumption during the fiscal year (rounded to the nearest thousand):
 (You may omit this information if your district does not provide water)

Gallons pumped into system:	<u> N/A </u>	Water Accountability Ratio:
		(Gallons billed / Gallons pumped)
Gallons billed to customers:	<u> N/A </u>	<u> N/A </u>

4. Standby Fees (authorized only under TWC Section 49.231):
 (You may omit this information if your district does not levy standby fees)

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: _____

5. Location of District (required for first audit year or when information changes,
 otherwise this information may be omitted):

Is the District located entirely within one county? Yes No

County(ies) in which the District is located: Fort Bend County

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

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

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

ETJs in which the District is located: _____

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

If Yes, by whom? _____

See accompanying auditors' report.

Fort Bend County Municipal Utility District No. 161
TSI-2 General Fund Expenditures
For the Year Ended May 31, 2017

Professional fees		
Legal	\$	40,368
Audit		8,500
Engineering		19,023
		<u>67,891</u>
Contracted services		
Bookkeeping		<u>9,580</u>
Repairs and maintenance		<u>47,177</u>
Administrative		
Directors fees		6,150
Printing and office supplies		927
Insurance		3,079
Other		2,127
		<u>12,283</u>
Total expenditures	\$	<u><u>136,931</u></u>

Reporting of Utility Services in Accordance with HB 3693:

	<u>Usage</u>	<u>Cost</u>
Electrical	N/A	N/A
Water	N/A	N/A
Natural Gas	N/A	N/A

See accompanying auditors' report.

Fort Bend County Municipal Utility District No. 161
TSI-4. Taxes Levied and Receivable
May 31, 2017

	Maintenance Taxes	Debt Service Taxes	Totals
Taxes Receivable, Beginning of Year	\$ 2,914	\$ 3,482	\$ 6,396
2016 Original Tax Levy	394,203	275,198	669,401
Adjustments	58,285	40,690	98,975
Adjusted Tax Levy	452,488	315,888	768,376
Total to be accounted for	455,402	319,370	774,772
Tax collections:			
Current year	446,286	311,558	757,844
Prior years	2,914	3,482	6,396
Total Collections	449,200	315,040	764,240
Taxes Receivable, End of Year	\$ 6,202	\$ 4,330	\$ 10,532
Taxes Receivable, By Years			
2016	\$ 6,202	\$ 4,330	\$ 10,532
	2016	2015	2014
Property Valuations:			
Land	\$ 26,413,780	\$ 20,123,490	\$ 19,452,840
Improvements	51,256,610	20,726,720	4,989,090
Personal Property	8,208,070	50,510	67,450
Exemptions	(503,310)	(435,879)	(152,685)
Total Property Valuations	\$ 85,375,150	\$ 40,464,841	\$ 24,356,695
Tax Rates per \$100 Valuation:			
Maintenance tax rates	\$ 0.5300	\$ 0.4100	\$ 0.9062
Debt service tax rates	0.3700	0.4900	0.9062
Total Tax Rates per \$100 Valuation	\$ 0.9000	\$ 0.9000	\$ 0.9062
Adjusted Tax Levy:	\$ 768,376	\$ 364,184	\$ 220,720
Percentage of Taxes Collected to Taxes Levied **	98.63%	100.00%	100.00%

* Maximum Maintenance Tax Rate Approved by Voters: \$1.50 on 5/13/2006

* Maximum Maintenance Road Tax Rate Approved by Voters: \$0.25 on 11/6/2012

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

See accompanying auditors' report.

Fort Bend County Municipal Utility District No. 161
TSI-5. Long-Term Debt Service Requirements
Series 2015--by Years
May 31, 2017

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
2018	\$ 120,000	\$ 181,517	\$ 301,517
2019	125,000	178,333	303,333
2020	130,000	175,017	305,017
2021	135,000	171,573	306,573
2022	145,000	167,932	312,932
2023	150,000	163,948	313,948
2024	155,000	159,522	314,522
2025	165,000	154,598	319,598
2026	170,000	149,238	319,238
2027	180,000	143,460	323,460
2028	190,000	137,120	327,120
2029	195,000	130,383	325,383
2030	205,000	123,280	328,280
2031	215,000	115,613	330,613
2032	225,000	107,416	332,416
2033	235,000	98,674	333,674
2034	250,000	89,275	339,275
2035	260,000	79,200	339,200
2036	275,000	68,500	343,500
2037	285,000	57,300	342,300
2038	300,000	45,600	345,600
2039	315,000	33,300	348,300
2040	330,000	20,400	350,400
2041	345,000	6,900	351,900
	<u>\$ 5,100,000</u>	<u>\$ 2,758,099</u>	<u>\$ 7,858,099</u>

See accompanying auditors' report.

