# OFFICIAL STATEMENT DATED MAY 14, 2018

IN THE OPINION OF BOND COUNSEL, INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME OF THE OWNERS OF THE BONDS FOR FEDERAL INCOME TAX PURPOSES UNDER EXISTING STATUTES, REGULATIONS, PUBLISHED RULINGS AND COURT DECISIONS AND IS NOT SUBJECT TO THE ALTERNATIVE MINIMUM TAX ON INDIVIDUALS. SEE "LEGAL MATTERS" HEREIN FOR A DISCUSSION OF THE BOND COUNSEL'S OPINION.

The District has designated the Bonds as "qualified tax-exempt obligations" for financial institutions. See "TAX MATTERS - Qualified Tax-Exempt Obligations for Financial Institutions" herein.

**NEW ISSUE - Book -Entry Only**

**Ratings: S&P Global Ratings (BAM Insured) . . . . "AA" (stable outlook)**
**S&P Global Ratings (Underlying) . . . . "A-" (stable outlook)**
**See "BOND INSURANCE" and "RATINGS" herein**

## $5,815,000
## LAKE MUNICIPAL UTILITY DISTRICT
## (A Political Subdivision of the State of Texas located within Harris County, Texas)
## UNLIMITED TAX REFUNDING BONDS, SERIES 2018

**Dated: June 1, 2018** **Due: September 1**

Principal of the above bonds (the "Bonds") is payable to the registered owners thereof (the "Registered Owners") by the paying agent/registrar, initially, The Bank of New York Mellon Trust Company, N. A., currently in Dallas, Texas, or any successor paying agent/registrar (the "Paying Agent," "Registrar" or "Paying Agent/Registrar"). Interest on the Bonds accrues from June 1, 2018, and is payable on September 1, 2018 (three-month interest payment), and on each March 1 and September 1 thereafter until the earlier of maturity or redemption. The Bonds are issued in denominations of $5,000 or any integral multiple thereof in fully registered form only.

The Bonds will be registered and delivered only in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (the "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 DTC participants. 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 directly to DTC, which will, in turn, remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM."

The Bonds maturing on and after September 1, 2024, are subject to redemption, in whole or in part, prior to their scheduled maturities on September 1, 2023, or on any date thereafter, at the option of Lake Municipal Utility District (the "District"). Upon redemption, the Bonds will be payable at a price equal to the principal amount of the Bonds or the portions thereof so called for redemption, plus accrued interest to the date of redemption. If fewer than all of the Bonds are redeemed at any time, the particular maturities and amounts of the Bonds to be redeemed shall be selected by the District in integral multiples of $5,000 within any one maturity. If fewer than all of the Bonds of any given maturity are to be redeemed at any time, the particular Bonds to be redeemed shall be selected by such method of random selection as determined by the Registrar (or by DTC, as defined below, in accordance with its procedures while the Bonds are in book-entry-only form).

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by Build America Mutual Assurance Company ("BAM" or the "Insurer").

**MATURITY SCHEDULE**

**CUSIP Prefix (a) 510222**

| Principal Amount | Maturity (Due September 1) | Interest Rate | Initial Reoffering Yield (b) | CUSIP Suffix (a) | Principal Amount | Maturity (Due September 1) | Interest Rate | Initial Reoffering Yield (b) | CUSIP Suffix (a) |
|---|---|---|---|---|---|---|---|---|---|
| $ 60,000 | 2018 | 2.00% | 1.75% | FF4 | $500,000 | 2025(c) | 2.750% | 3.00% | FN7 |
| 115,000 | 2019 | 2.00 | 2.00 | FG2 | 520,000 | 2026(c) | 3.000 | 3.10 | FP2 |
| 570,000 | 2020 | 2.00 | 2.15 | FH0 | 535,000 | 2027(c) | 3.000 | 3.17 | FQ0 |
| 405,000 | 2021 | 2.00 | 2.35 | FJ6 | 555,000 | 2028(c) | 3.000 | 3.25 | FR8 |
| 445,000 | 2022 | 2.00 | 2.50 | FK3 | 575,000 | 2029(c) | 3.125 | 3.35 | FS6 |
| 465,000 | 2023 | 2.25 | 2.65 | FL1 | 590,000 | 2030(c) | 3.250 | 3.40 | FT4 |
| 480,000 | 2024(c) | 2.50 | 2.80 | FM9 | | | | | |

(a) CUSIP is a registered trademark of the American Bankers Association. CUSIP data is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association. CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau and are included solely for the convenience of the owners of the Bonds. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. Neither the District, the Financial Advisor (defined herein), nor the Underwriters (defined herein) take any responsibility for the accuracy of CUSIP numbers.
(b) Information with respect to the initial reoffering yields of the Bonds is the responsibility of the Underwriters. Initial reoffering yields represent the initial offering price to the public which has been established by the Underwriters for public offerings, and which subsequently may be changed. Accrued interest is to be added to the price.
(c) Subject to optional redemption as described above.

The proceeds of the sale of the Bonds, plus certain other legally available funds of the District, will be applied to refund certain outstanding bonds of the District, and to pay certain costs incurred in connection with the issuance of the Bonds in order to reduce the District's debt service requirements (see "PLAN OF FINANCING - Sources and Uses of Funds").

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. See "THE BONDS – Source of Payment." The Bonds are obligations solely of the District and are not obligations of the State of Texas, Harris County, the City of Baytown, Texas, or any entity other than the District. Investment in the Bonds is subject to special investment considerations as described herein. See "INVESTMENT CONSIDERATIONS."

The Bonds are offered when, as and if issued by the District and accepted by the Underwriters, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Bacon & Wallace, L.L.P., Houston, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by McCall, Parkhurst & Horton, L.L.P., Dallas, Texas, as Underwriters' Counsel. Delivery of the Bonds in book-entry form through DTC is expected on or about June 20, 2018.

**SAMCO CAPITAL MARKETS** **RBC CAPITAL MARKETS**

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## USE OF INFORMATION IN OFFICIAL STATEMENT

No dealer, broker, salesman or other person has been authorized by the District or the Underwriters (hereinafter defined) 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 Underwriters.

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

All of the summaries of the statutes, 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 the District upon payment of the costs for duplication thereof.

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

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

Neither the District nor the Underwriters make any representations as to the accuracy, completeness, or adequacy of the information supplied by The Depository Trust Company for use in this Official Statement.

This Official Statement contains “forward-looking” statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, which generally can be identified with words or phrases such as “anticipates,” “believes,” “could,” “estimates,” “expects,” “foresees,” “may,” “predict,” “should,” “will” or other words or phrases of similar import. All statements included in this Official Statement that any person expects or anticipates will, should or may occur in the future are forward-looking statements. These statements are based on assumptions and analyses made in light of experience and perceptions of historical trends, current conditions and expected future developments as well as other factors the District believes are appropriate in the circumstances. However, whether actual results and developments conform with expectations and predictions is subject to a number of risks and uncertainties, including, without limitation, the information discussed under “INVESTMENT CONSIDERATIONS” in this Official Statement, as well as additional factors beyond the District’s control. The important risk factors and assumptions described under that caption and elsewhere herein could cause actual results to differ materially from those expressed in any forward-looking statement. All of the forward-looking statements made in this Official Statement are qualified by these cautionary statements.

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

## SALE AND DISTRIBUTION OF THE BONDS

### Underwriters

SAMCO Capital Markets, Inc. and RBC Capital Markets, LLC ("RBC") (collectively, the "Underwriters") have agreed, pursuant to a Bond Purchase Agreement, to purchase the Bonds from the District for $5,687,094.60 (an amount equal to the principal amount of the Bonds, less an Underwriters' discount of $43,961.40, less a net original issue discount on the Bonds of $83,944.00) plus accrued interest from June 1, 2018, to the date of delivery. The obligation of the Underwriters to purchase the Bonds is subject to certain conditions contained in the Bond Purchase Agreement. The Underwriters may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into unit investment trusts) and others at prices lower than public offering price stated on the cover page hereof. The initial offering price may be changed from time to time by the Underwriters.

RBC has provided the following information for inclusion in this Official Statement: RBC and its respective affiliates are full-service financial institutions engaged in various activities, that may include securities trading, commercial and investment banking, municipal advisory, brokerage, and asset management. In the ordinary course of business, RBC and its respective affiliates may actively trade debt and, if applicable, equity securities (or related derivative securities) and provide financial instruments (which may include bank loans, credit support or interest rate swaps). RBC and its respective affiliates may engage in transactions for their own accounts involving the securities and instruments made the subject of this securities offering or other offering of the District. RBC and its respective affiliates may also communicate independent investment recommendations, market color or trading ideas and publish independent research views in respect of this securities offering or other offerings of the District. RBC and its respective affiliates may make a market in credit default swaps with respect to municipal securities in the future.

### Prices and Marketability

The delivery of the Bonds is conditioned upon the receipt by the District of a certificate executed and delivered by the Underwriters on or before the date of delivery of the Bonds stating the prices at which a substantial amount of the Bonds of each maturity have been sold to the public. The District has no control over trading of the Bonds after a bona fide offering of the Bonds is made by the Underwriters at the yields specified on the cover page. Information concerning reoffering yields or prices is the responsibility of the Underwriters.

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 prices and other terms respecting the offering and sale of the Bonds may be changed from time to time by the Underwriters after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering price, including sales to dealers who may sell the Bonds into investment accounts. IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS 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 the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein, nor have the Bonds been registered or qualified under the securities laws of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any other jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdictions.

## BOND INSURANCE

### Bond Insurance Policy

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

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

### Build America Mutual Assurance Company

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

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

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

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

*Capitalization of BAM*

BAM's total admitted assets, total liabilities, and total capital and surplus, as of December 31, 2017 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were $515 million, $87.7 million and $427.3 million, respectively.

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

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

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

*Additional Information Available from BAM*

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

**Credit Profiles**. Prior to the pricing of bonds that BAM has been selected to insure, BAM may prepare a pre-sale Credit Profile for those bonds. These pre-sale Credit Profiles provide information about the sector designation (e.g. general obligation, sales tax); a preliminary summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. Subsequent to closing, for any offering that includes bonds insured by BAM, any pre-sale Credit Profile will be updated and superseded by a final Credit Profile to include information about the gross par insured by CUSIP, maturity and coupon. BAM pre-sale and final Credit Profiles are easily accessible on BAM's website at buildamerica.com/obligor/. BAM will produce a Credit Profile for all bonds insured by BAM, whether or not a pre-sale Credit Profile has been prepared for such bonds. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

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

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

## BOND INSURANCE RISK FACTORS

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 Policy for such payments.

In the event the 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 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 Insurer and its claim paying ability. The 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 Insurer and of the ratings on the Bonds insured by the 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 "BOND INSURANCE" and "RATINGS" herein.

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

Neither the District nor the Underwriter has made independent investigation into the claims paying ability of the Insurer and no assurance or representation regarding the financial strength or projected financial strength of the 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 Insurer, particularly over the life of the investment. See "BOND INSURANCE" herein for further information provided by the Insurer and the Policy, which includes further instructions for obtaining current financial information concerning the Insurer.

## RATINGS

S&P Global Ratings ("S&P") is a business unit of Standard & Poor's Financial Services LLC. 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 ratings).

The Bonds are expected to receive an insured rating of "AA" (stable outlook) from S&P based upon the issuance of the Policy by the Insurer at the time of delivery of the Bonds. The underlying credit rating of the Bonds assigned by S&P is "A-" (stable outlook).

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

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

## OFFICIAL STATEMENT SUMMARY

The following summary of certain information contained herein is qualified in its entirety by the detailed information and financial statements appearing elsewhere in this Official Statement. The reader should refer particularly to sections that are indicated for more detailed information.

### THE BONDS

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| The Issuer . . . . . . . . . . . . . . . . . . . . . . . . . | Lake Municipal Utility District (the "District") is a political subdivision of the State of Texas located in Harris County, Texas. See "THE DISTRICT." |
| Description . . . . . . . . . . . . . . . . . . . . . . . . | \$5,815,000 Unlimited Tax Refunding Bonds, Series 2018 (the "Bonds"), are dated June 1, 2018, and mature on September 1 of each of the years and in the principal amounts indicated on the cover page hereof. Interest on the Bonds accrues from June 1, 2018, at the rates set forth on the cover hereof, and is payable on September 1, 2018 (three-month interest payment), and on each March 1 and September 1 thereafter until maturity or prior redemption. The Bonds scheduled to mature on and after September 1, 2024, are subject to redemption, in whole or in part, prior to their scheduled maturities, on September 1, 2023, or on any date thereafter at the option of the District. See "THE BONDS - General" and - "Redemption Provisions." The Bonds will be issued pursuant to a bond order (the "Bond Order") adopted by the Board of Directors of the District. See "THE BONDS - General." The Bonds are being issued under the authority of Chapters 49 and 54 of the Texas Water Code, as amended, and Chapter 1207, Texas Government Code. |
| Book-Entry-Only System . . . . . . . . . . . . . | The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC, pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of and interest on the Bonds will be payable by 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 . . . . . . . . . . . . . . . . . . | Principal of and interest on the Bonds are payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property located within the District. The Bonds are obligations of the District and are not obligations of the State of Texas, Harris County, Texas, the City of Baytown, Texas, or any political subdivision other than the District. See "THE BONDS - Source and Security for Payment," "INVESTMENT CONSIDERATIONS - Maximum Impact on District Tax Rates," and "TAX DATA - Tax Rate Calculations." |
| Other Characteristics . . . . . . . . . . . . . . . . | The Bonds will be issued in fully registered form in the denomination of \$5,000 each, or integral multiples thereof. |

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| Use of Proceeds . . . . . . . . . . . . . . . . . . . . . | Proceeds of the sale of the Bonds, together with other available funds of the District, will be applied to refund certain of the District's Unlimited Tax Bonds, Series 2009 (the "Series 2009 Bonds") and Unlimited Tax Bonds, Series 2011 (the "Series 2011 Bonds") in the aggregate principal amount of $5,405,000 (collectively, the "Refunded Bonds"). The proceeds will also be used to pay certain costs of issuing the Bonds. The Bonds are being issued to reduce the District's debt service payments, and will result in present value savings in such debt service payments. See "PLAN OF FINANCING" and "DISTRICT DEBT - Debt Service Requirements." |
| Payment Record . . . . . . . . . . . . . . . . . . . . . | In addition to the Series 2009 Bonds and the Series 2011 Bonds, the District has previously issued Unlimited Tax Bonds, Series 1981 (the "Series 1981 Bonds"), Unlimited Tax Refunding Bonds, Series 1988 (the "Series 1988 Refunding Bonds'), Unlimited Tax Refunding Bonds, Series 1993 (the "Series 1993 Refunding Bonds"), Unlimited Tax Bonds, Series 1998 (the "Series 1998 Bonds"), Unlimited Tax Bonds, Series 2002 (the "Series 2002 Bonds"), Unlimited Tax Bonds, Series 2013 (the "Series 2013 Bonds"), Unlimited Tax Bonds, Series 2015 (the "Series 2015 Bonds"), and Unlimited Tax Bonds, Series 2016 (the "Series 2016 Bonds"). Collective reference is made in this Official Statement to all of such previously issued bonds as the "Prior Bonds." Before the issuance of the Bonds, the principal amount of the Prior Bonds that has not been previously retired by the District is $18,225,000 (the "Outstanding Bonds"). The District has never defaulted in the timely payment of principal of and interest on the Prior Bonds. After issuance of the Bonds, the aggregate principal amount of the Outstanding Bonds, less the maturities thereof previously paid by the District, and less the Refunded Bonds, will be $12,820,000 (the "Remaining Outstanding Bonds"), and the aggregate principal amount of the District's total direct bonded indebtedness, including the Bonds, will be $18,635,000. See "PLAN OF FINANCING" and "DISTRICT DEBT - Debt Service Requirements." |
| Authorized but Unissued Bonds . . . . . . . . . | After issuance of the Bonds, the District will have $15,465,000 authorized but unissued unlimited tax bonds for waterworks, wastewater, and drainage facilities, all of which can be used for refunding such bonds. See "THE BONDS - Authority for Issuance" and - "Issuance of Additional Debt." |
| Municipal Bond Insurance . . . . . . . . . . . . . | Build America Mutual Assurance Company ("BAM"). See "BOND INSURANCE." |
| Municipal Bond Ratings . . . . . . . . . . . . . . . | S&P Global Ratings (BAM Insured)..."AA" (stable outlook). S&P Global Ratings (Underlying) "A-" (stable outlook). See "BOND INSURANCE" and "RATINGS." |
| Qualified Tax-Exempt Obligations . . . . . . | The District will designate the Bonds as "qualified tax-exempt obligations" pursuant to Section 265 (b) of the Internal Revenue Code of 1986, as amended. See "TAX MATTERS - Qualified Tax-Exempt Obligations for Financial Institutions" herein. |

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| Legal and Tax Opinions | Bacon & Wallace, L.L.P., Houston, Texas, Bond Counsel. See "LEGAL MATTERS" and "TAX MATTERS." |
| Verification Agent | Grant Thornton LLP, Certified Public Accountants. See "VERIFICATION OF ACCURACY OF MATHEMATICAL COMPUTATION." |

**THE DISTRICT**

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| Description | Lake Municipal Utility District, a political subdivision of the State of Texas, was created by the Texas Water Commission, predecessor of the Texas Commission on Environmental Quality, on February 27, 1979. The District contains approximately 521.42 acres of land. The District is located approximately 30 miles east of the central business district of Houston, Texas. The District consists of five (5) non-contiguous tracts of land, all located north of Interstate Highway 10. Access to the tracts is generally afforded by exits from Interstate Highway 10 to John Martin Road, Garth Road and Thompson Road. The District is located entirely within the exclusive extraterritorial jurisdiction of the City of Baytown, Texas, approximately 5 miles north of downtown Baytown and approximately 30 miles east of the central business district of Houston, Texas. The District is located within Harris County, Texas, and the Goose Creek Consolidated Independent School District. See "THE DISTRICT - Description" and "APPENDIX A - LOCATION MAP." |
| Authority | The rights, powers, privileges, authority and functions of the District are established by Article XVI, Section 59 of the Constitution of the State of Texas and the general laws of the State of Texas pertaining to municipal utility districts, particularly Chapters 49 and 54 of the Texas Water Code, as amended. See "THE DISTRICT - General." |
| Development and Home Construction | The development of the entirety of the developable land located within the District is complete. As of April 1, 2018, the District contained (i) 2,031 single family homes, plus (ii) commercial above-ground improvements consisting of the Community Toyota automobile dealership (approximately 29,846 square feet of building area constructed on an approximate 8 acre tract), a free-standing Cavender's Boot City western clothing store (approximately 15,972 square feet of building area constructed on an approximate 1.8 acre tract), a free standing Texas Academy of Acrobatics and Gymnastics gym (approximately 16,520 square feet of building area constructed on an approximate 4.6 acre tract), and an approximately 4.2-acre portion of the Baytown Buick GMC automobile dealership (approximately 29,069 square feet of building area) which has been developed on a site that is partially located within the District.<br><br>Development activity which has been conducted to date within the District includes the completion of the development of an aggregate of approximately 493.3 acres of land which includes (i) an aggregate of 2,033 single-family residential lots on approximately 468.2 acres (Meadow Lake Village, Sections 1 through 7; Bay River Colony, Sections 1 through 10; Highlands Ranch; and West Meadows, |

Sections 1 through 5), and (ii) approximately 25.1 acres of unrestricted commercial/multi-family residential reserves, which include a community center site containing approximately 2.9 acres.

The balance of the land located within the District, a portion of which is included in the single-family residential and commercial development that is described above, is contained within a lake, certain easements, streets, parks and open spaces, or District facility sites.

The District financed the acquisition or construction of underground water, sewer, and drainage facilities to serve Bay River Colony, Section 1 through 10, Meadow Lake Village, Sections 1 through 7, Highlands Ranch, and West Meadows, Sections 1, 3, 4 and 5; a portion of the lease costs of the Bay River Colony wastewater treatment plant; the expansion of Wastewater Treatment Plant No. 1; lease purchases of Wastewater Treatment Plants No. 1 and No. 2; land acquisition for the West Meadows detention pond and Wastewater Treatment Plant No. 2 sites; construction of drainage for the left turn lane of Wallisville Road; and other items with portions of the proceeds of the Prior Bonds. The District expects to finance the acquisition or construction of additional components of the System with portions of the proceeds of the sale of bonds, if any, in the future. See "THE BONDS - Issuance of Future Debt" and - "Use and Distribution of Bond Proceeds," "INVESTMENT CONSIDERATIONS - Future Debt" and "THE SYSTEM."

## INVESTMENT CONSIDERATIONS

THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS AS SET FORTH IN THIS OFFICIAL STATEMENT. PROSPECTIVE PURCHASERS SHOULD CAREFULLY EXAMINE THE ENTIRE OFFICIAL STATEMENT BEFORE MAKING THEIR INVESTMENT DECISIONS, ESPECIALLY THE PORTION OF THE OFFICIAL STATEMENT ENTITLED "INVESTMENT CONSIDERATIONS."

## SELECTED FINANCIAL INFORMATION
(Unaudited)

| | | |
|---|---|---|
| 2017 Assessed Valuation<br>(As of January 1, 2017)<br>See "TAX DATA" and "TAX PROCEDURES." | | $345,570,874(a) |
| Direct Debt: | Remaining Outstanding Bonds | $ 12,820,000 |
| | The Bonds | 5,815,000 |
| | Total | $ 18,635,000 |
| Estimated Overlapping Debt | | $ 16,997,199 |
| Direct and Estimated Overlapping Debt | | $ 35,632,199(b) |
| Direct Debt Ratio<br>: as a percentage of 2017 Assessed Valuation ($345,570,874) | | 5.39% |
| Direct and Estimated Overlapping Debt Ratio<br>: as a percentage of 2017 Assessed Valuation ($345,570,874) | | 10.31% |
| Bond Fund Balance estimated as of the date of delivery of the Bonds | | $ 1,715,369(c) |
| General Fund Balance as of April 19, 2018 | | $ 923,401 |
| Average Percentage of Total Tax Collections 2007-2016<br>(As of March 31, 2018) | | 99.81% |
| Percentage of Tax Collections 2017 Tax Levy<br>(As of March 31, 2018. In process of collection.) | | 97.48% |
| 2017 Tax Rate per $100 of Assessed Valuation | | |
| Debt Service Tax | $0.33 | |
| Maintenance Tax | 0.20 | |
| Total | | $0.53(d) |
| Average Annual Debt Service Requirements of the Bonds and the<br>Remaining Outstanding Bonds (2018-2045) | | $ 1,016,695 |
| Maximum Annual Debt Service Requirement of the Bonds and the Remaining<br>Outstanding Bonds (2020) | | $ 1,140,748 |
| Tax Rate per $100 of Assessed Valuation Required to Pay Average Annual<br>Debt Service Requirements of the Bonds and the Remaining Outstanding Bonds<br>(2018-2045) at 95% Tax Collections<br>Based Upon 2017 Assessed Valuation ($345,570,874) | | $0.31(d) |
| Tax Rate per $100 of Assessed Valuation Required to Pay Maximum Annual<br>Debt Service Requirement of the Bonds and the Remaining Outstanding<br>Bonds (2020) at 95% Tax Collections<br>Based Upon 2017 Assessed Valuation ($345,570,874) | | $0.35(d) |

| | |
|---|---|
| Number of Single-Family Homes . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 2,031 |

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(a) As of January 1, 2017. All property located in the District is valued on the tax rolls by the Harris County Appraisal District (the "Appraisal District") at 100% of assessed valuation as of January 1 of each year. The District's tax roll is certified by the Harris County Appraisal Review Board (the "Appraisal Review Board"). See "INVESTMENT CONSIDERATIONS - Economic Factors Affecting Taxable Values and Tax Payments" and "TAX PROCEDURES."

(b) See "DISTRICT DEBT."

(c) Neither Texas law nor the Bond Order requires the District to maintain any specific sum in the Debt Service Fund. Such fund balance gives effect to the timely payment by the District of the entirety of its debt service requirements that were due on March 1, 2018, and the contribution by the District of $7,000 to the refunding of the Refunded Bonds. The District's final debt service requirements for 2018 consist of principal of and interest on the Remaining Outstanding Bonds and the Bonds that are due on September 1, 2018, totaling $798,838. See "DISTRICT DEBT - Debt Service Requirements."

(d) The District levied a debt service tax for 2017 in the amount of $0.33 per $100 of Assessed Valuation. In addition, the District levied a maintenance tax of $0.20 per $100 of Assessed Valuation for 2017. See "TAX DATA - Estimated Overlapping Taxes." As is enumerated and further detailed in this Official Statement under the caption "TAX DATA - Estimated Overlapping Taxes," the aggregate of the tax levies of all overlapping taxing units which levy taxes upon property located in the District, plus the District's rate, is $2.917575. Such aggregate levies are higher than the aggregate tax levies of some municipal utility districts in the Houston metropolitan area, including the area of the District, but are within the range of the aggregate levies of municipal utility districts in the Houston metropolitan area and the area of the District which are in stages of development comparable with the District. See "INVESTMENT CONSIDERATIONS - Economic Factors Affecting Taxable Values and Tax Payments" and "TAX PROCEDURES."

**LAKE MUNICIPAL UTILITY DISTRICT**
**UNLIMITED TAX REFUNDING BONDS**
**SERIES 2018**

## INTRODUCTION

This Official Statement provides certain information with respect to the issuance by Lake Municipal Utility District of Harris County, Texas (the "District") of its Unlimited Tax Refunding Bonds, Series 2018 (the "Bonds").

There follow in this Official Statement descriptions of the Bonds, the plan of financing, 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 the District upon request and 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 Order (hereinafter defined), except as otherwise indicated herein.

## THE BONDS

### General

The following is a description of certain terms and conditions of the Bonds, which description is qualified in its entirety by reference to the order of the Board of Directors of the District (the "Board") authorizing the issuance of the Bonds (the "Bond Order"). A copy of the Bond Order may be obtained from the District upon request and payment of the costs of duplication thereof. The Bond Order authorizes the issuance and sale of the Bonds and prescribes the terms, conditions and provisions for the payment of the principal of and interest on the Bonds by the District. The Bond Order also approves and authorizes execution of the Escrow Agreement with the Escrow Agent and the Bond Purchase Agreement with the Underwriters, all as hereinafter defined.

### Description

The Bonds are dated June 1, 2018, and will mature on September 1 of the years and in the principal amounts indicated on the cover page hereof. The Bonds will accrue interest from June 1, 2018 (or the most recent interest payment date to which interest has been paid or duly provided for) at the stated interest rates indicated on the cover page of this Official Statement. Interest on the Bonds is payable on September 1, 2018 (three-month interest payment), and on each March 1 and September 1 thereafter (each, an "Interest Payment Date") until maturity or prior redemption. The Bonds will be issued as fully registered bonds in the denomination of $5,000 or any integral multiple thereof. The Bonds will be registered and delivered only to The Depository Trust Company, New York, New York ("DTC"), in its nominee name of Cede & Co., pursuant to the book-entry system described herein. No physical delivery of the Bonds will be made to the purchasers thereof. See "Book-Entry-Only System" below. Interest calculations are based on a three hundred sixty (360) day year comprised of twelve (12) thirty (30) day months.

### 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 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 and the Financial Advisor believe the source of such information to be reliable, but neither of the District or the Financial Advisor takes any responsibility for the accuracy or completeness thereof.*

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

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

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

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

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

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

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

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

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or Paying Agent. 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 transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

**Authority for Issuance**

At elections held within the District on May 16, 1981, June 9, 1984, May 1, 1999, September 13, 2003, February 7, 2004, February 5, 2005, and November 5, 2013, voters of the District authorized a total of $47,270,000 bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities, of which $28,665,000 could also be used for refunding such bonds. After issuance of the Bonds, a total of $15,465,000 in principal amount of unlimited tax bonds for facilities, all of which can be also be used for refunding such bonds, will remain authorized but unissued. The Bonds are issued by the District pursuant to the terms and provisions of the Bond Order; Article XVI, Section 59 of the Texas Constitution; Chapters 49 and 54 of the Texas Water Code, as amended; and Chapter 1207, Texas Government Code, as amended.

**Source and Security for Payment**

The Bonds, together with the Remaining Outstanding Bonds (hereinafter defined) and any additional bonds payable from ad valorem taxes, are secured by and payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property located within the District (see "TAX PROCEDURES").

Investment in the Bonds involves certain elements of risk, and all prospective purchasers are urged to examine carefully this Official Statement with respect to the investment security of the Bonds. See "INVESTMENT CONSIDERATIONS." The Bonds are obligations solely of the District and are not obligations of the City of Baytown, Harris County, the State of Texas, or any political subdivision or entity other than the District.

### Use of Certain Terms in Other Sections of this Official Statement

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

### Record Date

The record date for payment of the interest on any regularly scheduled Interest Payment Date is defined as the 15th day of the month (whether or not a business day) preceding such Interest Payment Date.

### Redemption Provisions

The District reserves the right, at its option, to redeem the Bonds maturing on and after September 1, 2024, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of $5,000, on September 1, 2023, or on any date thereafter, at a price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption. If fewer than all of the Bonds are to be redeemed, the particular maturity or maturities and the amounts thereof to be redeemed shall be determined by the District. If fewer than all of the Bonds of the same maturity are to be redeemed, the particular Bonds shall be selected by DTC in accordance with its procedures. See "Book-Entry-Only System" above.

By the date fixed for redemption, due provision shall be made with the Paying Agent/Registrar (hereinafter defined) for payment of the principal of the Bonds or portions thereof to be redeemed, plus accrued interest to the date fixed for redemption. When Bonds have been called for redemption in whole or in part and due provision has been made to redeem the same as herein provided, the Bonds or portions thereof so redeemed shall no longer be regarded as outstanding except for the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the Registered Owners to collect interest which would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

### Method of Payment of Principal and Interest

The Board has appointed The Bank of New York Mellon Trust Company, N.A., having its principal corporate trust office and its principal payment office in Dallas, Texas, as the initial paying agent/registrar (the "Paying Agent/Registrar," "Paying Agent," or "Registrar") for the Bonds. The principal of and interest on the Bonds shall be paid to DTC, which will make distribution of the amounts so paid to the Beneficial Owners of the Bonds. See "Book-Entry-Only System" above.

### Registration, Transfer and Exchange

The Bonds are transferable only on the bond register kept by the Registrar upon surrender at the corporate trust office of the Registrar in Dallas, 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 Registrar. At any time after the date of initial delivery, any Bond may be transferred upon its presentment and surrender at the office of the Registrar, duly endorsed for transfer or accompanied by an assignment duly executed by the Registered Owner. The Bonds are exchangeable upon presentation at the corporate trust office of the Registrar, in Dallas, Texas, for Bonds of the same maturity in authorized denominations. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the Registered Owner or assignee of the owner in not more than three (3) business days after the receipt by the 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 denominations of $5,000 or any integral multiple thereof for any one maturity and shall bear interest at the same rate and be for a like aggregate principal amount as the Bond or Bonds surrendered for exchange or transfer.

Neither the 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, where such redemption is scheduled to occur within forty-five (45) calendar days. No service charge will be made for any transfer or exchange, but the District or Registrar may require payment of a sum sufficient to cover any tax or governmental charge payable in connection therewith.

**Replacement of Paying Agent/Registrar**

Provision is made in the Bond Order for replacement of the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, the new paying agent/registrar shall be required to accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any paying agent/registrar selected by the District shall be a duly qualified and competent trust or banking corporation or organization organized and doing business under the laws of the United States of America or of any State thereof, with a combined capital and surplus of at least $25,000,000, which is subject to supervision of or examination by federal or state banking authorities, and which is a transfer agent duly registered with the United States Securities and Exchange Commission.

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

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

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

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

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

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

**Issuance of Additional Debt**

The District may issue additional bonds, with the approval of the TCEQ, necessary to provide and maintain improvements and facilities consistent with the purposes for which the District was created. See "THE DISTRICT - General." The Prior Bonds issued prior to 1999 were issued pursuant to elections held prior to 1999, any remaining authorizations from which have been cancelled. Since May 1, 1999, the District's voters have authorized the issuance of a total of $36,695,000 unlimited tax bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities or for refunding such bonds and could authorize additional amounts. Following the issuance of the Bonds, the District will have $15,465,000 of unlimited tax bonds authorized but unissued to for improvements and facilities, all of which can be also used for refunding such bonds. In addition to the acquisition and construction of the components of the System that the District has financed with portions of the proceeds of the sale of the Prior Bonds, the

District expects to finance the acquisition or construction of additional components of the System with portions of the proceeds of the sale of bonds, if any, in the future. See "INVESTMENT CONSIDERATIONS - Future Debt" and - "Use and Distribution of Bond Proceeds," and "THE SYSTEM." The District's Consulting Engineer currently estimates that the $15,465,000 authorized bonds which are currently unissued are adequate to finance the acquisition of any facilities not previously acquired with the proceeds of the sale of the Prior Bonds to provide service to the entirety of the District as described in this Official Statement under the caption "THE SYSTEM." If additional bonds are issued in the future and property values have not increased proportionately, such issuance might increase gross debt/property valuation ratios and thereby adversely affect the investment quality or security of the Remaining Outstanding Bonds and the Bonds. See "THE BONDS - Issuance of Additional Debt."

The Bond Order imposes no limitation on the amount of additional parity bonds which may be authorized for issuance by the District's voters or the amount ultimately issued by the District.

**Financing Parks and Recreational Facilities**

Conservation and reclamation districts in certain counties are authorized to develop and finance with property taxes certain recreational facilities after a district election has been successfully held to approve a maintenance tax to support recreational facilities and/or the issuance of bonds payable from taxes.

The District is authorized to levy an operation and maintenance tax to support recreational facilities at a rate not to exceed $0.10 per $100 of assessed valuation of taxable property in the District, after such tax is approved at an election. In addition, the District is authorized to issue bonds payable from an ad valorem tax to pay for the development and maintenance of recreational facilities if (i) the District duly adopts a plan for the facilities; (ii) the bonds are authorized at an election; (iii) the bonds payable from any source do not exceed 1% of the value of the taxable property in the District at the time of issuance of the bonds, or an amount greater than the estimated cost of the plan, whichever amount is smaller; (iv) the District obtains any necessary governmental consents allowing the issuance of such bonds; and (v) the bonds are approved by the Attorney General of Texas.

The District may issue bonds for such purposes payable solely from net operating revenues without an election. The issuance of such bonds is subject to rules and regulations adopted by the Commission.

The District has not considered calling an election for such purposes but could consider doing so in the future.

Current law may be changed in a manner to increase the amount of bonds which may be issued as related to a percentage of the value of taxable property or to allow a higher or lower maintenance tax rate for such purposes. The levy of taxes for such purposes may dilute the security for the Bonds.

**Annexation and Consolidation**

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Baytown, the District must conform to a City of Baytown consent ordinance. Generally, the District may be annexed by the City of Houston without the District's consent, and the City cannot annex territory within the District unless it annexes the entire District; however, under legislation effective December 1, 2017, the City may not annex the District unless (i) such annexation has been approved by a majority of those voting in an election held for that purpose within the area to be annexed, and (ii) if the registered voters in the area to be annexed do not own more than 50 percent of the land in the area, a petition has been signed by more than 50 percent of the landowners consenting to the annexation. Notwithstanding the preceding sentence, the described election and petition process does not apply during the term of a strategic partnership agreement between the City and the District specifying the procedures for full purpose annexation of all or a portion of the District.

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), 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.

In certain circumstances, the District may alter its boundaries to exclude land subject to taxation within the District that is not served by District facilities if the District simultaneously annexes land of equal acreage and value that may be practicably served by District facilities. No representation is made concerning the likelihood that the District would effect such a substitution of land.

If the District is annexed, the City of Baytown will assume the District's assets and obligations (including the Bonds) and dissolve the District. Annexation of territory by the City of Baytown is a policy-making matter within the discretion of the Mayor and City Council of the City of Baytown, and therefore, the District makes no representation that the City of Baytown will ever annex the District and assume its debt. Moreover, no representation is made concerning the ability of the City of Baytown to make debt service payments should annexation occur.

**Registered Owners' Remedies**

The Bond Order contains a covenant that while any part of the Bonds is outstanding, there shall be assessed, levied, and collected an annual ad valorem tax, without limit as to rate or amount, on all taxable property within the District, sufficient to pay principal of and interest on the Bonds when due and to pay the expenses necessary in collecting taxes. Texas law and the Bond Order provide that in the event that 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 Order into the Bond Fund, or defaults in the observance or performance of any of the covenants, conditions, or obligations set forth in the Bond Order, any Registered Owner shall be entitled at any time to a writ of mandamus from a court of competent jurisdiction compelling and requiring the Board of Directors of the District to observe and perform any covenant, obligation, or condition prescribed by the Bond Order. Such right is in addition to all other rights the Registered Owners may be provided by the laws of the State of Texas.

Except for mandamus, the Bond Order does not specifically provide for remedies to a Registered Owner in the event of a District default, nor does it provide for the appointment of a trustee to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default. Consequently, the remedy of mandamus is a remedy which may have to be relied upon from year to year by the Registered Owners. Even if the Registered Owners could obtain a judgment against the District, such judgment could not be enforced by 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. Certain traditional legal remedies also may not available. The enforceability of the rights and remedies of the Registered Owners may be further limited by federal bankruptcy laws, reorganization, or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. See "Bankruptcy Limitation to Registered Owners' Rights" below.

**Bankruptcy Limitation to Registered Owners' Rights**

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

If the District decides in the future to proceed voluntarily under the Federal Bankruptcy Code, the District would develop and file a plan for the adjustment of its debts, and the Bankruptcy Court would confirm the District's plan if (1) the plan complies with the applicable provisions of the Federal Bankruptcy Code, (2) all payments to be made in connection with the plan are fully disclosed and reasonable, (3) the District is not prohibited by law from taking any action necessary to carry out the plan, (4) administrative expenses are paid in full, and (5) the plan is in the best interests of creditors and is feasible. The rights and remedies of the Registered Owners would be adjusted in accordance with the confirmed plan of adjustment of the District's debt. See "INVESTMENT CONSIDERATIONS."

The District may not be placed into bankruptcy involuntarily.

**Defeasance**

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

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

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

## PLAN OF FINANCING

### Use of Bond Proceeds

Proceeds of the sale of the Bonds, together with other available funds of the District, will be applied to refund certain of the District's Unlimited Tax Bonds, Series 2009 (the "Series 2009 Bonds") and Unlimited Tax Bonds, Series 2011 (the "Series 2011 Bonds") in the aggregate principal amount of $5,405,000 (collectively, the "Refunded Bonds"). The proceeds will also be used to pay certain costs of issuing the Bonds. The Bonds are being issued to reduce the District's debt service payments, and will result in present value savings in such debt service payments. See "DISTRICT DEBT - Debt Service Requirements."

The principal amounts and maturity dates (or mandatory redemption amounts and dates, as applicable) of the Series 2009 Bonds and Series 2011 Bonds to be refunded by the Bonds are as follows:

| Maturing September 1 | Refunded Series 2009 Bonds Principal Amount | Refunded 2011 Bonds Principal Amount |
|---|---|---|
| 2019 | | $50,000 |
| 2020 | $455,000 | 50,000 |
| 2021 | | 350,000 |
| 2022 | | 400,000 |
| 2023 | | 425,000 |
| 2024 | | 450,000 |
| 2025 | | 475,000 |
| 2026 | | 500,000 |
| 2027 | | 525,000 |
| 2028 | | 550,000 |
| 2029 | | 575,000 |
| 2030 | | 600,000 |
| | $455,000 | $4,950,000 |
| Redemption Dates: | 6/21/18 | 9/1/18 |

Aggregate Principal Amount of Refunded Bonds: . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . $5,405,000

### Payment of the Refunded Bonds

The Refunded Bonds, and the interest due thereon, are to be paid on the redemption date from funds to be deposited with The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, as Escrow Agent (the "Escrow Agent") pursuant to an Escrow Agreement dated as of April 19, 2018, between the District and the Escrow Agent.

The Bond Order provides that from the proceeds of the sale of the Bonds and other available funds of the District, the District will deposit with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Refunded Bonds. Such funds will be held by the Escrow Agent in a segregated payment account (the "Payment Account"). At the time of delivery of the Bonds, Grant Thornton LLP, will verify to the District, the Escrow Agent and the Financial Advisor that the monies held in the Payment Account are sufficient to pay, when due, the principal of and interest on the Refunded Bonds. By the deposit of the cash with the Escrow Agent and the making of irrevocable arrangements for the giving of notice of redemption of the Refunded Bonds, the terms of the prior orders of the District securing payment of the Refunded Bonds shall have been satisfied and such Refunded Bonds will no longer be considered outstanding except for the payment out of amounts so deposited, and the amounts so deposited in the Payment Account will constitute firm banking arrangements under Texas law for the discharge and final payment of the Refunded Bonds.

**The Non-Refunded Bonds (Remaining Outstanding Bonds)**

In addition to the Series 2009 Bonds and the Series 2011 Bonds, the District has previously issued Unlimited Tax Bonds, Series 1981 (the "Series 1981 Bonds"), Unlimited Tax Refunding Bonds, Series 1988 (the "Series 1988 Refunding Bonds'), Unlimited Tax Refunding Bonds, Series 1993 (the "Series 1993 Refunding Bonds"), Unlimited Tax Bonds, Series 1998 (the "Series 1998 Bonds"), Unlimited Tax Bonds, Series 2002 (the "Series 2002 Bonds"), Unlimited Tax Bonds, Series 2013 (the "Series 2013 Bonds"), Unlimited Tax Bonds, Series 2015 (the "Series 2015 Bonds"), and Unlimited Tax Bonds, Series 2016 (the "Series 2016 Bonds"). Collective reference is made in this Official Statement to all of such previously issued bonds as the "Prior Bonds." Before the issuance of the Bonds, the principal amount of the Prior Bonds that has not been previously retired by the District is $18,225,000 (the "Outstanding Bonds"). The District has never defaulted in the timely payment of principal of and interest on the Prior Bonds. After issuance of the Bonds, the aggregate principal amount of the Outstanding Bonds, less the maturities thereof previously paid by the District, and less the Refunded Bonds, will be $12,820,000 (the "Remaining Outstanding Bonds"), and the aggregate principal amount of the District's total direct bonded indebtedness, including the Bonds, will be $18,635,000. See "DISTRICT DEBT - Debt Service Requirements."