Fort Bend County Municipal Utility District No. 161
TSI-5. Long-Term Debt Service Requirements
Series 2017--by Years
May 31, 2017

Due During Fiscal Years Ending	Principal Due March 1	Interest Due March 1, September 1	Total
2018	\$ -	\$ 144,469	\$ 144,469
2019	90,000	142,331	232,331
2020	95,000	137,938	232,938
2021	100,000	133,306	233,306
2022	105,000	128,438	233,438
2023	110,000	123,331	233,331
2024	110,000	118,106	228,106
2025	115,000	114,128	229,128
2026	120,000	111,113	231,113
2027	130,000	107,675	237,675
2028	135,000	103,863	238,863
2029	140,000	99,738	239,738
2030	145,000	95,281	240,281
2031	150,000	90,488	240,488
2032	160,000	85,450	245,450
2033	165,000	80,169	245,169
2034	175,000	74,425	249,425
2035	180,000	68,213	248,213
2036	190,000	61,738	251,738
2037	200,000	54,913	254,913
2038	205,000	47,697	252,697
2039	215,000	40,084	255,084
2040	225,000	31,969	256,969
2041	235,000	23,344	258,344
2042	245,000	14,344	259,344
2043	260,000	4,875	264,875
	<u>\$ 4,000,000</u>	<u>\$ 2,237,422</u>	<u>\$ 6,237,422</u>

See accompanying auditors' report.

*Fort Bend County Municipal Utility District No. 161
 TSI-5. Long-Term Debt Service Requirements
 Series 2017 Road--by Years
 May 31, 2017*

Due During Fiscal Years Ending	Principal Due March 1	Interest Due March 1, September 1	Total
2018	\$ -	\$ 111,422	\$ 111,422
2019	115,000	130,831	245,831
2020	115,000	125,081	240,081
2021	115,000	119,331	234,331
2022	115,000	113,581	228,581
2023	120,000	107,706	227,706
2024	130,000	101,456	231,456
2025	125,000	95,081	220,081
2026	130,000	88,706	218,706
2027	125,000	82,331	207,331
2028	125,000	76,081	201,081
2029	130,000	69,706	199,706
2030	130,000	63,206	193,206
2031	135,000	57,847	192,847
2032	130,000	53,706	183,706
2033	135,000	49,481	184,481
2034	130,000	45,013	175,013
2035	135,000	40,375	175,375
2036	135,000	35,650	170,650
2037	135,000	30,925	165,925
2038	140,000	26,113	166,113
2039	140,000	21,563	161,563
2040	140,000	17,363	157,363
2041	145,000	13,269	158,269
2042	200,000	8,525	208,525
2043	210,000	2,888	212,888
	<u>\$ 3,385,000</u>	<u>\$ 1,687,238</u>	<u>\$ 5,072,238</u>

See accompanying auditors' report.

*Fort Bend County Municipal Utility District No. 161
 TSI-5. Long-Term Debt Service Requirements
 All Bonded Debt Series--by Years
 May 31, 2017*

Due During Fiscal Years Ending	Principal Due March 1	Interest Due March 1, September 1	Total
2018	\$ 120,000	\$ 437,408	\$ 557,408
2019	330,000	451,496	781,496
2020	340,000	438,036	778,036
2021	350,000	424,211	774,211
2022	365,000	409,951	774,951
2023	380,000	394,986	774,986
2024	395,000	379,085	774,085
2025	405,000	363,807	768,807
2026	420,000	349,057	769,057
2027	435,000	333,466	768,466
2028	450,000	317,064	767,064
2029	465,000	299,827	764,827
2030	480,000	281,768	761,768
2031	500,000	263,947	763,947
2032	515,000	246,572	761,572
2033	535,000	228,324	763,324
2034	555,000	208,713	763,713
2035	575,000	187,788	762,788
2036	600,000	165,888	765,888
2037	620,000	143,138	763,138
2038	645,000	119,409	764,409
2039	670,000	94,947	764,947
2040	695,000	69,731	764,731
2041	725,000	43,513	768,513
2042	445,000	22,869	467,869
2043	470,000	7,763	477,763
	<u>\$ 12,485,000</u>	<u>\$ 6,682,759</u>	<u>\$ 19,167,759</u>

See accompanying auditors' report.

Fort Bend County Municipal Utility District No. 161
TSI-6. Change in Long-Term Bonded Debt
May 31, 2017

	Bond Issue			Totals
	Series 2015	Series 2017	Series 2017 Road	
Interest rate	2.60% - 4.00%	2.375% - 4.75%	2.75% - 5.00%	
Dates interest payable	9/1; 3/1	9/1; 3/1	9/1; 3/1	
Maturity dates	9/1/17 to 9/1/40	9/1/18 to 9/1/42	9/1/18 to 9/1/42	
Beginning bonds outstanding	\$ 5,100,000	\$ -	\$ -	\$ 5,100,000
Bonds issued		4,000,000	3,385,000	7,385,000
Ending bonds outstanding	<u>\$ 5,100,000</u>	<u>\$ 4,000,000</u>	<u>\$ 3,385,000</u>	<u>\$ 12,485,000</u>
Interest paid during fiscal year	<u>\$ 183,078</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 183,078</u>
Paying agent's name and city Series 2015, 2017 and 2017 Road	<u>Regions Bank, Houston, TX</u>			
Bond Authority:	Water, Sewer and Drainage Bonds	Park Bonds	Road Bonds	Refunding Bonds
Amount Authorized by Voters	\$ 22,000,000	\$ 5,000,000	\$ 26,500,000	\$ 22,000,000
Amount Issued	(9,100,000)		(3,385,000)	
Remaining To Be Issued	<u>\$ 12,900,000</u>	<u>\$ 5,000,000</u>	<u>\$ 23,115,000</u>	<u>\$ 22,000,000</u>

All bonds are secured with tax revenues. Bonds may also be secured with other revenues in combination with taxes.