The principal amounts and maturity dates (or mandatory redemption amounts and dates, as applicable) of the Remaining Outstanding Bonds are as follows:

**REMAINING OUTSTANDING BONDS**
**PRINCIPAL AMOUNTS**

| Maturity September 1 | 2009 | 2011 | 2013 | 2015 | 2016 |
|---|---|---|---|---|---|
| 2018 | $410,000 | $50,000 | | | $25,000 |
| 2019 | 435,000 | | | | 25,000 |
| 2020 | | | | | 25,000 |
| 2021 | | | | | 25,000 |
| 2022 | | | | | 25,000 |
| 2023 | | | | | 25,000 |
| 2024 | | | | | 25,000 |
| 2025 | | | | | 25,000 |
| 2026 | | | | | 25,000 |
| 2027 | | | | | 25,000 |
| 2028 | | | | | 25,000 |
| 2029 | | | | | 25,000 |
| 2030 | | | | | 25,000 |
| 2031 | | | $260,000 | $295,000 | 25,000 |
| 2032 | | | 275,000 | 305,000 | 25,000 |
| 2033 | | | 290,000 | 315,000 | 25,000 |
| 2034 | | | 305,000 | 330,000 | 25,000 |
| 2035 | | | 315,000 | 345,000 | 25,000 |
| 2036 | | | 335,000 | 355,000 | 25,000 |
| 2037 | | | 350,000 | 370,000 | 25,000 |
| 2038 | | | 370,000 | 385,000 | 25,000 |
| 2039 | | | 385,000 | 405,000 | 25,000 |
| 2040 | | | 405,000 | 420,000 | 25,000 |
| 2041 | | | | 865,000 | 25,000 |
| 2042 | | | | 910,000 | 25,000 |
| 2043 | | | | | 860,000 |
| 2044 | | | | | 900,000 |
| 2045 | | | | | 950,000 |
| | $845,000 | $50,000 | $3,290,000 | $5,300,000 | $3,335,000 |

Total principal amount of Remaining Outstanding Bonds . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . $12,820,000

## Sources and Uses of Funds

The proceeds from the sale of the Bonds will be applied as follows:

**SOURCES OF FUNDS:**

| | |
|---|---|
| Principal Amount of Bonds | $5,815,000.00 |
| Plus: Original Issue Premium | 28.20 |
| Accrued Interest | 8,104.36 |
| Issuer Contribution | 7,000.00 |
| Less: Original Issue Discount | (83,972.20) |
| Total Sources of Funds | $5,746,160.36 |

**USES OF FUNDS:**

| | |
|---|---|
| Deposit with Escrow Agent | 5,501,430.16 |
| Deposit Accrued Interest to Bond Fund | 8,104.36 |
| Expenses: | |
| Underwriters Discount | 43,961.40 |
| Municipal Bond Insurance Premium and Other Issuance Expenses | 192,664.44 |
| Total Uses of Funds | $5,746,160.36 |

# INVESTMENT CONSIDERATIONS

## General

The Bonds, which are obligations solely of the District and not of the State of Texas, Harris County, Texas, the City of Baytown, Texas, or any political subdivision or agency other than the District, are secured by the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District. The ultimate security for payment of the principal of and interest on the Bonds depends upon the District's ability 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 representation that over the life of the Bonds the taxable property within the District will maintain a value sufficient to justify continued payment of taxes by property owners or that there will be a market for any property if the District forecloses on property to enforce its tax lien. 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. Further, the collection of delinquent taxes owed the District, and the enforcement by a Registered Owner of the District's obligation to collect sufficient taxes may be costly and lengthy processes. See "Tax Collection Limitations" and "Registered Owners' Remedies and Bankruptcy" below and "THE BONDS - Source and Security for Payment" and - "Registered Owners' Remedies."

**Economic Factors:** A substantial percentage of the assessed valuation of the property located within the District is attributable to the current market value of single-family residences that have been constructed within the District. The market value of such residences is related to general economic conditions affecting the demand for residences. Demand for lots of this type and the construction of residential dwellings thereon can be significantly affected by factors such as interest rates, credit availability, construction costs, energy availability and costs and the prosperity and demographic characteristics of the urban center toward which the marketing of lots is directed. Decreased levels of construction activity would tend to restrict the growth of property values in the District or could adversely impact such values. Further declines in the price of oil could adversely affect job stability, wages and salaries, thereby negatively affecting the demand for housing as well as the market value and assessed valuation of existing homes. Recent changes in federal tax law limiting deductions for ad valorem taxes may adversely affect the demand for housing and the prices thereof. Were the District to experience a significant number of residential foreclosures, the value of all homes within the District could be adversely affected. Although, as is described in this Official Statement under the captions "DEVELOPMENT AND HOME CONSTRUCTION," as of April 1, 2018, (i) the development of 2,033 single-family residential lots is complete within the District, (ii) the District contained 2,031 single-family homes, all of which have been sold to homeowners and (iii) the District contained the Community Toyota automobile dealership (approximately 29,846 square feet of building area), a free-standing Cavender's Boot City western clothing store (approximately 15,972 square feet of building area), a free standing Texas Academy of Acrobatics and Gymnastics gym (approximately 16,520 square feet of building area), and a portion of the Baytown Buick GMC automobile dealership (approximately 29,069 square feet of building area) which have been developed on a site that is partially located within the District, the District cannot predict the pace or magnitude of any future development or home construction in the District other than that which has occurred to date.

**National Economy:** Although, as is described in this Official Statement under the captions "DEVELOPMENT AND HOME CONSTRUCTION," as of April 1, 2018, (i) the development of 2,033 single-family residential lots is complete within the District, (ii) the District contained 2,031 single-family homes, all of which have been sold to homeowners; and (iii) the District contained the Community Toyota automobile dealership (approximately 29,846 square feet of building area), a free-standing Cavender's Boot City western clothing store (approximately 15,972 square feet of building area), a free standing Texas Academy of Acrobatics and Gymnastics gym (approximately 16,520 square feet of building area), and a portion of the Baytown Buick GMC automobile dealership (approximately 29,069 square feet of building area) which have been developed on a site that is partially located within the District, the District cannot predict the pace or magnitude of any future development or home construction in the District other than that which has occurred to date. The District cannot predict what impact, if any, a continued downturn in the national housing and financial markets or a downturn in the economic conditions of Houston and Baytown may have on the Houston and Baytown market generally and the District specifically.

**Maximum Impact on District Tax Rates**

The value of the land and improvements currently located within the District will be a major determinant of the ability of the District to collect, and the willingness of District property owners to pay, ad valorem taxes levied by the District. The District's 2017 Assessed Valuation is $345,570,874. After issuance of the Bonds, the Maximum Annual Debt Service Requirement of the Bonds and the Remaining Outstanding Bonds will be $1,140,748 (2020) and the Average Annual Debt Service Requirements of the Bonds and the Remaining Outstanding Bonds will be $1,016,695 (2018 through 2045, inclusive). Assuming no increase to nor decrease from the 2017 Assessed Valuation, no use of funds on hand, and the issuance of no additional bonds by the District, tax rates of $0.35 and $0.31 per $100 of Assessed Valuation at a 95% tax collection rate would be necessary to pay the Maximum Annual Debt Service Requirement and the Average Annual Debt Service Requirements, respectively.

The District levied a debt service tax for 2017 of $0.33 per $100 of Assessed Valuation, plus a maintenance tax of $0.20 per $100 of Assessed Valuation. As the above calculations indicate, the 2017 debt service rate will be sufficient to pay the Average Annual Debt Service Requirements, but will not be sufficient to pay the Maximum Annual Debt Service Requirement on the Bonds and the Remaining Outstanding Bonds assuming taxable values in the District at the level of the 2017 Assessed Valuation, assuming a tax collection rate of 95%, no use of funds on hand, based upon the 2017 Assessed Valuation, and the issuance of no additional bonds by the District. However, the District's Bond Fund Balance is estimated to be $1,715,369 as of the date of delivery of the Bonds. The District has in the past augmented tax collections with earnings from the investment of monies held in the District's Debt Service Fund. See "APPENDIX B - ANNUAL FINANCIAL REPORT." In addition, as is illustrated below under the caption "Historical Values and Tax Collection History," and the District had, as of March 31, 2018, total annual tax collections averaging 99.81% for the years 2007 through 2016, and its 2017 levy was 97.48% collected as of such date. Therefore, the District expects to be able to pay debt service on the Bonds and the Remaining Outstanding Bonds without increasing its debt service tax above the $0.33 per $100 of Assessed Valuation debt service tax that the District has levied for 2017 (plus a maintenance tax of $0.20 per $100 of Assessed Valuation). However, 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 aforementioned tax rate or to justify continued payment of taxes by property owners. Increases in the District's tax rate to higher levels than the total $0.53 per $100 of Assessed Valuation rate which the District has levied for 2017 may have an adverse impact upon future development of the District, the ability of the District to collect, and the willingness of owners of property located within the District to pay, ad valorem taxes levied by the District. See "TAX PROCEDURES."

As is enumerated and further detailed in this Official Statement under the caption "TAX DATA - Estimated Overlapping Taxes," the aggregate of the tax levies of all overlapping taxing units which levy taxes upon property located in the District, plus the District's rate, is $2.917575 per $100 of Assessed Valuation.

**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 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 the amount of taxes owed to other taxing units, a bankruptcy court's stay of tax collection procedures against a taxpayer, and market conditions limiting the proceeds from a foreclosure sale of taxable property. The District's lien on taxable property within the District for taxes levied against such property can be foreclosed only in a judicial proceeding. See "TAX PROCEDURES - District's Rights in the Event of Tax Delinquencies."

**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 adequate taxes each year to make such payments. Except for mandamus, the Bond Order does not 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. Even if 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 of 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 further may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. In this regard, should the District file a petition for protection from creditors under federal bankruptcy laws, a suit seeking the remedy of mandamus would be automatically stayed and could not be pursued unless authorized by a federal bankruptcy judge. See "THE BONDS - Bankruptcy Limitation to Registered Owners' Rights."

**Marketability**

The District has no understanding (other than the initial reoffering yields) with the Underwriters regarding the reoffering yields or prices of the Bonds and has no control over the trading of the Bonds in the secondary market. 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 reserves in the Bond Order the right to issue the remaining $15,465,000 in unlimited tax bonds authorized but unissued for waterworks, wastewater and drainage facilities and such additional bonds as may hereafter be approved by the voters of the District. The District also reserves the right to issue certain other additional bonds, special project bonds, and other obligations described in the Bond Order. All of the remaining bonds described above for waterworks, wastewater and drainage facilities which have heretofore been authorized by the voters of the District may be issued by the District from time to time as needed. The issuance of such $15,465,000 in unlimited tax bonds for waterworks, wastewater and drainage facilities is also subject to TCEQ authorization. In addition to the acquisition and construction of the components of the System that the District has financed with portions of the proceeds of the sale of the Outstanding Bonds and will finance with portions of the proceeds of the sale of the Bonds, the District expects to finance the acquisition or construction of additional components of the System with portions of the proceeds of the sale of bonds, if any, in the future. See "THE BONDS - Issuance of Additional Debt." The District's Consulting Engineer currently estimates that the $15,465,000 authorized bonds which are currently unissued are adequate to finance the acquisition of any facilities not previously acquired with the proceeds of the sale of the Prior Bonds to provide service to the entirety of the District as described in this Official Statement under the caption "THE SYSTEM." If additional bonds are issued in the future and property values have not increased proportionately, such issuance might increase gross debt/property valuation ratios and thereby adversely affect the investment quality or security of the Outstanding Bonds and the Bonds. See "THE BONDS - Issuance of Additional Debt" and -"Use and Distribution of Bond Proceeds" and "THE SYSTEM."

**Continuing Compliance with Certain Covenants**

The Bond Order contains covenants by the District intended to preserve the exclusion from gross income of interest on the Bonds. Failure by the District to comply with such covenants on a continuous basis prior to maturity of the Bonds could result in interest on the Bonds becoming taxable retroactively to the date of original issuance. 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 August 3, 2016, the TCEQ recommended to the EPA that all counties designated as nonattainment for the 2008 Ozone Standard be designated nonattainment for the 2015 Ozone Standard as well, which will impose additional ozone-reduction obligations on the HGB area. This 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) on February 19, 2013. The TPDES Construction General Permit became effective on March 5, 2013, and is a general permit authorizing the discharge of stormwater runoff associated with small and large construction sites and certain nonstormwater discharges into surface water in the state. It has a 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 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 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. 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's stormwater discharges currently maintain permit coverage through the Municipal Separate Storm System Permit (the "Current Permit") issued to the Storm Water Management Joint Task Force consisting of Harris County, Harris County Flood Control District, the City of Houston, and the Texas Department of Transportation. In the event that at any time in the future the District is not included in the Current Permit, it may be required to seek independent coverage under the TCEQ's General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the "MS4 Permit"), which authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems. If the District's inclusion in the MS4 Permit were required at a future date, the District could incur substantial costs to develop and implement the necessary plans as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff in order to comply with the MS4 Permit.

**Future and Proposed Legislation**

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

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

**Tropical Weather Events; Hurricane Harvey**

The Houston area, including the District, is subject to occasional severe tropical weather events, including tropical storms and hurricanes. If the District were to sustain damage to its facilities requiring substantial repair or replacement or if substantial damage were to occur to taxable property within the District as a result of such a weather event, the investment security of the Bonds could be adversely affected.

The greater Houston area, including the District, has experienced three storms exceeding a 0.2% probability (i.e. "500 year flood" events) since 2015. The most recent event was Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 26, 2017, and brought historic levels of rainfall during the successive four days. However, according to the District's Operator and Engineer, the District's System did not sustain any material damage and there was no interruption of water and sewer service. Further, according to District officials, after investigation, although the District experienced street flooding, there was no apparent material wind or water damage to homes within the District other than approximately 51 homes (approximately 2.51% of the total of 2,031 homes that are located within the District), the Cavendar’s Boot City, the Texas Acrobatics and Gymnastics Gym and the Meadow Lake Homeowners’ Association building that are located within the District that experienced structural flooding. In addition, although the Community Toyota dealership did not experience structural flooding, approximately 75 automobiles located on the site were flooded. The District believes that the foregoing homes and commercial structures have been repaired. Hurricane Harvey could have a material impact on the Houston region's economy. The District cannot predict what impact, if any, Hurricane Harvey will have on the assessed value of homes within the District.

If a future weather event significantly damaged all or part of the improvements within the District, the assessed value of property within the District could be substantially reduced, which could result in a decrease in tax revenues and/or necessitate an increase the District's tax rate. Further, there can be no assurance that a casualty loss to taxable property within the District will be covered by insurance (or that property owners will even carry flood or other casualty insurance), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild or repair any damaged improvements within the District. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the District could be adversely affected.

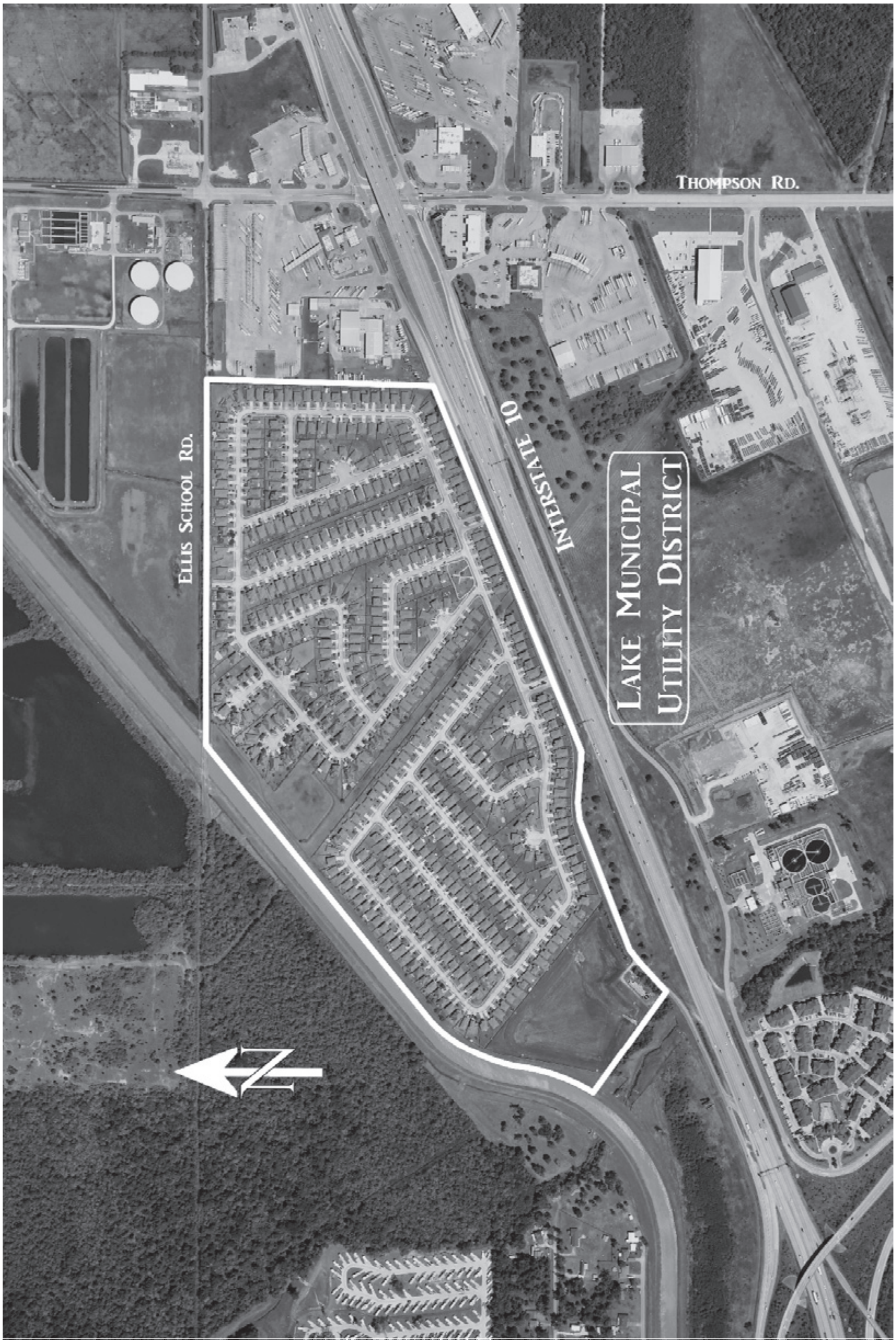
Ponding, or pluvial, flooding occurs when heavy rainfall creates a flood event independent of an overflowing water body, typically in relatively flat areas. Intense rainfall can exceed the drainage capacity of a drainage system, which may result in water within the drainage system becoming trapped and diverted onto streets and nearby property until it is able to reach a natural outlet. Ponding can also occur in a flood pool upstream or behind a dam, levee or reservoir.

Coastal, or storm surge, flooding occurs when sea levels or water levels in estuarial rivers, bayous and channels rise to abnormal levels in coastal areas, over and above the regular astronomical tide, caused by forces generated from a severe storm's wind, waves, and low atmospheric pressure. Storm surge is extremely dangerous, because it is capable of flooding large swaths of coastal property and causing catastrophic destruction. This type of flooding may be exacerbated when storm surge coincides with a normal high tide.

See "THE SYSTEM - 100-Year Flood Plain."

**AERIAL PHOTOGRAPH OF THE DISTRICT**
**(taken April 2018)**
**1 of 2**

**AERIAL PHOTOGRAPH OF THE DISTRICT**
**(taken April 2018)**
**2 of 2**



**PHOTOGRAPHS TAKEN WITHIN THE DISTRICT**
**(taken April 2018)**

**PHOTOGRAPHS TAKEN WITHIN THE DISTRICT**
**(taken April 2018)**


## DISTRICT DEBT

### General

The following tables and calculations relate to the Bonds and the Remaining Outstanding Bonds. After issuance of the Bonds, the aggregate principal amount of the Outstanding Bonds, less the Refunded Bonds, will be $12,820,000 (the "Remaining Outstanding Bonds"), and the District's total bonded indebtedness, including the Bonds, will be $18,635,000. The District is empowered to incur debt to be paid from revenues raised by taxation against all taxable property located within the District, and various other political subdivisions of government which overlap all or a portion of the District are empowered to incur debt to be paid from revenues raised or to be raised by taxation against all or a portion of the property within the District.

| | | |
|---|---|---|
| 2017 Assessed Valuation (As of January 1, 2017) See "TAX DATA" and "TAX PROCEDURES." | | $345,570,874(a) |
| Direct Debt: Remaining Outstanding Bonds | | $ 12,820,000 |
| The Bonds | | 5,815,000 |
| Total | | $ 18,635,000 |
| Estimated Overlapping Debt | | $ 16,997,199 |
| Direct and Estimated Overlapping Debt | | $ 35,632,199 |
| Direct Debt Ratio : as a percentage of 2017 Assessed Valuation ($345,570,874) | | 5.39% |
| Direct and Estimated Overlapping Debt Ratio : as a percentage of 2017 Assessed Valuation ($345,570,874) | | 10.31% |
| Bond Fund Balance estimated as of the date of delivery of the Bonds | | $ 1,715,369(b) |
| General Fund Balance as of April 19, 2018 | | $ 923,401 |
| Average Percentage of Total Tax Collections 2007-2016 (As of March 31, 2018) | | 99.81% |
| Percentage of Tax Collections 2017 Tax Levy (As of March 31, 2018. In process of collection.) | | 97.48% |
| 2017 Tax Rate per $100 of Assessed Valuation | | |
| Debt Service Tax | $0.33 | |
| Maintenance Tax | 0.20 | |
| Total | | $0.53(c) |

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(a) As of January 1, 2017. All property located in the District is valued on the tax rolls by the Harris County Appraisal District (the "Appraisal District") at 100% of assessed valuation as of January 1 of each year. The District's tax roll is certified by the Harris County Appraisal Review Board (the "Appraisal Review Board"). See "INVESTMENT CONSIDERATIONS - Economic Factors Affecting Taxable Values and Tax Payments" and "TAX PROCEDURES."

(b) Neither Texas law nor the Bond Order requires the District to maintain any specific sum in the Debt Service Fund. Such fund balance gives effect to the timely payment by the District of the entirety of its debt service requirements that were due on March 1, 2018, and the contribution by the District of $7,000 to the refunding of the Refunded Bonds. The District's final debt service requirements for 2018 consist of principal of and interest on the Remaining Outstanding Bonds and the Bonds that are due on September 1, 2018, totaling $798,838. See "DISTRICT DEBT - Debt Service Requirements."

(c) The District levied a debt service tax for 2017 in the amount of $0.33 per $100 of Assessed Valuation. In addition, the District levied a maintenance tax of $0.20 per $100 of Assessed Valuation for 2017. See "TAX DATA - Estimated Overlapping Taxes." As is enumerated and further detailed in this Official Statement under the caption "TAX DATA - Estimated Overlapping Taxes," the aggregate of the tax levies of all overlapping taxing units which levy taxes upon property located in the District, plus the District's rate, is $2.917575. Such aggregate levies are higher than the aggregate tax levies of some municipal utility districts in the Houston metropolitan area, including the area of the District, but are within the range of the aggregate levies of municipal utility districts in the Houston metropolitan area and the area of the District which are in stages of development comparable with the District. See "INVESTMENT CONSIDERATIONS - Economic Factors Affecting Taxable Values and Tax Payments" and "TAX PROCEDURES."

**Estimated Direct and Overlapping Debt Statement**

The following table indicates the direct and estimated overlapping debt of the District. The table includes the estimated amount of indebtedness of governmental entities overlapping the District, defined as outstanding bonds payable from ad valorem taxes, and the estimated percentages and amounts of such indebtedness attributable to property located within the District. This information is based upon data secured from the individual jurisdictions and/or the Texas Municipal Reports published by the Municipal Advisory Council of Texas. The calculations by which the statement was derived were made in part by comparing the reported assessed valuation of the property in the overlapping taxing jurisdictions with the Assessed Valuation of property within the District. No effect has been given to the tax burden levied by any applicable taxing jurisdiction for maintenance and operational or other purposes. 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. Further, certain of the entities listed below may have issued additional bonds since the date cited.

| Taxing Jurisdiction | Outstanding Debt as of April 1, 2018 | Overlapping Percent | Overlapping Amount |
|---|---|---|---|
| Harris County | $2,208,674,360 | 0.0787% | $ 1,738,324 |
| Harris County Department of Education | 6,555,000 | 0.0787 | 5,159 |
| Harris County Flood Control District | 83,075,000 | 0.0787 | 65,384 |
| Harris County Hospital District | 59,490,000 | 0.0787 | 46,821 |
| Port of Houston Authority | 628,829,397 | 0.0787 | 502,787 |
| Goose Creek Independent School District | 451,675,000 | 2.9557 | 13,349,984 |
| Lee College District | 44,355,000 | 2.9055 | 1,288,740 |
| TOTAL ESTIMATED OVERLAPPING DEBT | | | $16,997,199 |
| TOTAL DIRECT DEBT (the District) | | | 18,635,000 |
| TOTAL DIRECT AND ESTIMATED OVERLAPPING DEBT | | | $35,632,199 |

* Harris County Toll Road Bonds are considered to be self-supporting, and are not included in this schedule.

Under Texas law ad valorem taxes levied by each taxing authority other than the District create a lien which is on a parity with the lien in favor of the District on all taxable property within the District. In addition to the ad valorem taxes required to retire the foregoing direct and overlapping debt, the various taxing authorities mentioned above are also authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administration and/or general revenue purposes. Certain of the jurisdictions have in the past levied such taxes. The District has the power to assess, levy and collect ad valorem taxes for operation and maintenance purposes, and such taxes have been authorized by the duly qualified voters of the District at a rate not to exceed $0.20 per $100 of Assessed Valuation. The District has levied a maintenance tax of $0.20 per $100 of Assessed Valuation for 2017. See "TAX DATA - Maintenance Tax."

**Debt Ratios**

| | % of 2017 Assessed Valuation |
|---|---|
| Direct Debt . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 5.39% |
| Direct and Estimated Overlapping Debt . . . . . . . . . . | 10.31% |

**Debt Service Requirements**

The following schedule sets forth the debt service requirements on the Outstanding Bonds, less the debt service requirements on the Refunded Bonds, plus the principal and interest requirements of the Bonds.

| Year Ending December 31 | Current Total Debt Service | Less: Debt Service on Refunded Bonds | Plus: -- The Bonds -- Principal | Interest | Total New Debt Service |
|---|---|---|---|---|---|
| 2018 | $1,152,183 | $ 118,142 | $ 60,000 | $ 38,389 | $ 1,132,430 |
| 2019 | 1,158,570 | 286,284 | 115,000 | 152,356 | 1,139,643 |
| 2020 | 1,158,913 | 738,221 | 570,000 | 150,056 | 1,140,748 |
| 2021 | 983,060 | 562,869 | 405,000 | 138,656 | 963,848 |
| 2022 | 1,017,685 | 597,994 | 445,000 | 130,556 | 995,248 |
| 2023 | 1,025,185 | 605,994 | 465,000 | 121,656 | 1,005,848 |
| 2024 | 1,031,623 | 612,931 | 480,000 | 111,194 | 1,009,885 |
| 2025 | 1,036,904 | 618,806 | 500,000 | 99,194 | 1,017,291 |
| 2026 | 1,041,091 | 623,619 | 520,000 | 85,444 | 1,022,916 |
| 2027 | 1,044,185 | 627,369 | 535,000 | 69,844 | 1,021,660 |
| 2028 | 1,045,529 | 629,400 | 555,000 | 53,794 | 1,024,923 |
| 2029 | 1,045,123 | 629,650 | 575,000 | 37,144 | 1,027,616 |
| 2030 | 1,043,016 | 628,200 | 590,000 | 19,175 | 1,023,991 |
| 2031 | 969,160 | | | | 969,160 |
| 2032 | 975,554 | | | | 975,554 |
| 2033 | 981,091 | | | | 981,091 |
| 2034 | 990,659 | | | | 990,659 |
| 2035 | 994,244 | | | | 994,244 |
| 2036 | 1,001,278 | | | | 1,001,278 |
| 2037 | 1,006,825 | | | | 1,006,825 |
| 2038 | 1,015,000 | | | | 1,015,000 |
| 2039 | 1,021,900 | | | | 1,021,900 |
| 2040 | 1,026,575 | | | | 1,026,575 |
| 2041 | 1,034,925 | | | | 1,034,925 |
| 2042 | 1,048,900 | | | | 1,048,900 |
| 2043 | 941,300 | | | | 941,300 |
| 2044 | 955,500 | | | | 955,500 |
| 2045 | 978,500 | | | | 978,500 |
| | $28,724,478 | $7,279,479 | $5,815,000 | $1,207,458 | $28,467,458 |

Average Annual Requirements (2018-2045) . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . $1,016,695
Maximum Annual Requirement (2020) . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . $1,140,748

See "INVESTMENT CONSIDERATIONS - Maximum Impact on District Tax Rates" and "TAX DATA - Tax Rate Calculations" for a discussion of the District's projected tax rates and the effect of the Bonds thereon.

## TAX PROCEDURES

### Property Tax Code and County-Wide Appraisal District

The Texas Property Tax Code (the "Property Tax Code"), specifies the taxing procedures of all political subdivisions of the State of Texas, including the District. Provisions of the Property Tax Code are complex and are not fully summarized here. The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State 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 values established by the appraisal district. The Harris County Appraisal District (the "Appraisal District") has the responsibility of appraising property for all taxing units within Harris County, including the District. Such appraisal values will be subject to review and change by the Harris County Appraisal Review Board (the "Appraisal Review Board"). The appraisal rolls, as approved by the Appraisal Review Board, will be used by the District in establishing its tax rolls and tax rate. The Texas Tax Code provides that the governing body of a taxing unit located within an area declared to be a disaster area by the governor of the State of Texas may authorize reappraisal of all property damaged in the disaster at its market value immediately after the disaster. 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 of that year. Beginning on the date of the disaster and for the remainder of the year, the taxing unit assesses taxes on the reappraised market value of the property.

The Texas Tax Code provides that the governing body of a taxing unit located within an area declared to be a disaster area by the governor of the State of Texas may authorize reappraisal of all property damaged in the disaster at its market value immediately after the disaster. 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 of that year. Beginning on the date of the disaster and for the remainder of the year, the taxing unit assesses taxes on the reappraised market value of the property.

Certain qualified taxpayers, including owners of residential homesteads, located within a natural disaster area and whose property has been damaged as a direct result of the disaster, are entitled to enter into a tax payment installment agreement with a taxing jurisdiction such as the District if the tax payer pays at least one-fourth of the tax bill imposed on the property by the delinquency date. The remaining taxes may be paid without penalty or interest in three equal installments within six months of the delinquency date.

### Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property and tangible personal property and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District; however, no effort is expected to be made by the Harris County Appraisal District ("HCAD" or the "Appraisal District") described below to assess taxes against tangible or intangible personal property not devoted to commercial or industrial use. Principal categories of exempt real property include: property owned by the State of Texas or its political subdivisions, if the property is used for public purposes; property exempt from ad valorem taxation by federal law; nonprofit cemeteries; and certain property owned by qualified charitable, religious, veterans, fraternal, or educational organizations. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years or older and of certain disabled persons to the extent deemed advisable by the Board. In addition, the District would be required to call such an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the District's preceding election and would be required to offer such an exemption if a majority of voters approve it at such election. For the 2018 tax year, the District has granted an exemption in the amount of $20,000 of assessed valuation for persons 65 years of age and older and individuals who are under disability for purpose of payment of disability insurance benefits under the Federal Old-Age Survivors and Disability Insurance Act. The District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, to between $5,000 and $12,000 of assessed valuation depending upon the disability rating of the veteran. A veteran who receives a disability rating of 100%, and, under certain circumstances, the surviving spouse of such veteran, is entitled to the exemption for the full amount of the residential homestead. 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. 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, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. A "Freeport Exemption" applies to goods, wares, ores, and merchandise other than oil, gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining petroleum or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A "Goods-in-Transit" Exemption is applicable to the same categories of tangible personal property which are covered by the Freeport Exemption, if, for tax year 2011 and prior applicable years, such property is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation, and the location where said property is detained during that period is not directly or indirectly owned or under the control of the property owner. For tax year 2012 and subsequent years, such Goods-in-Transit Exemption is limited to 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 personal 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, but may choose to exempt same in the future by further official action.

**General Residential Homestead Exemption**

Texas law authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) of the appraisal value of residential homesteads, but not less than $5,000, if any exemption is granted, from ad valorem taxation. The law provides, however, that 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. For the 2018 tax year, the District has not granted a general residential homestead exemption.

**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. Assessments under the Property Tax Code are to be based upon one hundred percent (100%) of market value. The appraised value of residential homestead property may be limited to the lesser of the market value of the property, or the sum of the appraised value of the property for the last year in which it was appraised, plus ten percent (10%) of such appraised value multiplied by the number of years since the last appraisal, plus the market value of all new improvements to the property. Once an appraisal roll is prepared and approved by the Appraisal Review Board, it is used by the District in establishing its tax rate. The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraised values. The plan must provide for appraisal of all real property by the Appraisal District at least once every three (3) years. It is not known what frequency of reappraisal will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone or county-wide basis.

**District and Taxpayer Remedies**

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

Texas law provides for notice and hearing procedures prior to the adoption of an ad valorem tax rate by the District. Additionally, Texas law provides for an additional notice and, upon petition by qualified voters, an election which could result in the repeal of certain tax rate increases on residential homesteads. The Property Tax 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.

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

**Agricultural, Open Space, Timberland and Inventory Deferment**

The Property Tax Code permits land designated for agricultural use (including wildlife management), open space, or timberland to be appraised at its value based on the land's capacity to produce agriculture or timber products rather than at its fair market value. The Property Tax Code permits, under certain circumstances, that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Landowners wishing to avail themselves of any of such designations must apply for the designation, and the Appraisal District is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions and not as to others. If a claimant receives the designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including such taxes for a period of three (3) years to five (5) years for agricultural use, timberland or open space land prior to the loss of the designation. According to the District's Tax Assessor/Collector, as of January 1, 2017, approximately 7 acres of land within the District were designated for agricultural use, open space, inventory deferment, or timberland.

**Tax Abatement**

The City of Baytown and Harris County may designate all or part of the District as a reinvestment zone, and the District, Harris County, and, if it were to annex and abolish the District), the City of Baytown may thereafter enter into tax abatement agreements with the owners of property within the zone. The tax abatement agreements may exempt from ad valorem tax, by the applicable taxing jurisdictions, and by 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 a comprehensive plan. According to the District's Tax Assessor/Collector, to date, none of the area within the District has been designated as a reinvestment zone.

**Levy and Collection of Taxes**

The District is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. The District adopts its tax rate each year after it receives a tax roll certified by the Appraisal District. Taxes are due upon receipt of a bill therefor, and become delinquent after January 31 of the following year or 30 days after the date billed, whichever is later, or, if billed after January 10, they are delinquent on the first day of the month next following the 21st day after such taxes are billed. A delinquent tax bears interest at the rate of one percent (1%) per month until paid, and such delinquent tax also incurs a penalty of six percent (6%) of the amount of tax plus an additional one percent (1%) per month prior to July 1, at which time the penalty becomes twelve percent (12%) and remains at such a rate without further increase. If the tax is not paid by July 1, an additional penalty of up to the amount of the compensation specified in the District's contract with its delinquent tax collection attorney, but not to exceed twenty percent (20%) of the total tax, penalty and interest, may, under certain circumstances, be imposed by the District. The District's contract with its delinquent tax collection attorney currently specifies a twenty percent (20%) additional penalty. The District may waive penalties and interest on delinquent taxes only if an error or omission of a representative of the District, including the Appraisal District, caused the failure of the taxpayer to pay taxes. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency of taxes under certain circumstances. Additionally, the owner of a residential homestead property that is a person sixty-five (65) years of age or older or disabled is entitled by law to pay current taxes on a residential homestead in installments or to defer the payment of taxes without penalty during the time of ownership. Certain qualified taxpayers, including owners of residential homesteads, located within a natural disaster area and whose property has been damaged as a direct result of the disaster, are entitled to enter into a tax payment installment agreement with a taxing jurisdiction such as the District if the tax payer pays at least one-fourth of the tax bill imposed on the property by the delinquency date. The remaining taxes may be paid without penalty or interest in three equal installments within six months of the delinquency date.

**District's Rights in the Event of Tax Delinquencies**

Taxes levied by the District are a personal obligation of the person who owns or acquires the property on January 1 of the year for which the tax is imposed. 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 upon the property. The District's tax lien is on a parity with the tax liens of the other state and local jurisdictions levying taxes on property within the District. Whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. In the absence of such federal law, the District's tax lien takes priority over a lien of the United States. In the event a taxpayer fails to make timely payment of taxes due the District, the District may file suit at any time after taxes become delinquent to foreclose its 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 also be adversely affected by the amount of taxes owed to other federal, state and local taxing jurisdictions, by the effects of market conditions on the foreclosure sales price, by the taxpayer's right to redeem the property (a taxpayer may redeem property within six (6) months for commercial property and two (2) years for residential and all other types of property after the purchaser's deed issued at the foreclosure sale is filed in the county records), or by bankruptcy proceedings which restrain or stay the collection of a taxpayer's debts.

## TAX DATA

**Debt Service Tax**

All taxable property within the District is subject to the assessment, levy and collection by the District of an ad valorem tax, without legal limitation as to rate or amount, sufficient to pay principal of and interest on the Remaining Outstanding Bonds, the Bonds and any future tax-supported bonds which may be issued from time to time as authorized. The Board covenants in the Bond Order to assess and levy, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax ample and sufficient (with any net revenue) to produce funds to pay the principal of and interest on the

Bonds when due. The actual rate of such tax will be determined from year to year as a function of the District's tax base, its debt service requirements and available funds. The District levied a debt service tax of $0.33 per $100 of Assessed Valuation for 2017.

**Maintenance Tax**

The Board of Directors of the District 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 a vote of the District's electorate. The District voters authorized the levy of such a maintenance tax in an amount not to exceed $0.20 per $100 of Assessed Valuation. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds, the Remaining Outstanding Bonds and any tax supported bonds which may be issued in the future. The District levied a maintenance tax in 2017 of $0.20 per $100 of Assessed Valuation and in prior years in varying amounts as indicated below under the caption "Tax Rate Distribution."

**Historical Values and Tax Collection History**

The following statement of tax collections sets forth, in condensed form, the historical Assessed Valuation and tax collections of the District. Such summary has been prepared for inclusion herein based upon information obtained from District records. Reference is made to such records, including the District's annual audited financial statements, for more complete information.

| Tax Year | Assessed Valuation | Tax Rate (a) | Adjusted Levy | % Collections Current & Prior Years (b) | Tax Year Ending |
|---|---|---|---|---|---|
| 2007 | $ 99,545,875 | $0.67 | $666,957 | 100.00% | 2008 |
| 2008 | 128,666,143 | 0.67 | 862,063 | 100.00 | 2009 |
| 2009 | 129,664,766 | 0.67 | 868,754 | 100.00 | 2010 |
| 2010 | 134,812,301 | 0.67 | 903,242 | 100.00 | 2011 |
| 2011 | 140,431,556 | 0.67 | 940,892 | 99.14 | 2012 |
| 2012 | 149,152,785 | 0.70 | 1,044,070 | 100.00 | 2013 |
| 2013 | 172,556,111 | 0.70 | 1,207,893 | 99.95 | 2014 |
| 2014 | 215,741,002 | 0.68 | 1,467,039 | 99.77 | 2015 |
| 2015 | 273,228,629 | 0.62 | 1,694,018 | 99.68 | 2016 |
| 2016 | 317,723,615 | 0.55 | 1,747,480 | 99.59 | 2017 |
| 2017 | 345,570,874 | 0.53 | 1,831,526 | 97.48(c) | 2018 |

(a) Per $100 of Assessed Valuation.
(b) Such percentages reflect cumulative total collections for each year from the time each respective annual tax was levied through March 31, 2018. The amount of tax collected for each levy on a current basis (by September 30 of the year following each respective annual levy) is not reflected in this statement.
(c) As of March 31, 2018. In process of collection.