Debt Service Fund cash balances as of May 31, 2017: \$ 786,914

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 737,222

See accompanying auditors' report.

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Fort Bend County Municipal Utility District No. 161
TSI-7a. Comparative Schedule of Revenues and Expenditures - General Fund
For the Last Five Fiscal Years

	Amounts				
	2017	2016	2015	2014	2013**
Revenues					
Property taxes	\$ 439,210	\$ 164,663	\$ 219,317	\$ 102,860	\$ 69,284
Penalties and interest		572	501		
Investment earnings	280	165	79	78	
Total Revenues	439,490	165,400	219,897	102,938	69,284
Expenditures					
Operating and administrative					
Professional fees	67,891	89,208	75,928	32,614	66,161
Contracted services	9,580	13,100	15,557	15,167	11,999
Repairs and maintenance	47,177	54,587	15,557	3,724	3,724
Administrative	12,283	12,013	15,869	9,179	14,506
Total Expenditures	136,931	168,908	122,911	60,684	96,390
Revenues Over (Under) Expenditures	\$ 302,559	\$ (3,508)	\$ 96,986	\$ 42,254	\$ (27,106)

*Percentage is negligible

**Unaudited

See accompanying auditors' report.

Percent of Fund Total Revenues

2017	2016	2015	2014	2013**
100%	100%	100%	100%	100%
	*	*		
*	*	*	*	
100%	100%	100%	100%	100%
15%	54%	35%	32%	95%
2%	8%	7%	15%	17%
11%	33%	7%	4%	5%
3%	7%	7%	9%	21%
31%	102%	56%	60%	138%
69%	(2%)	44%	40%	(38%)

Fort Bend County Municipal Utility District No. 161
TSI-7b. Comparative Schedule of Revenues and Expenditures - Debt Service Fund
For the Last Two Fiscal Years

	Amounts		Percent of Fund Total Revenues	
	2017	2016	2017	2016
Revenues				
Property taxes	\$ 310,377	\$ 194,796	93%	94%
Penalties and interest	3,625	604	1%	*
Accrued interest on bonds sold	20,552	11,697	6%	6%
Investment earnings	617	304	*	*
Total Revenues	<u>335,171</u>	<u>207,401</u>	<u>100%</u>	<u>100%</u>
Expenditures				
Tax collection services	17,645	8,542	5%	4%
Debt service				
Interest and fees	183,884	91,539	55%	44%
Total Expenditures	<u>201,529</u>	<u>100,081</u>	<u>60%</u>	<u>48%</u>
Revenues Over Expenditures	<u>\$ 133,642</u>	<u>\$ 107,320</u>	<u>40%</u>	<u>52%</u>

*Percentage is negligible

See accompanying auditors' report.

Fort Bend County Municipal Utility District No. 161
TSI-8. Board Members, Key Personnel and Consultants
For the Year Ended May 31, 2017

Complete District Mailing Address: 3200 Southwest Freeway, Suite 2600, Houston, TX 77027
District Business Telephone Number: (713) 860-6400
Submission Date of the most recent District Registration Form
(TWC Sections 36.054 and 49.054): August 23, 2016
Limit on Fees of Office that a Director may receive during a fiscal year: \$ 7,200
(Set by Board Resolution -- TWC Section 49.0600)

Names:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid *	Expense Reimburse- ments	Title at Year End
Board Members				
Tracie Bonham Palmer	5/14 to 5/18	\$ 1,350	\$ 261	President
Catherine D. Kight	5/14 to 5/18	1,050	226	Vice President
Jane Schubert	5/14 to 5/18	1,200	172	Secretary
Janet L. Kaiser	5/16 to 5/20	1,200	258	Assistant Secretary
Meredith R. Harris	5/16 to 5/20	1,350	24	Assistant Secretary
Consultants				
Allen Boone Humphries Robinson LLP	2006	<u>Amounts Paid</u>		Attorney
<i>General legal fees</i>		\$ 45,708		
<i>Bond counsel</i>		229,002		
F. Matuska, Inc.	2006	10,826		Bookkeeper
Tax Tech, Inc.	2008	10,800		Tax Collector
Fort Bend Central Appraisal District	Legislation	4,245		Property Valuation
Perdue, Brandon, Fielder, Collins, & Mott, LLP	2015	404		Delinquent Tax Attorney
Costello, Inc.	2011	115,014		Engineer
McGrath & Co., PLLC	Annual	24,500		Auditor
Robert W. Baird & Co.	2015	201,421		Financial Advisor

* *Fees of Office* are the amounts actually paid to a director during the District's fiscal year.
See accompanying auditors' report.

APPENDIX B
SPECIMEN MUNICIPAL BOND INSURANCE POLICY



MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

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

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

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

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

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

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

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer

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