**Tax Rate Distribution**

| | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| Debt Service | $0.33 | $0.35 | $0.42 | $0.48 | $0.50 |
| Maintenance & Operations | 0.20 | 0.20 | 0.20 | 0.20 | 0.20 |
| Total | $0.53 | $0.55 | $0.62 | $0.68 | $0.70 |

**Analysis of Tax Base**

The following table illustrates the composition of property located within the District for the last five years.

| | 2017 Assessed Valuation | % | 2016 Assessed Valuation | % | 2015 Assessed Valuation | % |
|---|---|---|---|---|---|---|
| Land | $ 61,812,785 | 17.89% | $ 50,525,226 | 15.90% | $ 39,796,485 | 14.57% |
| Agriculture | 989 | 0.00 | 946 | 0.00 | 881 | 0.00 |
| Improvements | 278,107,741 | 80.48 | 260,360,714 | 81.95 | 227,014,236 | 83.09 |
| Personal Property | 12,694,074 | 3.67 | 13,406,732 | 4.22 | 12,776,786 | 4.68 |
| Exemptions | (7,044,715) | (2.04) | (6,580,003) | (2.07) | (6,359,759) | (2.33) |
| Total | $345,570,874 | 100.00% | $317,713,615 | 100.00% | $273,228,629 | 100.00% |

| | 2014 Assessed Valuation | % | 2013 Assessed Valuation | % |
|---|---|---|---|---|
| Land | $ 32,530,220 | 15.08% | $ 28,829,974 | 16.71% |
| Agriculture | 867 | 0.00 | 0 | 0.00 |
| Improvements | 178,272,585 | 82.63 | 140,294,122 | 81.30 |
| Personal Property | 10,736,219 | 4.98 | 9,432,828 | 5.47 |
| Exemptions | (5,798,889) | (2.69) | (6,000,813) | (3.48) |
| Total | $215,741,002 | 100.00% | $172,556,111 | 100.00% |

**Principal 2017 Property Owners**

Based upon information supplied by the District's Tax Assessor/Collector, the following table lists principal District taxpayers, type of property owned by such taxpayers, and the Assessed Valuation of such property as of January 1, 2017. The information reflects the composition of the Appraisal District's record of property ownership as of January 1, 2017.

| Property Owner | Property Description | 2017 Property Value | % of 2017 Assessed Valuation |
|---|---|---|---|
| RKE Real Estate, LLC | Land and Improvements | $ 8,205,000 | 2.37% |
| Casa Pontiac GMC Buick and Baytown GMC Buick | Personal Property | 4,910,871 | 1.42 |
| Community Toyota | Personal Property | 4,553,171 | 1.32 |
| Baytown Land, LLC | Land and Improvements | 2,277,567 | 0.66 |
| Cavender's Boot City - Baytown and James Cavendar, et. al. | Land, Improvements and Personal Property | 2,069,404 | 0.60 |
| Centerpoint Energy | Personal Property | 1,377,930 | 0.40 |
| American Homes 4 Rent | Land and Improvements | 787,788 | 0.23 |
| Lennar Homes of Texas | Land and Improvements | 786,777 | 0.23 |
| CJG Properties LLC | Land and Improvements | 705,747 | 0.20 |
| Cereberus SFR Holdings, LP | Land and Improvements | 680,462 | 0.20 |
| | | $26,354,717 | 7.63% |

**Tax Rate Calculations**

The tax rate calculations set forth below are presented to indicate the tax rates per $100 of Assessed Valuation which would be required to meet certain debt service requirements if no growth in the District occurs beyond the 2017 Assessed Valuation. The calculations also assume collection of 95% of taxes levied, no use of District funds on hand, and the sale of no additional bonds by the District other than the Prior Bonds and the Bonds.

| | |
|---|---|
| Average Annual Debt Service Requirements (2018-2045) . . . . . . . . . . . . . . . . . . . . . . . . . . . . | $1,016,695 |
| Tax Rate of $0.31 on the 2017 Assessed Valuation ($345,570,874) produces . . . . . . . . . . . . . | $1,017,706 |
| Maximum Annual Debt Service Requirement (2020) . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | $1,140,748 |
| Tax Rate of $0.35 on the 2017 Assessed Valuation ($345,570,874) produces . . . . . . . . . . . . . | $1,149,023 |

The District levied a debt service tax for 2017 of $0.33 per $100 of Assessed Valuation plus a maintenance tax of $0.20 per $100 of Assessed Valuation. As the above table indicates, the 2017 debt service rate will be sufficient to pay the Average Annual Debt Service Requirements but not the Maximum Annual Debt Service Requirement on the Bonds and the Remaining Outstanding Bonds unless taxable values in the District increase beyond the 2017 Assessed Valuation, assuming a tax collection rate of 95%, no use of funds on hand, and the issuance of no additional bonds by the District. However, the District's Bond Fund Balance is estimated to be $1,715,369 as of the date of delivery of the Bonds. The District has in the past augmented tax collections with earnings from the investment of monies held in the District's Bond Fund. See "APPENDIX B - ANNUAL FINANCIAL REPORT." In addition, as is illustrated above under the caption "Historical Values and Tax Collection History," the District had, as of March 31, 2018, total annual tax collections averaging 99.81% for the years 2007 through 2016 and its 2017 levy was 97.48% collected as of such date. Therefore, the District expects to be able to pay debt service on the Bonds and the Remaining Outstanding Bonds without increasing its debt service tax above the $0.33 per $100 of Assessed Valuation debt service tax that the District has levied for 2017 (plus a maintenance tax of $0.20 per $100 of Assessed Valuation). However, 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 aforementioned tax rate or to justify continued payment of taxes by property owners. See "TAX PROCEDURES" and "INVESTMENT CONSIDERATIONS - Economic Factors Affecting Taxable Values and Tax Payments." Increases in the District's tax rate to higher levels than the total $0.53 per $100 of Assessed Valuation rate which the District has levied for 2017 may have an adverse impact upon future development of the District, the ability of the District to collect, and the willingness of owners of property located within the District to pay, ad valorem taxes levied by the District.

**Estimated Overlapping Taxes**

Property located within the District is subject to taxation by several taxing authorities in addition to the District. Set forth below is a compilation of the 2017 levies of all taxing units that levy a tax upon property located within the District. Under Texas law, ad valorem taxes levied by each taxing authority other than the District entitled to levy taxes against property located within the District create a lien which is on a parity with the tax lien of the District. In addition to the ad valorem taxes required to make the debt service payments on bonded indebtedness 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.

| Taxing Jurisdiction | 2017 Tax Rate/$100 |
|---|---|
| Harris County | $0.418010 |
| Harris County Hospital District | 0.171100 |
| Harris County Flood Control District | 0.028310 |
| Harris County Department of Education | 0.005195 |
| Port of Houston Authority | 0.012560 |
| Goose Creek Consolidated Independent School District | 1.431900 |
| Lee College District | 0.220500 |
| Harris County Emergency Services District No. 75 | 0.100000 |
| The District | 0.530000 |
| | $2.917575 |

## THE DISTRICT

**General**

Lake Municipal Utility District (the "District"), a political subdivision of the State of Texas, was created by the Texas Water Commission, predecessor of the TCEQ, on February 27, 1979, under Article XVI, Section 59 of the Texas Constitution, and operates under the provisions of Chapter 49 and Chapter 54 of the Texas Water Code, as amended, and other general statutes of Texas applicable to municipal utility districts. The District, which lies entirely within the extraterritorial jurisdiction of the City of Baytown, is subject to the continuing supervisory jurisdiction of the TCEQ.

The District is empowered, among other things, to finance, purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation and treatment of wastewater; and the control and diversion of storm water. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District may also provide solid waste disposal and collection services. The District is also empowered to establish, operate and maintain fire-fighting facilities, independently or with one or more conservation and reclamation districts, after approval by the TCEQ and the voters of the District. Additionally, the District may, subject to certain limitations, develop and finance recreational facilities.

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

**Description**

The District is a political subdivision of the State of Texas and was created by the Texas Water Commission, predecessor to the TCEQ, on February 27, 1979. The District contains approximately 521.42 acres of land. The District is located approximately 30 miles east of the central business district of Houston, Texas. The District consists of five (5) non-contiguous tracts of land, all located north of Interstate Highway 10. Access to the tracts is generally afforded by exits from Interstate Highway 10 near John Martin Road, Garth Road and Thompson Road. The District is located entirely within the exclusive extraterritorial jurisdiction of the City of Baytown, Texas, approximately 5 miles north of downtown Baytown and approximately 30 miles east of the central business district of Houston, Texas. The District is located within Harris County, Texas, and the Goose Creek Consolidated Independent School District. See "APPENDIX A - LOCATION MAP."

**Management of the District**

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

| Name | Position | Term Expires in May |
|---|---|---|
| Kathleen Witkowski | President | 2020 |
| Kenneth J. Sandor | Vice President | 2022 |
| Jason M. Poitras | Secretary | 2020 |
| Sheila Crianza | Assistant Secretary | 2020 |
| Alias Jones | Director | 2022 |

The District does not have a general manager or any other employee, but has contracted for services, as follows.

Tax Assessor/Collector - The District has engaged June Muth of San Jacinto Tax Service Company LLC, Crosby Texas, as the District's Tax Assessor/Collector. According to Ms. Muth, she presently serves approximately 10 taxing units as tax assessor/collector. The Tax Assessor/Collector applies the District's tax levy to tax rolls prepared by the Appraisal District and bills and collects such levy.

Consulting Engineer - The District has employed the firm of Langford Engineering Inc., Houston, Texas, as Consulting Engineer in connection with the overall planning activities and the design and construction of the System.

Bookkeeper - The District has engaged District Data Services, Inc. as the District's Bookkeeper. According to District Data Services, Inc., it currently serves approximately 39 districts as bookkeeper.

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's auditor for the 2017 fiscal year is McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountants. The District's audit for the fiscal year dated July 31, 2017, which was audited by McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountants, is included as "APPENDIX B" to this Official Statement.

Bond Counsel and General Counsel - Bacon & Wallace, L.L.P. (“Bond Counsel”) serves as Bond Counsel to the District. The fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. In addition, Bacon & Wallace, L.L.P. serves as general counsel to the District on matters other than the issuance of bonds.

Financial Advisor - The District has engaged Rathmann & Associates, L.P., as financial advisor (the “Financial Advisor”) to the District. The fees paid the Financial Advisor for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued and sold. Therefore, the payment of such fees is contingent upon the sale and delivery of the Bonds. Rathmann & Associates, L.P. is an independent municipal advisor registered with the United States Securities and Exchange Commission (the “SEC”) and the Municipal Securities Rulemaking Board (the “MSRB”). Rathmann & Associates, L.P.’s SEC registration number is 867-00217 and its MSRB registration number is K0161. Rathmann & Associates, L.P.’s SEC registration Forms MA and MA-1's, which constitute Rathmann & Associates, L.P.’s registration filings, may be accessed through http://www.sec.gov/edgar/searchedgar/companysearch.html.

## DEVELOPMENT AND HOME CONSTRUCTION

The development of the entirety of the developable land located within the District is complete. As of April 1, 2018, the District contained (i) 2,031 single family homes, plus (ii) commercial above-ground improvements consisting of the Community Toyota automobile dealership (approximately 29,846 square feet of building area constructed on an approximate 8 acre tract), a free-standing Cavender's Boot City western clothing store (approximately 15,972 square feet of building area constructed on an approximate 1.8 acre tract), a free standing Texas Academy of Acrobatics and Gymnastics gym (approximately 16,520 square feet of building area constructed on an approximate 4.6 acre tract), and an approximately 4.2-acre portion of the Baytown Buick GMC automobile dealership (approximately 29,069 square feet of building area) which has been developed on a site that is partially located within the District.

Development activity which has been conducted to date within the District includes the completion of the development of an aggregate of approximately 493.3 acres of land which includes (i) an aggregate of 2,033 single-family residential lots on approximately 468.2 acres (Meadow Lake Village, Sections 1 through 7; Bay River Colony, Sections 1 through 10; Highlands Ranch; and West Meadows, Sections 1 through 5), and (ii) approximately 25.1 acres of unrestricted commercial/multi-family residential reserves, which include a community center site containing approximately 2.9 acres.

The balance of the land located within the District, a portion of which is included in the single-family residential and commercial development that is described above, is contained within a lake, certain easements, streets, parks and open spaces, or District facility sites.

The District financed the acquisition or construction of underground water, sewer, and drainage facilities to serve Bay River Colony, Section 1 through 10, Meadow Lake Village, Sections 1 through 7, Highlands Ranch, and West Meadows, Sections 1, 3, 4 and 5; a portion of the lease costs of the Bay River Colony wastewater treatment plant; the expansion of Wastewater Treatment Plant No. 1; lease purchases of Wastewater Treatment Plants No. 1 and No. 2; land acquisition for the West Meadows detention pond and Wastewater Treatment Plant No. 2 sites; construction of drainage for the left turn lane of Wallisville Road; and other items with portions of the proceeds of the Prior Bonds. The District expects to finance the acquisition or construction of additional components of the System with portions of the proceeds of the sale of bonds, if any, in the future. See “THE BONDS - Issuance of Future Debt” and - “Use and Distribution of Bond Proceeds,” “INVESTMENT CONSIDERATIONS - Future Debt” and “THE SYSTEM.”

As of April 1, 2018, the status of single-family residential development and home construction was as follows:

| | Lots | | | | Homes | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | Under Construction | | Completed | | |
| Subdivision | Developed | Acres | Under Development | Acres | Sold (i) | Unsold | Sold (i) | Unsold | Totals |
| Meadow Lake Village | | | | | | | | | |
| Section 1 | 274 | 71.3 | | | 0 | 0 | 274 | 0 | 274 |
| Section 2 | 176 | 41.1 | | | 0 | 0 | 176 | 0 | 176 |
| Section 3 | 180 | 41.6 | | | 0 | 0 | 180 | 0 | 180 |
| Section 4 | 28 | 5.2 | | | 0 | 0 | 28 | 0 | 28 |
| Section 5 | 47 | 10.5 | | | 0 | 0 | 47 | 0 | 47 |
| Section 6 | 26 | 6.1 | | | 0 | 0 | 26 | 0 | 26 |
| Section 7 | 37 | 8.2 | | | 0 | 0 | 37 | 0 | 37 |
| Bay River Colony | | | | | | | | | |
| Section 1 | 206 | 58.1 | | | 0 | 0 | 206 | 0 | 206 |
| Section 2 | 47 | 8.5 | | | 0 | 0 | 47 | 0 | 47 |
| Section 3 | 35 | 6.8 | | | 0 | 0 | 35 | 0 | 35 |
| Section 4 | 36 | 7.5 | | | 0 | 0 | 36 | 0 | 36 |
| Section 5 | 35 | 6.8 | | | 0 | 0 | 35 | 0 | 35 |
| Section 6 | 27 | 5.2 | | | 0 | 0 | 26 | 0 | 26 |
| Section 7 | 37 | 6.7 | | | 0 | 0 | 37 | 0 | 37 |
| Section 8 | 36 | 9.6 | | | 0 | 0 | 36 | 0 | 36 |
| Section 9 | 30 | 5.9 | | | 0 | 0 | 30 | 0 | 30 |
| Section 10 | 31 | 5.8 | | | 0 | 0 | 31 | 0 | 31 |
| Highlands Ranch | 211(ii) | 43.2 | | | 0 | 0 | 210 | 0 | 210 |
| West Meadows | | | | | | | | | |
| Section 1 | 318 | 82.0 | | | 0 | 0 | 318 | 0 | 318 |
| Section 2 | 26 | 3.4 | | | 0 | 0 | 26 | 0 | 26 |
| Section 3 | 85 | 14.2 | | | 0 | 0 | 85 | 0 | 85 |
| Section 4 | 52 | 10.6 | | | 0 | 0 | 52 | 0 | 52 |
| Section 5 | 53 | 9.9 | | | 0 | 0 | 53 | 0 | 53 |
| TOTALS | 2,033 | 468.2 | 0 | 0 | 0 | 0 | 2,031 | 0 | 2,031 |

(i) Includes homes sold and contracted for sale. Homes under contract for sale, in some instances, are subject to conditions of appraisal, loan application, approval and inspection.

(ii) One of such lots has been conveyed to a homeowners association for use as a park.

## THE SYSTEM

### Regulation

According to the District's Consulting Engineer, the System has been designed in conformance with accepted engineering practices and the requirements of certain governmental agencies having regulatory or supervisory jurisdiction over the construction and operation of such facilities, including, among others, the TCEQ, the City, Harris County, and the Harris County Flood Control District.

Operation of the System is subject to regulation by, among others, the EPA and the TCEQ. The total number of connections estimated at this time for the District upon the full development of its 521.42 acres is approximately 2,065 with a total estimated population of 6,711 people. The following descriptions are based upon information supplied by the District's Consulting Engineer.

### Description

The System presently serves the 2,033 single-family residential lots in Meadow Lake Village, Sections 1 through 7, Bay River Colony, Sections 1 through 10, Highlands Ranch and West Meadows, Sections 1 through 5 in the District. The District financed the acquisition or construction of underground water, sewer, and drainage facilities to serve Bay River Colony, Section 1 through 10, Meadow Lake Village, Sections 1 through 7, Highlands Ranch, and West Meadows, Sections 1, 3, 4 and 5; a portion of the lease costs of the Bay River Colony wastewater treatment plant; the expansion of Wastewater Treatment Plant No. 1; lease purchases of Wastewater Treatment Plants No. 1 and No. 2; land acquisition for the West Meadows detention pond and Wastewater Treatment Plant No. 2 sites; construction of drainage for the left turn lane of Wallisville Road; and other items with portions of the proceeds of the Prior Bonds. The District expects to finance the acquisition or construction of additional components of the System with portions of the proceeds of the sale of bonds, if any, in the future. See "THE BONDS - Issuance of Additional Debt" and - "Use and Distribution of Bond Proceeds," and "INVESTMENT CONSIDERATIONS - Future Debt."

### Wastewater Treatment

The District entered into a Wastewater Disposal Contract with the City of Baytown, Texas (the "Sewer Contract") dated December 4, 1980, and amended April 21, 1981, to extend its term to forty years. The Sewer Contract provides for the District's construction of its wastewater collection system, including metering device, lift stations and force main, to discharge sewage from Meadow Lake Village, Sections 1 through 7 into the City's wastewater system at a specified location within the City. The District is required to operate and maintain its System, or contract for such service subject to approval by the City, and set rates and charges to produce revenues sufficient to pay for such operation and maintenance. The Sewer Contract also provides for the City's acceptance and treatment of wastewater collected and transported by the District and for the reservation of capacity.

On July 29, 1988, the District and the City of Baytown amended the Sewer Contract a second time (the "Second Amendment") setting forth new "volumes of waste" to be transmitted by the District to the City for treatment under the agreement. The new capacity is a high flow allowance of 350,000 gallons-per-day and a total acceptance volume of 700,000 gallons-per-day. According to the District's Engineer, the facility is adequate to provide capacity to serve a total of 2,333 equivalent single-family residential connections.

Waste treatment of the District's sewage from Bay River Colony and Highlands Ranch is provided by a 140,000 gallon-per-day wastewater treatment plant. According to the District's Engineer, such wastewater treatment plants contains adequate capacity to provide service to 467 ESFC's. The District financed an expansion to the wastewater treatment plant to increase its capacity to 188,000 gallon-per-day with a portion of the proceeds of the sale of the Series 2015 Bonds. According to the District's Engineer, such expanded wastewater treatment plant contains adequate capacity to provide service to 627 ESFC's.

Waste treatment of the District's sewage from West Meadows is provided by a 188,000 gallon-per-day wastewater treatment plant. The District financed the lease purchase of Wastewater Treatment Plant No. 2 and lease payments/expansion for Wastewater Treatment Plant No. 2 (West Meadows) with a portion of the proceeds of the sale of the Series 2016 Bonds. According to the District's Engineer, such wastewater treatment plant contains adequate capacity to provide service to 627 ESFC's.

**Water Supply**

The District entered into a wholesale water supply contract with the Baytown Area Water Authority ("BAWA"), dated June 8, 2007 (the "Water Contract"), with a term ending December 31, 2020. The Water Contract provides that BAWA will supply all of the treated water needed by the District subject to a maximum of 1,000,000 gallons-per-day ("the Contract Quantity").

The Water Contract provides for a base charge per 1,000 gallons taken. Should the quantity of water taken during any month exceed by 10% the Contract Quantity, an additional monthly charge of 5% upon the portion of consumption that exceeds the Contract Quantity will be made.

BAWA may change the base price at any time, provided that (except where an independent rate analysis conducted by a qualified concern indicates a certain rate increase is necessary) the price shall not be increased percentagewise to the District during any 12-month period, in excess of the percentage rate increase in BAWA's rates to other purchasers of treated water during the same period. The current base charge is $2.65 per 1,000 gallons. According to the District's Engineer, the facilities are sufficient to provide capacity to serve a total of 2,320 equivalent single-family residential connections.

**100-Year Flood Plain**

"Flood Insurance Rate Map" or "FIRM" means an official map of a community on which the Federal Emergency Management Agency (FEMA) has delineated the appropriate areas of flood hazards. The 1% chance of probable inundation, also known as the 100-year flood plain, is depicted on these maps. The "100 year flood plain" (or 1% chance of probable inundation) as shown on the FIRM is the estimated geographical area that would be flooded by a rain storm of such intensity to statistically have a one percent chance of occurring in any given year. Generally speaking, homes must be built above the 100 year flood plain in order to meet local regulatory requirements and to be eligible for federal flood insurance. An engineering or regulatory determination that an area is above the 100 year flood plain is not an assurance that homes built in such area will not be flooded, and a number of neighborhoods in the greater Houston area that are above the 100-year flood plain have flooded multiple times in the last several years. See "INVESTMENT CONSIDERATIONS - Tropical Weather Events; Hurricane Harvey."

Storm water drainage for the District is accomplished by a channel improvement and storm sewer system financed with proceeds of the sale of the Outstanding Bonds. The drainage channel outfalls into Goose Creek. According to the District's Engineer, the Federal Emergency Management Agency Flood Hazard Boundary Map currently in effect which covers the land located in the District indicates that the portion of the 100-year flood plain of Goose Creek within the District's boundaries is entirely contained within the aforementioned drainage channel. The District financed the storm water collection and detention facilities serving Bay River Colony and detention facilities serving Highlands Ranch and West Meadows and the left turn lane of Wallisville Road with a portion of the proceeds of the sale of the Prior Bonds. See "THE BONDS - Use and Distribution of Bond Proceeds."

# LEGAL MATTERS

## Legal Opinions

The District will furnish without cost to the Underwriter a transcript of certain certified proceedings held incident to the authorization and issuance of the Bonds, including a certified copy of the unqualified approving legal opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Bonds are validly issued under the Constitution and laws of the State of Texas, payable from the proceeds of an annual ad valorem tax, levied without limit as to rate or amount, upon all taxable property within the District, and that the Bonds are further payable from and secured by a pledge of and lien on Net Revenues, if any, from operations of the District's System, and, based upon an examination of such transcript of proceedings, the approving legal opinion of Bacon & Wallace, L.L.P., Attorneys at Law, Bond Counsel, Houston, Texas, to a like effect and that the interest on the Bonds is excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date of such opinion assuming compliance by the District with certain covenants relating to the use and investment of the proceeds of the Bonds. Such opinions express no opinion with respect to the sufficiency of the security for or marketability of the Bonds. See "THE BONDS - Source of Payment." Bond Counsel's opinion will also address the matters described below under "TAX MATTERS."

In its capacity as Bond Counsel, Bacon & Wallace, L.L.P., Attorneys at Law, has reviewed the information appearing in this Official Statement under the captions "THE BONDS" (except for the subsection - "Book-Entry-Only System," "PLAN OF FINANCING - Payment of Refunded Bonds," "TAX PROCEDURES," "THE DISTRICT - General," and - "Management of the District - Bond Counsel and General Counsel," "LEGAL MATTERS," "TAX MATTERS" and "CONTINUING DISCLOSURE OF INFORMATION" to determine whether such information fairly summarizes the procedures, law and documents referred to therein and, with respect to matters of law, is true and correct. Bond Counsel has not, however, independently verified any of the other factual information contained in this Official Statement nor has it conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to the accuracy or completeness of any of the information contained herein. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered and, therefore, such fees are contingent on the sale and delivery of the Bonds. Bond Counsel acts as general counsel for the District on matters other than the issuance of bonds.

## No Arbitrage

The District will certify on the date the Bonds are delivered and paid for that based upon all facts and estimates now known or reasonably expected to be in existence, 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 Section 148 of the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations prescribed from time to time 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 have been authorized to certify to the facts, 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 will covenant in the Bond Order that it will make such use of the proceeds of the Bonds, regulate investments of proceeds of the Bonds and take such other and further actions and follow such procedures, including without limitation, calculation of the yield on the Bonds, as may be required so that the Bonds will not become "arbitrage bonds" under the Code and the regulations prescribed from time to time thereunder.

**No-Litigation Certificate**

The District will furnish to the Underwriter a certificate, dated as of the date of delivery of the Bonds, executed by both the President and Secretary of the Board, to the effect that no litigation of any nature has been filed or is then pending or threatened, either in state or federal courts, contesting or attacking the Bonds; restraining or enjoining the issuance, execution or delivery of the Bonds; affecting the provisions made for the payment of or security for the Bonds; in any manner questioning the authority or proceedings for the issuance, execution, or delivery of the Bonds; or affecting the validity of the Bonds.

**No Material Adverse Change**

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

## TAX MATTERS

**Opinion**

On the date of initial delivery of the Bonds, Bacon & Wallace, L.L.P., Attorneys at Law, Houston, Texas, Bond Counsel, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law") interest on the Bonds (1) will be excludable from the gross income, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes; and (2) will not be included in the alternative minimum taxable income of individuals under section 57(a)(5) of the Code. Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds.

In rendering its opinion, Bond Counsel will rely upon (a) the District's no-arbitrage certificate, and (b) covenants of the District with respect to arbitrage, the application of the proceeds to be received from the issuance and sale of the Bonds and certain other matters. Failure by the District to observe the aforementioned representations or covenants, could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel is conditioned on compliance by the District with such requirements, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinion is not a guarantee of a result. Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds.

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

**Collateral Federal Income Tax Consequences**

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

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

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

Under Section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

**Federal Income Tax Accounting Treatment of Original Issue Discount**

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

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

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

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

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

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

**State, Local and Foreign Taxes**

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

**Qualified Tax-Exempt Obligations for Financial Institutions**

Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible by such taxpayer in determining taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer which is a "financial institution" allocable to tax-exempt obligations, other than "specified private activity bonds," which are designated by a "qualified small issuer" as "qualified tax-exempt obligations." A "qualified small issuer" is any governmental issuer (together with any subordinate issuers) who issues no more than $10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term "financial institution" as referring to any corporation described in section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business which is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to "qualified tax-exempt obligations" provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a "bank" as defined in Section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase "qualified tax-exempt obligations" shall be reduced by twenty-percent (20%) as a "financial institution preference item."

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

## VERIFICATION OF ACCURACY OF MATHEMATICAL COMPUTATION

Grant Thornton LLP, a firm of independent certified public accountants, will deliver to the District, on or before the settlement date of the Bonds, its verification report indicating that it has verified, in accordance with the Statement on Standards for Consulting Services established by the American Institute of Certified Public Accountants, the mathematical accuracy of (a) the mathematical computations of the adequacy of the amounts deposited with the Escrow Agent to pay, when due or upon early redemption, the principal of, interest on and related call premium requirements, if any, of the Refunded Bonds and (b) the mathematical computations of yield used by Bond Counsel to support its opinion that interest on the Bonds will be excluded from gross income for federal income tax purposes.

Grant Thornton relied on the accuracy, completeness and reliability of all information provided to it by, and on all decisions and approvals of, the District. In addition, Grant Thornton has relied on any information provided to it by the District's retained advisors, consultants or legal counsel. Grant Thornton was not engaged to perform audit or attest services under AICPA auditing or attestation standards or to provide any form of attest report or opinion under such standards in conjunction with this engagement.

## SOURCES OF INFORMATION

### General

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

The District's financial statements for the fiscal year ended July 31, 2017, were audited by McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountants, Houston, Texas, and have been included herein as "APPENDIX B." McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountants have agreed to the publication of such financial statements in this Official Statement.

### Experts

The information contained in this Official Statement relating to engineering, to the description of the System generally and, in particular, the engineering information included in the sections captioned "THE DISTRICT," "DEVELOPMENT AND HOME CONSTRUCTION," FUTURE DEVELOPMENT," and "THE SYSTEM," has been provided by Langford Engineering, Inc., Houston, Texas. Such information has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

The information contained in this Official Statement relating to assessed valuations of property generally and, in particular, that information concerning valuations contained in the sections captioned "TAX DATA" and "DISTRICT DEBT" has been provided by the Harris County Appraisal District and June Muth. The District has included certain information herein in reliance upon Ms. Muth's authority as an expert in the field of tax assessing and real property appraisal. The District has included certain information herein in reliance upon the Appraisal District's authority as experts in the field of tax assessing and real property appraisal.

## GENERAL CONSIDERATIONS

### Updating of Official Statement

If, subsequent to the date of the Official Statement, to and including the date the Underwriters are no longer required to provide an Official Statement to customers who request same pursuant to Rule 15c2-12 of the United States Securities and Exchange Commission (the "SEC"), the District learns, or is notified by the Underwriters, of any adverse event which causes the Official Statement to be materially misleading, and unless the Underwriters elect to terminate its obligation to purchase the Bonds, the District will promptly prepare and supply to the Underwriters an appropriate amendment or supplement to the Official Statement satisfactory to the Underwriters; provided, however, that the obligation of the District to so amend or supplement the Official Statement will terminate upon the earlier of (i) 90 days after the "end of the underwriting period" as defined in SEC Rule 15c2-12 or (ii) the date the Official Statement is filed with the MSRB (hereinafter defined), but in no case less than 25 days after the "end of the underwriting period."

### Certification of Official Statement

At the time of payment for and delivery of the Bonds, the District will furnish the Underwriter a certificate, executed by the President or Vice President and Secretary or Assistant Secretary of the Board, acting in their official capacities, to the effect that, to the best of their knowledge and belief: (a) the information, descriptions and statements of or pertaining to the District contained in this Official Statement, on the date thereof and on the date of delivery, were and are true and correct in all material respects; (b) insofar as the District and its affairs are concerned, this Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated herein or necessary to make the statements herein, in the light of the circumstances under which they were made, not misleading; and (c) insofar as information contained in this Official Statement of or pertaining to entities other than the District and their activities are concerned, the District has no reason to believe that such information is untrue in any material respect or omits to state any material fact necessary to make the statements herein, in the light of the circumstances under which they were made, not misleading; however, the District has made no independent investigation as to the accuracy or completeness of the information derived from sources other than the District. This Official Statement is duly approved by the Board of Directors of the District as of the date specified on the first page hereof.

## CONTINUING DISCLOSURE OF INFORMATION

In the Bond Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access ("EMMA") system.

### Annual Reports

The District will provide certain updated financial information and operating data to the MSRB annually. The information to be updated with respect to the District includes all quantitative financial information and operating data of the general type included in this Official Statement under the headings "DISTRICT DEBT," "TAX DATA," and in "APPENDIX B." The District will update and provide this information within six (6) months after the end of each of its fiscal years ending in or after 2018.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12. The updated information will include audited financial statements if it commissions an audit and the audit is completed by the required time. If the audit of such financial statements 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 (6) month period, and audited financial statements when the completed audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in the Bond Order or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

The District's fiscal year end is currently July 31. Accordingly, it must provide updated information by January 31 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

**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 determination of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other events affecting the tax-exempt status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; and (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of SEC Rule 15c2-12; (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of SEC Rule 15c2-12 or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of SEC Rule 15c2-12, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material to a decision to purchase or sell Bonds. The term "material" when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Order makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

**Availability of Information**

The District has agreed to provide the foregoing information only to the MSRB. Investors will be able to access, without charge from the MSRB, continuing disclosure information filed with the MSRB through its EMMA system 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 or 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 from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if but only if (1) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering made hereby in compliance with SEC Rule 15c2-12, taking into account any amendments or interpretations of SEC Rule 15c2-12 to the date of such amendment, as well as such changed circumstances, and (2) either (a) the holders of a majority in aggregate principal amount of the Outstanding Bonds consent to the amendment or (b) any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the Registered Owners and beneficial owners of the Bonds. If the District so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described 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 so provided.

**Compliance With Prior Undertakings**

For the last five years, the District has been in compliance in all material respects with all continuing disclosure agreements made by it in accordance with SEC Rule 15c2-12 except as set forth below. The District's audited financial information and operating data filings due on January 31, 2014, were timely filed, but were not complete. The District subsequently completed such filings on December 11, 2014, and has filed the appropriate notices of non-compliance. The District has implemented additional procedures to make filings under SEC Rule 15c2-12 complete and timely in the future.

Assured Guaranty Corp. and Assured Guaranty Municipal Corp. insure certain bonds issued by the District. On March 18, 2014, Standard & Poor's Ratings Services upgraded the rating of Assured Guaranty Corp., Assured Guaranty Municipal Corp., and Municipal Assurance Corp., from "AA-" to "AA." On May 8, 2018, the District filed a notice of such rating change with the MSRB through the EMMA system, which was more than ten (10) business days after the date of the rating change.

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

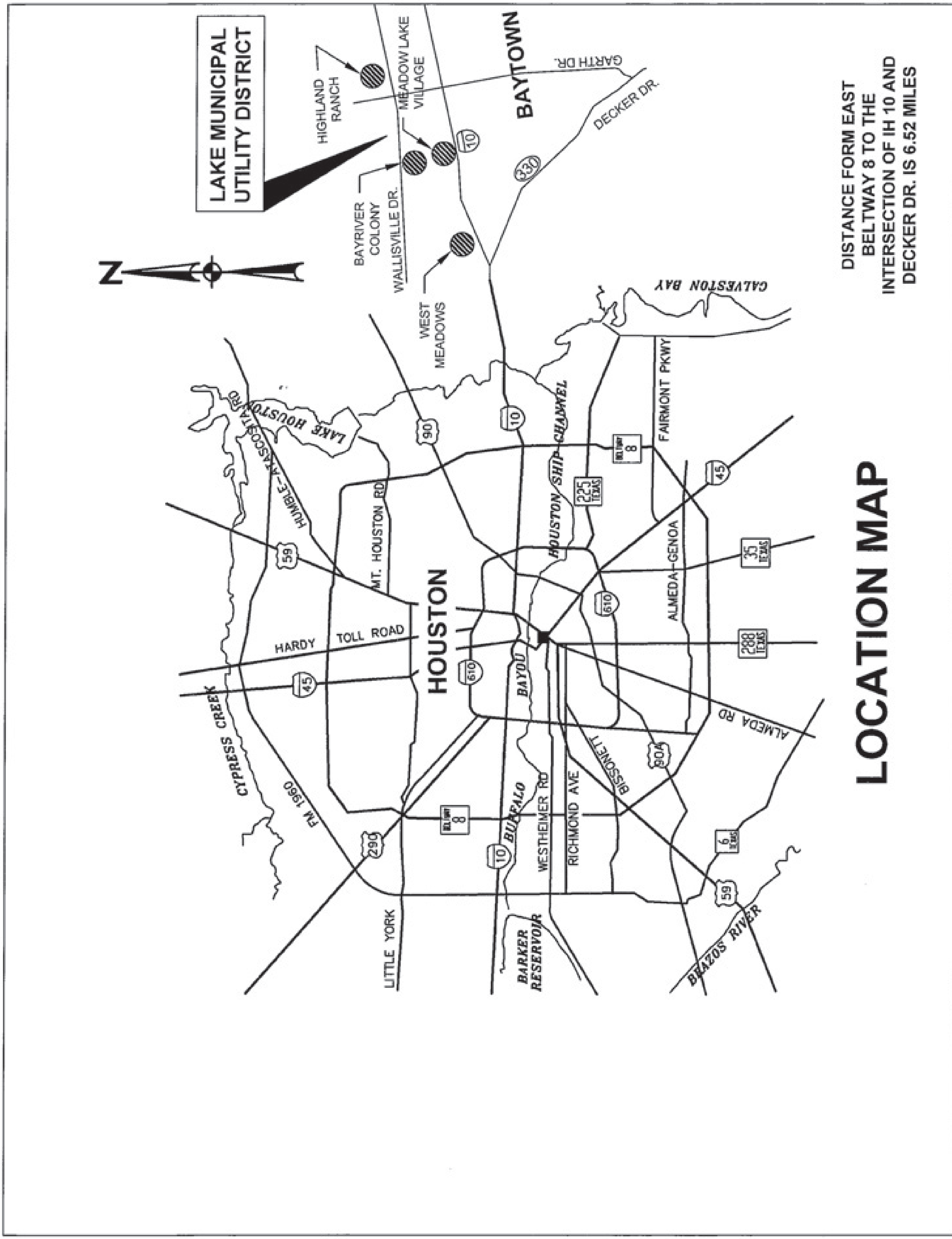
/s/ Kathleen Witkowski
President, Board of Directors
Lake Municipal Utility District

ATTEST:

/s/ Jason M. Poitras
Secretary, Board of Directors
Lake Municipal Utility District

APPENDIX A

LOCATION MAP



APPENDIX B

# LAKE MUNICIPAL UTILITY DISTRICT

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

JULY 31, 2017

# LAKE MUNICIPAL UTILITY DISTRICT

## HARRIS COUNTY, TEXAS

## ANNUAL FINANCIAL REPORT

## JULY 31, 2017

**McCALL GIBSON SWEDLUND BARFOOT PLLC**
Certified Public Accountants

# LAKE MUNICIPAL UTILITY DISTRICT

## HARRIS COUNTY, TEXAS

## ANNUAL FINANCIAL REPORT

## JULY 31, 2017

# T A B L E   O F   C O N T E N T S

# *McCALL GIBSON SWEDLUND BARFOOT PLLC*

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Lake Municipal Utility District
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Lake Municipal Utility District (the "District"), as of and for the year ended July 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

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

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

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

Board of Directors
Lake Municipal Utility District

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of July 31, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

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

*Other Information*

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

McCall Gibson Swedlund Barfoot PLLC

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

October 19, 2017

# LAKE MUNICIPAL UTILITY DISTRICT
## MANAGEMENT'S DISCUSSION AND ANALYSIS
## FOR THE YEAR ENDED JULY 31, 2017

Management's discussion and analysis of Lake Municipal Utility District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended July 31, 2017. Please read it in conjunction with the District's financial statements.

**USING THIS ANNUAL REPORT**

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

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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

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

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

**FUND FINANCIAL STATEMENTS**

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

## FUND FINANCIAL STATEMENTS (Continued)

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

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

## NOTES TO THE FINANCIAL STATEMENTS

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

## OTHER INFORMATION

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by $179,742 as of July 31, 2017. A portion of the District's net position reflects its net investment in capital assets (water, wastewater and drainage facilities less any debt used to acquire those assets that is still outstanding). The District uses these assets to provide water, wastewater and drainage services.

The following is a comparative analysis of the Statement of Net Position as of July 31, 2017, and July 31, 2016:

**GOVERNMENT-WIDE FINANCIAL ANALYSIS** (Continued)

Summary of Changes in the Statement of Net Position

| | 2017 | 2016 | Change Positive (Negative) |
|---|---|---|---|
| Current and Other Assets | $ 4,010,728 | $ 3,695,705 | $ 315,023 |
| Capital Assets (Net of Accumulated Depreciation) | 15,269,812 | 15,283,218 | (13,406) |
| Total Assets | $ 19,280,540 | $ 18,978,923 | $ 301,617 |
| Due to Developer | $ | $ 1,293,067 | $ 1,293,067 |
| Long -Term Liabilities | 18,469,897 | 15,640,614 | (2,829,283) |
| Other Liabilities | 630,901 | 1,853,638 | 1,222,737 |
| Total Liabilities | $ 19,100,798 | $ 18,787,319 | $ (313,479) |
| Net Position: | | | |
| Net Investment in Capital Assets | $ (2,531,913) | $ (2,286,017) | $ (245,896) |
| Restricted | 1,791,145 | 1,789,553 | 1,592 |
| Unrestricted | 920,510 | 688,068 | 232,442 |
| Total Net Position | $ 179,742 | $ 191,604 | $ (11,862) |

The District's net position decreased by $11,862. The following table provides a comparative analysis of the District's operations for the years ended July 31, 2017, and July 31, 2016.

Summary of Changes in the Statement of Activities

| | 2017 | 2016 | Change Positive (Negative) |
|---|---|---|---|
| Revenues: | | | |
| Property Taxes | $ 1,748,012 | $ 1,692,115 | $ 55,897 |
| Charges for Services | 2,093,092 | 2,175,176 | (82,084) |
| Other Revenues | 75,534 | 65,133 | 10,401 |
| Total Revenues | $ 3,916,638 | $ 3,932,424 | $ (15,786) |
| Expenses for Services | 3,928,500 | 3,862,671 | (65,829) |
| Change in Net Position | $ (11,862) | $ 69,753 | $ (81,615) |
| Net Position, Beginning of Year | 191,604 | 121,851 | 69,753 |
| Net Position, End of Year | $ 179,742 | $ 191,604 | $ (11,862) |

## FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of July 31, 2017, were $3,607,847, an increase of $390,257 from the prior year.

The General Fund fund balance increased by $228,624. This was primarily due to service and tax revenues exceeding operating expenditures.

The Debt Service Fund fund balance increased by $27,907, primarily due to the structure of the District's outstanding debt.

The Capital Projects Fund fund balance increased by $133,726, primarily due to unspent bond proceeds.

## BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the General Fund budget. Actual revenues were $139,594 more than budgeted revenues due to higher than anticipated revenues across all categories with the exception of water service. Actual expenditures were $248,017 more than budgeted expenditures due to higher than anticipated costs across all categories except professional fees.

## CAPITAL ASSETS

Capital assets total $15,269,812 as of July 31, 2017, and include the water, wastewater and drainage systems. Capital asset activity during the current year included:

- Wastewater Treatment Plants No. 2 lease purchase
- Pump replacement at Bay River Colony storm pump station

Capital Assets At Year-End, Net of Accumulated Depreciation

| | 2017 | 2016 | Change Positive (Negative) |
|---|---|---|---|
| Capital Assets Not Being Depreciated: | | | |
| Land and Land Improvements | $ 813,573 | $ 813,573 | $ |
| Construction in Progress | | | |
| Capital Assets, Net of Accumulated Depreciation: | | | |
| Water System | 3,111,039 | 3,201,922 | (90,883) |
| Wastewater System | 9,223,681 | 9,121,826 | 101,855 |
| Drainage System | 2,121,519 | 2,145,897 | (24,378) |
| Total Net Capital Assets | $ 15,269,812 | $ 15,283,218 | $ (13,406) |

## LONG-TERM DEBT ACTIVITY

As of July 31, 2017, the District had total bond debt payable of $18,665,000. The changes in the debt position of the District during the fiscal year ended July 31, 2017, are summarized as follows:

| | | |
|---|---|---|
| Bond Debt Payable, August 1, 2016 | $ | 15,750,000 |
| Add: Bond Sale - Series 2016 | | 3,335,000 |
| Less: Bond Principal Paid | | 420,000 |
| Bond Debt Payable, July 31, 2017 | $ | 18,665,000 |

The District's bonds carry underlying rating of "A-" from Standard & Poor's. The Series 2009 Bonds, Series 2011 Bonds and Series 2013 Bonds carry an insured rating of "AA" from Standard & Poor's by virtue of bond insurance issued by Assured Guaranty Municipal. The Series 2015 Bonds and Series 2016 Bonds carry an insured rating of "AA" by virtue of bond insurance issued by Build America Mutual Assurance Company. The above ratings are as of year-end and reflect all changes during the current fiscal year.

## CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Lake Municipal Utility District, c/o Bacon & Wallace, L.L.P., 6363 Woodway, Suite 800, Houston, TX 77057.

# LAKE MUNICIPAL UTILITY DISTRICT
## STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET
## JULY 31, 2017

| | General Fund | Debt Service Fund |
|---|---|---|
| **ASSETS** | | |
| Cash | $ 134,967 | $ 160,638 |
| Investments | 827,476 | 1,854,069 |
| Receivables: | | |
| Property Taxes | 14,393 | 28,516 |
| Penalty and Interest on Delinquent Taxes | | |
| Service Accounts (Net of Allowance for Doubtful Accounts of $750) | 295,330 | |
| Other | 5,000 | 21 |
| Due from Other Funds | | 18,830 |
| Prepaid Costs | 8,203 | |
| Land | | |
| Capital Assets (Net of Accumulated Depreciation) | | |
| **TOTAL ASSETS** | $ 1,285,369 | $ 2,062,074 |

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

| Capital Projects Fund | Total | Adjustments | Statement of Net Position |
|---|---|---|---|
| $ 668,172 | $ 963,777 | $ | $ 963,777 |
| | 2,681,545 | | 2,681,545 |
| | 42,909 | | 42,909 |
| | | 13,943 | 13,943 |
| | 295,330 | | 295,330 |
| | 5,021 | | 5,021 |
| | 18,830 | (18,830) | |
| | 8,203 | | 8,203 |
| | | 813,573 | 813,573 |
| | | 14,456,239 | 14,456,239 |
| $ 668,172 | $ 4,015,615 | $ 15,264,925 | $ 19,280,540 |

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

# LAKE MUNICIPAL UTILITY DISTRICT
## STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET
## JULY 31, 2017

| | General Fund | Debt Service Fund |
|---|---|---|
| **LIABILITIES** | | |
| Accounts Payable | $ 134,785 | $ |
| Accrued Interest Payable | | |
| Due to Other Funds | 18,830 | |
| Security Deposits | 211,244 | |
| Long-Term Liabilities: | | |
| Bonds Payable, Due Within One Year | | |
| Bonds Payable, Due After One Year | | |
| **TOTAL LIABILITIES** | $ 364,859 | $ -0- |
| **DEFERRED INFLOWS OF RESOURCES** | | |
| Property Taxes | $ 14,393 | $ 28,516 |
| **FUND BALANCES** | | |
| Nonspendable: | | |
| Prepaid Costs | $ 8,203 | $ |
| Restricted for Authorized Construction | | |
| Restricted for Debt Service | | 2,033,558 |
| Unassigned | 897,914 | |
| **TOTAL FUND BALANCES** | $ 906,117 | $ 2,033,558 |
| **TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES** | $ 1,285,369 | $ 2,062,074 |
| **NET POSITION** | | |
| Net Investment in Capital Assets | | |
| Restricted for Debt Service | | |
| Unrestricted | | |
| **TOTAL NET POSITION** | | |

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

| Capital Projects Fund | Total | Adjustments | Statement of Net Position |
|---|---|---|---|
| $ | $ 134,785 | $ | $ 134,785 |
| | | 284,872 | 284,872 |
| | 18,830 | (18,830) | |
| | 211,244 | | 211,244 |
| | | 440,000 | 440,000 |
| | | 18,029,897 | 18,029,897 |
| $ -0- | $ 364,859 | $ 18,735,939 | $ 19,100,798 |
| $ -0- | $ 42,909 | $ (42,909) | $ -0- |
| $ | $ 8,203 | $ (8,203) | $ |
| 668,172 | 668,172 | (668,172) | |
| | 2,033,558 | (2,033,558) | |
| | 897,914 | (897,914) | |
| $ 668,172 | $ 3,607,847 | $ (3,607,847) | $ - 0 - |
| $ 668,172 | $ 4,015,615 | | |
| | | $ (2,531,913) | $ (2,531,913) |
| | | 1,791,145 | 1,791,145 |
| | | 920,510 | 920,510 |
| | | $ 179,742 | $ 179,742 |

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

# LAKE MUNICIPAL UTILITY DISTRICT
## RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
## JULY 31, 2017

| | | |
|---|---|---|
| Total Fund Balances - Governmental Funds | | $ 3,607,847 |
| Amounts reported for governmental activities in the Statement of Net Position are different because: | | |
| Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds. | | 15,269,812 |
| Deferred inflows of resources related to property tax revenues and penalty and interest receivable on delinquent taxes for the 2016 and prior tax levies became part of recognized revenue in the governmental activities of the District. | | 56,852 |
| Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year end consist of: | | |
| Accrued Interest Payable | $ (284,872) | |
| Bonds Payable | (18,469,897) | (18,754,769) |
| Total Net Position - Governmental Activities | | $ 179,742 |

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

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# LAKE MUNICIPAL UTILITY DISTRICT
## STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
## FOR THE YEAR ENDED JULY 31, 2017

| | General Fund | Debt Service Fund |
|---|---|---|
| **REVENUES** | | |
| Property Taxes | $ 631,731 | $ 1,107,598 |
| Water Service | 837,926 | |
| Wastewater Service | 1,183,577 | |
| Penalty and Interest | 55,674 | 13,020 |
| Investment Revenues | 4,449 | 9,769 |
| Miscellaneous Revenues | 51,437 | 8,492 |
| **TOTAL REVENUES** | $ 2,764,794 | $ 1,138,879 |
| **EXPENDITURES/EXPENSES** | | |
| Service Operations: | | |
| Professional Fees | $ 109,223 | $ 5,520 |
| Contracted Services | 519,548 | 36,878 |
| Purchased Water Service | 546,519 | |
| Purchased Wastewater Service | 762,643 | |
| Utilities | 75,345 | |
| Repairs and Maintenance | 438,644 | |
| Depreciation | | |
| Other | 152,695 | 2,253 |
| Capital Outlay | | |
| Debt Service: | | |
| Bond Principal | | 420,000 |
| Bond Interest | | 646,321 |
| Bond Anticipation Note Interest | | |
| Bond Issuance Costs | | |
| **TOTAL EXPENDITURES/EXPENSES** | $ 2,604,617 | $ 1,110,972 |
| **EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES** | $ 160,177 | $ 27,907 |
| **OTHER FINANCING SOURCES (USES)** | | |
| Transfers In (Out) | $ 68,447 | $ |
| Long-Term Debt Issued | | |
| Bond Discount | | |
| **TOTAL OTHER FINANCING SOURCES (USES)** | $ 68,447 | $ -0- |
| **NET CHANGE IN FUND BALANCES** | $ 228,624 | $ 27,907 |
| **CHANGE IN NET POSITION** | | |
| **FUND BALANCES/NET POSITION - AUGUST 1, 2016** | 677,493 | 2,005,651 |
| **FUND BALANCES/NET POSITION - JULY 31, 2017** | $ 906,117 | $ 2,033,558 |

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

| Capital Projects Fund | Total | Adjustments | Statement of Activities |
|---|---|---|---|
| $ | $ 1,739,329 | $ 8,683 | $ 1,748,012 |
| | 837,926 | | 837,926 |
| | 1,183,577 | | 1,183,577 |
| | 68,694 | 2,895 | 71,589 |
| 1,387 | 15,605 | | 15,605 |
| | 59,929 | | 59,929 |
| $ 1,387 | $ 3,905,060 | $ 11,578 | $ 3,916,638 |
| | | | |
| $ 1,464 | $ 116,207 | $ | $ 116,207 |
| | 556,426 | | 556,426 |
| | 546,519 | | 546,519 |
| | 762,643 | | 762,643 |
| | 75,345 | | 75,345 |
| | 438,644 | | 438,644 |
| | | 418,293 | 418,293 |
| 680 | 155,628 | (39,313) | 116,315 |
| 2,828,641 | 2,828,641 | (2,828,641) | |
| | 420,000 | (420,000) | |
| | 646,321 | 41,306 | 687,627 |
| 1,855 | 1,855 | | 1,855 |
| 208,626 | 208,626 | | 208,626 |
| $ 3,041,266 | $ 6,756,855 | $ (2,828,355) | $ 3,928,500 |
| $ (3,039,879) | $ (2,851,795) | $ 2,839,933 | $ (11,862) |
| $ (68,447) | $ | $ | $ |
| 3,335,000 | 3,335,000 | (3,335,000) | |
| (92,948) | (92,948) | 92,948 | |
| $ 3,173,605 | $ 3,242,052 | $ (3,242,052) | $ -0- |
| $ 133,726 | $ 390,257 | $ (390,257) | $ |
| | | (11,862) | (11,862) |
| 534,446 | 3,217,590 | (3,025,986) | 191,604 |
| $ 668,172 | $ 3,607,847 | $ (3,428,105) | $ 179,742 |

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

# LAKE MUNICIPAL UTILITY DISTRICT
## RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
## FOR THE YEAR ENDED JULY 31, 2017

| | |
|---|---|
| Net Change in Fund Balances - Governmental Funds | $ 390,257 |
| Amounts reported for governmental activities in the Statement of Activities are different because: | |
| Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied. | 8,683 |
| Governmental funds report penalty and interest revenue on property taxes when collected. However, in the Statement of Activities, revenue is recorded when penalties and interest are assessed. | 2,895 |
| Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities. | (418,293) |
| Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected. | 2,867,954 |
| Governmental funds report bond principal payments as expenditures. However, in the Statement of Net Position, bond principal payments are reported as decreases in long-term liabilities. | 420,000 |
| Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end. | (41,306) |
| Governmental funds report bond proceeds as other financing sources. Issued bonds increase liabilities in the Statement of Net Position. | (3,335,000) |
| Change in Net Position - Governmental Activities | $ (11,862) |

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

## NOTE 1. CREATION OF DISTRICT

Lake Municipal Utility District (the "District"), located in Harris County, Texas was created effective February 27, 1979, by an Order of the Texas Water Commission, presently known as the Texas Commission on Environmental Quality (the "Commission"). Pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, sanitary sewer service, storm sewer drainage, irrigation, solid waste service and to construct roads, and parks and recreational facilities for the residents of the District. The Board of Directors held its first meeting on April 7, 1979, and the first bonds were sold on December 8, 1981.

## NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

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

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

<u>Financial Statement Presentation</u>

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

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

- Net Investment in Capital Assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Financial Statement Presentation (Continued)

- Restricted Net Position – This component of net position consists of external constraints placed on the use of assets imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

- Unrestricted Net Position – This component of net position consists of assets that do not meet the definition of Restricted or Net Investment in Capital Assets.

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

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

Governmental Funds

The District has three governmental funds and considers each to be a major fund.

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Fund Financial Statements (Continued)

Governmental Funds (Continued)

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

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

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

Basis of Accounting

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

Property taxes considered available by the District and included in revenue include taxes collected during the year and taxes collected after year-end, which were considered available to defray the expenditures of the current year. Deferred inflows of resources related to property tax revenues are those taxes which the District does not reasonably expect to be collected soon enough in the subsequent period to finance current expenditures.

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis. As of July 31, 2017, the General Fund owes the Debt Service Fund $18,830 for an excess transfer of maintenance taxes. During the current fiscal year, the Capital Projects Fund transferred $68,447 to the General Fund to reimburse bond issuance costs.

## NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets which include property, plant, equipment, and infrastructure assets are reported in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenditures in the governmental fund incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Interest costs, including developer interest, engineering fees and certain other costs are capitalized as part of the asset.

Assets are capitalized, including infrastructure assets, if they have an original cost greater than $5,000 and a useful life over two years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation. Estimated useful lives are as follows:

| | Years |
|---|---|
| Buildings | 40 |
| Water System | 10-45 |
| Wastewater System | 10-45 |
| Drainage Systems | 10-45 |
| All Other Equipment | 3-20 |

Budgeting

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

Pensions

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

Measurement Focus

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

## NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

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

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

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

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

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

*Unassigned*: all other spendable amounts in the General Fund.

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

Accounting Estimates

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

## NOTE 3. LONG-TERM DEBT

| | Series 2009 | Series 2011 |
|---|---|---|
| Amount Outstanding – July 31, 2017 | $1,690,000 | $5,050,000 |
| Interest Rates | 3.40% - 3.80% | 4.25% - 6.50% |
| Maturity Dates - Serially Beginning/Ending | September 1, 2017/2020 | September 1, 2017/2030 |
| Interest Payment Dates | September 1 / March 1 | September 1 / March 1 |
| Callable Dates | September 1, 2016* | September 1, 2018* |

| | Series 2013 | Series 2015 | Series 2016 |
|---|---|---|---|
| Amount Outstanding – July 31, 2017 | $3,290,000 | $5,300,000 | $3,335,000 |
| Interest Rates | 3.50% - 4.00% | 3.00% - 3.50% | 2.00% - 3.00% |
| Maturity Dates - Serially Beginning/Ending | September 1, 2031/2040 | September 1, 2031/2042 | September 1, 2018/2045 |
| Interest Payment Dates | September 1 / March 1 | September 1 / March 1 | September 1 / March 1 |
| Callable Dates | September 1, 2020* | September 1, 2022* | September 1, 2023* |

* Or on any date thereafter, at a price of par, plus accrued interest to the date of redemption. Series 2011 term bonds maturing September 1, 2020 are subject to mandatory redemption on September 1, 2019. Series 2013 term bonds maturing on September 1, 2032, September 1, 2034, September 1, 2036, September, 2038, and September 1, 2040, are subject to mandatory redemption on September 1, 2031, September 1, 2033, September 1, 2035, September 1, 2037, and September 1, 2039, respectively. Series 2015 term bonds maturing September 1, 2038, September 1, 2040, and September 1, 2042, are subject to mandatory redemption on September 1, 2037, September 1, 2039, and September 1, 2041, respectively. Series 2016 term bonds maturing on September 1, 2031, September 1, 2036, and September 1, 2045, are subject to mandatory redemption on September 1, 2028, September 1, 2032, and September 1, 2037, respectively.

**NOTE 3. LONG-TERM DEBT** (Continued)

The following is a summary of transactions regarding bonds payable for the year ended July 31, 2017:

| | August 1, 2016 | Additions | Retirements | July 31, 2017 |
|---|---|---|---|---|
| Bonds Payable | $ 15,750,000 | $ 3,335,000 | $ 420,000 | $ 18,665,000 |
| Unamortized Discounts | (109,386) | (92,948) | (7,231) | (195,103) |
| Bonds Payable, Net | $ 15,640,614 | $ 3,242,052 | $ 412,769 | $ 18,469,897 |

| | |
|---|---|
| Amount Due Within One Year | $ 440,000 |
| Amount Due After One Year | 18,029,897 |
| Bonds Payable, Net | $ 18,469,897 |

As of July 31, 2017, the District has authorized but unissued tax and refunding bonds in the amount of $15,875,000.

As of July 31, 2017, the debt service requirements on the bonds outstanding were as follows:

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2018 | $ 440,000 | $ 674,313 | $ 1,114,313 |
| 2019 | 485,000 | 656,845 | 1,141,845 |
| 2020 | 510,000 | 637,804 | 1,147,804 |
| 2021 | 530,000 | 618,017 | 1,148,017 |
| 2022 | 375,000 | 600,372 | 975,372 |
| 2023-2027 | 2,375,000 | 2,728,236 | 5,103,236 |
| 2028-2032 | 2,930,000 | 2,155,195 | 5,085,195 |
| 2033-2037 | 3,295,000 | 1,593,462 | 4,888,462 |
| 2038-2042 | 4,080,000 | 951,262 | 5,031,262 |
| 2043-2046 | 3,645,000 | 222,250 | 3,867,250 |
| | $ 18,665,000 | $ 10,837,756 | $ 29,502,756 |

The bonds are payable from the proceeds of an ad valorem tax levied upon all property subject to taxation within the District without limitation as to rate or amount.

During the year ended July 31, 2017, the District levied an ad valorem debt service tax rate of $0.35 per $100 of assessed valuation, which resulted in a tax levy of $1,111,354 on the adjusted taxable valuation of $317,547,849 for the 2016 tax year. The bond orders require the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. See Note 7 for the maintenance tax levy.

## NOTE 3. LONG-TERM DEBT (Continued)

The District's tax calendar is as follows:

| | |
|---|---|
| Lien Date | - January 1. |
| Levy Date | - October 1, or as soon thereafter as practicable. |
| Due Date | - Upon receipt but not later than January 31 of the following year. |
| Delinquent Date | - February 1, at which time statutory penalties interest accrue. |

## NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS

A. The bond orders state that so long as any of the bonds or coupons remain outstanding, the District covenants that it will at all times keep insured such parts of the system as are usually insured by municipal corporations and political subdivisions in Texas operating like properties in similar locations under the same circumstances with a responsible insurance company or companies against risk, accidents, or casualties against which and to the extent insurance is usually carried by such municipal corporations and political subdivisions; provided, however, that at any time while any contractor engaged in such insurance.

B. The bond orders state that the District is required by the Securities and Exchange Commission to provide continuing disclosure of annual financial information and operating data to the Municipal Securities Rulemaking Board. This information is of the general type included in the annual audit report. It is to be provided within six months after the end of each fiscal year and shall continue to be provided through the life of the bonds.

## NOTE 5. DEPOSITS AND INVESTMENTS

Deposits

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

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District's deposits was $963,777 and the bank balance was $1,100,128. The District was not exposed to custodial credit risk at year-end.

**NOTE 5. DEPOSITS AND INVESTMENTS** (Continued)

Deposits (Continued)

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at July 31, 2017, as listed below:

| | Cash |
|---|---|
| GENERAL FUND | $ 134,967 |
| DEBT SERVICE FUND | 160,638 |
| CAPITAL PROJECTS FUND | 668,172 |
| TOTAL DEPOSITS | $ 963,777 |

Investments

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

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

**NOTE 5. DEPOSITS AND INVESTMENTS** (Continued)

Investments (Continued)

The District invests in TexPool, an external investment pool that is not SEC-registered. The State Comptroller of Public Accounts of the State of Texas has oversight of the pool. Federated Investors, Inc. manages the daily operations of the pool under a contract with the Comptroller. TexPool meets the criteria established in GASB Statement No. 79 and measures all of its portfolio assets at amortized cost. As a result, the District also measures its investments in TexPool at amortized cost for financial reporting purposes. There are no limitations or restrictions on withdrawals from TexPool. As of July 31, 2017, the District had the following investments and maturities:

| Fund and Investment Type | Fair Value | Maturities of Less Than 1 Year |
|---|---|---|
| GENERAL FUND | | |
| TexPool | $ 827,476 | $ 827,476 |
| DEBT SERVICE FUND | | |
| TexPool | 1,854,069 | 1,854,069 |
| TOTAL INVESTMENTS | $ 2,681,545 | $ 2,681,545 |

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At July 31, 2017, the District's investment in the TexPool was rated AAAm by Standard and Poor's.

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

Restrictions

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

## NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended July 31, 2017:

| | August 1, 2016 | Increases | Decreases | July 31, 2017 |
|---|---|---|---|---|
| **Capital Assets Not Being Depreciated** | | | | |
| Land and Land Improvements | $ 813,573 | | $ | $ 813,573 |
| Construction in Progress | | 37,422 | 37,422 | |
| **Total Capital Assets Not Being Depreciated** | $ 813,573 | $ 37,422 | $ 37,422 | $ 813,573 |
| **Capital Assets Subject to Depreciation** | | | | |
| Water System | $ 4,030,402 | $ (1,374) | $ | $ 4,029,028 |
| Wastewater System | 11,068,918 | 364,960 | | 11,433,878 |
| Drainage System | 3,200,717 | 41,301 | | 3,242,018 |
| **Total Capital Assets Subject to Depreciation** | $ 18,300,037 | $ 404,887 | $ - 0 - | $ 18,704,924 |
| **Accumulated Depreciation** | | | | |
| Water System | $ 828,480 | $ 89,509 | $ | $ 917,989 |
| Wastewater System | 1,947,092 | 263,105 | | 2,210,197 |
| Drainage System | 1,054,820 | 65,679 | | 1,120,499 |
| **Total Accumulated Depreciation** | $ 3,830,392 | $ 418,293 | $ - 0 - | $ 4,248,685 |
| **Total Depreciable Capital Assets, Net of Accumulated Depreciation** | $ 14,469,645 | $ (13,406) | $ - 0 - | $ 14,456,239 |
| **Total Capital Assets, Net of Accumulated Depreciation** | $ 15,283,218 | $ 24,016 | $ 37,422 | $ 15,269,812 |

## NOTE 7. MAINTENANCE TAX

On December 8, 1981, the voters of the District approved the levy and collection of a maintenance tax not to exceed $0.20 per $100 of assessed valuation of taxable property within the District. During the fiscal year ended July 31, 2017, the District levied an ad valorem maintenance tax rate of $0.20 per $100 of assessed valuation, which resulted in a tax levy of $635,059 on the adjusted taxable valuation of $317,547,849 for the 2016 tax year. The taxes are to be used by the General Fund to pay expenditures of operating the District's waterworks and wastewater systems.

## NOTE 8. RISK MANAGEMENT

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

## NOTE 9. PURCHASED WATER AND WASTEWATER CONTRACTS

The District entered into a Wastewater Disposal Contract (the "Wastewater Contract") with the City of Baytown, Texas (the "City") dated December 4, 1980, and amended April 21, 1981, to extend its term to forty years. The Wastewater Contract provides for the District's construction of its wastewater collection system, including metering device, lift stations and force main, to discharge into the City's wastewater system at a specified location within the City. The District is required to operate and maintain its system, or contract for such service subject to approval by the City, and set rates and charges to produce revenues sufficient to pay for such operation and maintenance. The Wastewater Contract also provides for the City's acceptance and treatment of wastewater collected and transported by the District and for the reservation of capacity.

On July 29, 1988, the District and the City amended the Wastewater Contract setting forth new "volumes of waste" to be transmitted by the District to the City for treatment under the agreement. The new capacity is a high flow allowance of 350,000 gallons per day and a total acceptance volume of 700,000 gallons per day. The facility is adequate to provide capacity to serve a total of 836 equivalent single-family residential connections. During the current fiscal year, the District recorded $762,643 in purchased wastewater costs.

The District entered into a wholesale water supply contract (the "Water Contract") with Baytown Area Water Authority, dated December 4, 1980 and amended June 15, 2006, for a term until December 31, 2020. The Water Contract provides that Baytown Area Water Authority will supply treated water to the District's water supply system and the District will purchase up to 1,000,000 gallons per day. The Water Contract provides for additional monthly quantities upon request, as available. The amended Water Contract provides for a base charge of $2.65 per 1,000 gallons taken. Should the quantity of water taken during any month exceed by 10% the minimum quantity (1,000,000 gallons times days in the month), an additional monthly charge of 5% upon the entire monthly charge will be made.

Baytown Area Water Authority may change the base price at any time, provided that (except where an independent rate analysis indicates a certain rate increase is necessary) the price shall not be increased percentage-wise as to the District during any 12-month period, in excess of the percentage rate increase in Baytown Area Water Authority's rates to other purchasers of treated water during the same period. Based on Commission design criteria, the facilities are sufficient to provide capacity to serve a total of 1,157 equivalent single-family residential connections. During the current year, the District recorded $546,519 in purchased water costs.

The District is undergoing a three year review of its daily water usage for the purpose of re-rating its capacity needs pursuant to an Alternative Capacity Request ("ACR") with the Commission. Based upon historical consumption, no additional capacity is expected to be necessary to serve the District, and the purchased water capacity of 1,000,000 gallons per day is adequate capacity to serve the District at full build out of 2,025 equivalent single-family residential connections.

## NOTE 10. BOND SALE

On August 18, 2016, the District issued $3,335,000 of Unlimited Tax Bonds, Series 2016. Proceeds from the bond sale were used to redeem the Series 2015 Bond Anticipation Note (BAN); reimburse developers for a portion of their costs associated with drainage for left turn lane of Wallisville Road; construction and engineering for wastewater and drainage facilities to serve Bay River Colony, Sections 4, 6, 8, 9, and 10 and West Meadows, Sections 4 and 5; lease purchase of and lease payments/expansion for West Meadows wastewater treatment plant no. 2; and to pay issuance costs of the bonds and issuance and interest costs of the BAN.

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# LAKE MUNICIPAL UTILITY DISTRICT

## REQUIRED SUPPLEMENTARY INFORMATION

## JULY 31, 2017

# LAKE MUNICIPAL UTILITY DISTRICT
## SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
## FOR THE YEAR ENDED JULY 31, 2017

| | Original Budget | Actual | Variance Positive (Negative) |
|---|---|---|---|
| **REVENUES** | | | |
| Property Taxes | $ 542,000 | $ 631,731 | $ 89,731 |
| Water Service | 880,000 | 837,926 | (42,074) |
| Wastewater Service | 1,160,000 | 1,183,577 | 23,577 |
| Penalty and Interest | 42,000 | 55,674 | 13,674 |
| Investment Revenues | 1,200 | 4,449 | 3,249 |
| Miscellaneous Revenues | | 51,437 | 51,437 |
| **TOTAL REVENUES** | $ 2,625,200 | $ 2,764,794 | $ 139,594 |
| **EXPENDITURES** | | | |
| Services Operations: | | | |
| Professional Fees | $ 131,000 | $ 109,223 | $ 21,777 |
| Contracted Services | 416,000 | 519,548 | (103,548) |
| Purchased Water Service | 485,000 | 546,519 | (61,519) |
| Purchased Wastewater Service | 685,000 | 762,643 | (77,643) |
| Utilities | 65,000 | 75,345 | (10,345) |
| Repairs and Maintenance | 424,400 | 438,644 | (14,244) |
| Other | 150,200 | 152,695 | (2,495) |
| **TOTAL EXPENDITURES** | $ 2,356,600 | $ 2,604,617 | $ (248,017) |
| **EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES** | $ 268,600 | $ 160,177 | $ (108,423) |
| **OTHER FINANCING SOURCES(USES)** | | | |
| Transfers In | $ -0- | $ 68,447 | $ 68,447 |
| **NET CHANGE IN FUND BALANCE** | $ 268,600 | $ 228,624 | $ (39,976) |
| **FUND BALANCE - AUGUST 1, 2016** | 677,493 | 677,493 | |
| **FUND BALANCE - JULY 31, 2017** | $ 946,093 | $ 906,117 | $ (39,976) |

See accompanying independent auditor's report.

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# LAKE MUNICIPAL UTILITY DISTRICT

## SUPPLEMENTARY INFORMATION – REQUIRED BY THE

## WATER DISTRICT FINANCIAL MANAGEMENT GUIDE

## JULY 31, 2017

# LAKE MUNICIPAL UTILITY DISTRICT
## SERVICES AND RATES
## FOR THE YEAR ENDED JULY 31, 2017

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

| | | | | | |
|---|---|---|---|---|---|
| X | Retail Water | | Wholesale Water | | Drainage |
| X | Retail Wastewater | | Wholesale Wastewater | | Irrigation |
| | Parks/Recreation | | Fire Protection | | Security |
| X | Solid Waste/Garbage | | Flood Control | | Roads |
| | Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect) | | | | |
| | Other (specify): ______ | | | | |

### 2. RETAIL SERVICE PROVIDERS

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

Based on the rate order effective April 16, 2015.

| | Minimum Charge | Minimum Usage | Flat Rate Y/N | Rate per 1,000 Gallons over Minimum Use | Usage Levels |
|---|---|---|---|---|---|
| WATER: | $ 23.05 | 2,000 | N | $3.15 | 2,001 – 10,000 |
| | | | | 3.25 | 10,001 – 20,000 |
| | | | | 3.75 | 20,001 and above |
| WASTEWATER: | $ 29.28 * | 2,000 | N | $5.88 | 2,001 – 10,000 |
| | | | | 5.98 | 10,001 – 20,000 |
| | | | | 6.25 | 20,001 and above |

District employs winter averaging for wastewater usage? ______ Yes X No

Total monthly charges per 10,000 gallons usage: Water: $48.25 Wastewater: $76.32

* Includes $12.88 plus the prevailing garbage charge of $16.15 plus $0.25.

See accompanying independent auditor's report.

## 2. RETAIL SERVICE PROVIDERS (Continued)

### b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

| Meter Size | Total Connections | Active Connections | ESFC Factor | Active ESFCs |
|---|---|---|---|---|
| Unmetered | | | x 1.0 | |
| ≤¾" | 2,022 | 2,003 | x 1.0 | 2,003 |
| 1" | 7 | 7 | x 2.5 | 18 |
| 1½" | 3 | 3 | x 5.0 | 15 |
| 2" | 4 | 4 | x 8.0 | 32 |
| 3" | | | x 15.0 | |
| 4" | | | x 25.0 | |
| 6" | | | x 50.0 | |
| 8" | | | x 80.0 | |
| 10" | | | x 115.0 | |
| Total Water Connections | 2,036 | 2,017 | | 2,068 |
| Total Wastewater Connections | 2,026 | 2,007 | x 1.0 | 2,007 |

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

Gallons billed to customers: 134,079,000

Water Accountability Ratio: 91.9 %
(Gallons billed and used/Gallons purchased)

Gallons purchased: 185,894,000

From: Bay Area Water Authority

Gallons used for flushing and construction: 36,797,000

See accompanying independent auditor's report.

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

Does the District have Debt Service standby fees? Yes ___ No _X_

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

5. **LOCATION OF DISTRICT:**

Is the District located entirely within one county?

Yes _X_ No ___

County in which District is located:

Harris County, Texas

Is the District located within a city?

Entirely ___ Partly ___ Not at all _X_

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

Entirely _X_ Partly ___ Not at all ___

ETJ in which District is located:

City of Baytown, Texas

Are Board Members appointed by an office outside the District?

Yes ___ No _X_

# LAKE MUNICIPAL UTILITY DISTRICT
## GENERAL FUND EXPENDITURES
## FOR THE YEAR ENDED JULY 31, 2017

| | | |
|---|---|---|
| PROFESSIONAL FEES: | | |
| Auditing | $ | 11,250 |
| Engineering | | 44,040 |
| Legal | | 53,933 |
| TOTAL PROFESSIONAL FEES | $ | 109,223 |
| PURCHASED SERVICES FOR RESALE: | | |
| Purchased Water Service | $ | 546,519 |
| Purchased Wastewater Service | | 762,643 |
| TOTAL PURCHASED SERVICES FOR RESALE | $ | 1,309,162 |
| CONTRACTED SERVICES: | | |
| Bookkeeping | $ | 16,017 |
| Operations and Billing | | 107,859 |
| TOTAL CONTRACTED SERVICES | $ | 123,876 |
| UTILITIES: | | |
| Electricity | $ | 75,345 |
| REPAIRS AND MAINTENANCE | $ | 438,644 |
| ADMINISTRATIVE EXPENDITURES: | | |
| Director Fees | $ | 17,550 |
| Insurance | | 8,148 |
| Office Supplies and Postage | | 50,821 |
| Payroll Taxes | | 1,343 |
| Travel and Meetings | | 6,325 |
| Other | | 3,792 |
| TOTAL ADMINISTRATIVE EXPENDITURES | $ | 87,979 |
| TAP CONNECTIONS | $ | 6,400 |
| SOLID WASTE DISPOSAL | $ | 395,672 |
| OTHER EXPENDITURES: | | |
| Laboratory Fees | $ | 41,204 |
| Permit Fees | | 6,927 |
| Regulatory Assessment | | 10,185 |
| TOTAL OTHER EXPENDITURES | $ | 58,316 |
| TOTAL EXPENDITURES | $ | 2,604,617 |

See accompanying independent auditor's report.

# LAKE MUNICIPAL UTILITY DISTRICT
## INVESTMENTS
## JULY 31, 2017

| Funds | Identification or Certificate Number | Interest Rate | Maturity Date | Balance at End of Year | Accrued Interest Receivable at End of Year |
|---|---|---|---|---|---|
| GENERAL FUND | | | | | |
| TexPool | XXXX0002 | Varies | Daily | $ 827,476 | $ -0- |
| DEBT SERVICE FUND | | | | | |
| TexPool | XXXX0001 | Varies | Daily | $ 1,854,069 | $ -0- |
| TOTAL - ALL FUNDS | | | | $ 2,681,545 | $ -0- |

See accompanying independent auditor's report.

# LAKE MUNICIPAL UTILITY DISTRICT
## TAXES LEVIED AND RECEIVABLE
## FOR THE YEAR ENDED JULY 31, 2017

| | Maintenance Taxes | | Debt Service Taxes | |
|---|---|---|---|---|
| TAXES RECEIVABLE - AUGUST 1, 2016 | $ 10,575 | | $ 23,651 | |
| Adjustments to Beginning Balance | 490 | $ 11,065 | 1,109 | $ 24,760 |
| Original 2016 Tax Levy | $ 582,041 | | $ 1,018,572 | |
| Adjustment to 2016 Tax Levy | 53,018 | 635,059 | 92,782 | 1,111,354 |
| TOTAL TO BE ACCOUNTED FOR | | $ 646,124 | | $ 1,136,114 |
| TAX COLLECTIONS: | | | | |
| Prior Years | $ 4,624 | | $ 10,162 | |
| Current Year | 627,107 | 631,731 | 1,097,436 | 1,107,598 |
| TAXES RECEIVABLE - JULY 31, 2017 | | $ 14,393 | | $ 28,516 |
| TAXES RECEIVABLE BY YEAR: | | | | |
| 2016 | | $ 7,952 | | $ 13,918 |
| 2015 | | 2,565 | | 5,386 |
| 2014 | | 1,260 | | 3,025 |
| 2013 | | 172 | | 430 |
| 2012 | | 3 | | 7 |
| 2011 | | 2,417 | | 5,679 |
| 2010 | | 3 | | 6 |
| 2009 and prior | | 21 | | 65 |
| TOTAL | | $ 14,393 | | $ 28,516 |

See accompanying independent auditor's report.

# LAKE MUNICIPAL UTILITY DISTRICT
## TAXES LEVIED AND RECEIVABLE
## FOR THE YEAR ENDED JULY 31, 2017

| | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|
| TOTAL PROPERTY VALUATIONS | $ 317,547,849 | $ 272,964,587 | $ 215,579,405 | $ 172,635,261 |
| TAX RATES PER $100 VALUATION: | | | | |
| Debt Service | $ 0.35 | $ 0.42 | $ 0.48 | $ 0.50 |
| Maintenance | 0.20 | 0.20 | 0.20 | $ 0.20 |
| TOTAL TAX RATES PER $100 VALUATION | $ 0.55 | $ 0.62 | $ 0.68 | $ 0.70 |
| ADJUSTED TAX LEVY* | $ 1,746,413 | $ 1,692,380 | $ 1,465,940 | $ 1,208,446 |
| PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED | 98.75 % | 99.53 % | 99.71 % | 99.95 % |

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

Maintenance Tax – A maintenance tax rate not to exceed $0.20 per $100 of assessed valuation was approved by voters on December 8, 1981.

See accompanying independent auditor's report.

# LAKE MUNICIPAL UTILITY DISTRICT
## LONG-TERM DEBT SERVICE REQUIREMENTS
## JULY 31, 2017

| | S E R I E S - 2 0 0 9 | | |
|---|---|---|---|
| Due During Fiscal Years Ending July 31 | Principal Due September 1 | Interest Due September 1/ March 1 | Total |
| 2018 | $ 390,000 | $ 54,878 | $ 444,878 |
| 2019 | 410,000 | 40,816 | 450,816 |
| 2020 | 435,000 | 25,338 | 460,338 |
| 2021 | 455,000 | 8,645 | 463,645 |
| 2022 | | | |
| 2023 | | | |
| 2024 | | | |
| 2025 | | | |
| 2026 | | | |
| 2027 | | | |
| 2028 | | | |
| 2029 | | | |
| 2030 | | | |
| 2031 | | | |
| 2032 | | | |
| 2033 | | | |
| 2034 | | | |
| 2035 | | | |
| 2036 | | | |
| 2037 | | | |
| 2038 | | | |
| 2039 | | | |
| 2040 | | | |
| 2041 | | | |
| 2042 | | | |
| 2043 | | | |
| 2044 | | | |
| 2045 | | | |
| 2046 | | | |
| | $ 1,690,000 | $ 129,677 | $ 1,819,677 |

See accompanying independent auditor’s report.

# LAKE MUNICIPAL UTILITY DISTRICT
## LONG-TERM DEBT SERVICE REQUIREMENTS
## JULY 31, 2017

| | SERIES - 2011 | | |
|---|---|---|---|
| Due During Fiscal Years Ending July 31 | Principal Due September 1 | Interest Due September 1/ March 1 | Total |
| 2018 | $ 50,000 | $ 222,744 | $ 272,744 |
| 2019 | 50,000 | 219,588 | 269,588 |
| 2020 | 50,000 | 216,525 | 266,525 |
| 2021 | 50,000 | 213,931 | 263,931 |
| 2022 | 350,000 | 205,431 | 555,431 |
| 2023 | 400,000 | 189,494 | 589,494 |
| 2024 | 425,000 | 171,962 | 596,962 |
| 2025 | 450,000 | 153,369 | 603,369 |
| 2026 | 475,000 | 133,712 | 608,712 |
| 2027 | 500,000 | 112,994 | 612,994 |
| 2028 | 525,000 | 90,884 | 615,884 |
| 2029 | 550,000 | 67,025 | 617,025 |
| 2030 | 575,000 | 41,425 | 616,425 |
| 2031 | 600,000 | 14,100 | 614,100 |
| 2032 | | | |
| 2033 | | | |
| 2034 | | | |
| 2035 | | | |
| 2036 | | | |
| 2037 | | | |
| 2038 | | | |
| 2039 | | | |
| 2040 | | | |
| 2041 | | | |
| 2042 | | | |
| 2043 | | | |
| 2044 | | | |
| 2045 | | | |
| 2046 | | | |
| | $ 5,050,000 | $ 2,053,184 | $ 7,103,184 |

See accompanying independent auditor's report.

# LAKE MUNICIPAL UTILITY DISTRICT
## LONG-TERM DEBT SERVICE REQUIREMENTS
## JULY 31, 2017

| | SERIES-2013 | | |
|---|---|---|---|
| Due During Fiscal Years Ending July 31 | Principal Due September 1 | Interest Due September 1/ March 1 | Total |
| 2018 | $ | $ 122,172 | $ 122,172 |
| 2019 | | 122,172 | 122,172 |
| 2020 | | 122,172 | 122,172 |
| 2021 | | 122,172 | 122,172 |
| 2022 | | 122,172 | 122,172 |
| 2023 | | 122,172 | 122,172 |
| 2024 | | 122,172 | 122,172 |
| 2025 | | 122,172 | 122,172 |
| 2026 | | 122,172 | 122,172 |
| 2027 | | 122,172 | 122,172 |
| 2028 | | 122,172 | 122,172 |
| 2029 | | 122,172 | 122,172 |
| 2030 | | 122,172 | 122,172 |
| 2031 | | 122,172 | 122,172 |
| 2032 | 260,000 | 117,622 | 377,622 |
| 2033 | 275,000 | 108,260 | 383,260 |
| 2034 | 290,000 | 98,300 | 388,300 |
| 2035 | 305,000 | 87,739 | 392,739 |
| 2036 | 315,000 | 76,576 | 391,576 |
| 2037 | 335,000 | 64,714 | 399,714 |
| 2038 | 350,000 | 52,038 | 402,038 |
| 2039 | 370,000 | 38,538 | 408,538 |
| 2040 | 385,000 | 23,900 | 408,900 |
| 2041 | 405,000 | 8,100 | 413,100 |
| 2042 | | | |
| 2043 | | | |
| 2044 | | | |
| 2045 | | | |
| 2046 | | | |
| | $ 3,290,000 | $ 2,386,195 | $ 5,676,195 |

See accompanying independent auditor's report.

# LAKE MUNICIPAL UTILITY DISTRICT
## LONG-TERM DEBT SERVICE REQUIREMENTS
## JULY 31, 2017

| | S E R I E S - 2 0 1 5 | | |
|---|---|---|---|
| Due During Fiscal Years Ending July 31 | Principal Due September 1 | Interest Due September 1/ March 1 | Total |
| 2018 | $ | $ 177,094 | $ 177,094 |
| 2019 | | 177,094 | 177,094 |
| 2020 | | 177,094 | 177,094 |
| 2021 | | 177,094 | 177,094 |
| 2022 | | 177,094 | 177,094 |
| 2023 | | 177,094 | 177,094 |
| 2024 | | 177,094 | 177,094 |
| 2025 | | 177,094 | 177,094 |
| 2026 | | 177,094 | 177,094 |
| 2027 | | 177,094 | 177,094 |
| 2028 | | 177,094 | 177,094 |
| 2029 | | 177,094 | 177,094 |
| 2030 | | 177,094 | 177,094 |
| 2031 | | 177,094 | 177,094 |
| 2032 | 295,000 | 172,669 | 467,669 |
| 2033 | 305,000 | 163,669 | 468,669 |
| 2034 | 315,000 | 154,369 | 469,369 |
| 2035 | 330,000 | 144,694 | 474,694 |
| 2036 | 345,000 | 134,353 | 479,353 |
| 2037 | 355,000 | 123,194 | 478,194 |
| 2038 | 370,000 | 110,950 | 480,950 |
| 2039 | 385,000 | 97,737 | 482,737 |
| 2040 | 405,000 | 83,912 | 488,912 |
| 2041 | 420,000 | 69,475 | 489,475 |
| 2042 | 865,000 | 46,987 | 911,987 |
| 2043 | 910,000 | 15,925 | 925,925 |
| 2044 | | | |
| 2045 | | | |
| 2046 | | | |
| | $ 5,300,000 | $ 3,797,250 | $ 9,097,250 |

See accompanying independent auditor's report.

# LAKE MUNICIPAL UTILITY DISTRICT
## LONG-TERM DEBT SERVICE REQUIREMENTS
## JULY 31, 2017

| | SERIES-2016 | | |
|---|---|---|---|
| Due During Fiscal Years Ending July 31 | Principal Due September 1 | Interest Due September 1/ March 1 | Total |
| 2018 | $ | $ 97,425 | $ 97,425 |
| 2019 | 25,000 | 97,175 | 122,175 |
| 2020 | 25,000 | 96,675 | 121,675 |
| 2021 | 25,000 | 96,175 | 121,175 |
| 2022 | 25,000 | 95,675 | 120,675 |
| 2023 | 25,000 | 95,175 | 120,175 |
| 2024 | 25,000 | 94,675 | 119,675 |
| 2025 | 25,000 | 94,128 | 119,128 |
| 2026 | 25,000 | 93,519 | 118,519 |
| 2027 | 25,000 | 92,878 | 117,878 |
| 2028 | 25,000 | 92,206 | 117,206 |
| 2029 | 25,000 | 91,534 | 116,534 |
| 2030 | 25,000 | 90,878 | 115,878 |
| 2031 | 25,000 | 90,222 | 115,222 |
| 2032 | 25,000 | 89,566 | 114,566 |
| 2033 | 25,000 | 88,894 | 113,894 |
| 2034 | 25,000 | 88,206 | 113,206 |
| 2035 | 25,000 | 87,519 | 112,519 |
| 2036 | 25,000 | 86,831 | 111,831 |
| 2037 | 25,000 | 86,144 | 111,144 |
| 2038 | 25,000 | 85,425 | 110,425 |
| 2039 | 25,000 | 84,675 | 109,675 |
| 2040 | 25,000 | 83,925 | 108,925 |
| 2041 | 25,000 | 83,175 | 108,175 |
| 2042 | 25,000 | 82,425 | 107,425 |
| 2043 | 25,000 | 81,675 | 106,675 |
| 2044 | 860,000 | 68,400 | 928,400 |
| 2045 | 900,000 | 42,000 | 942,000 |
| 2046 | 950,000 | 14,250 | 964,250 |
| | $ 3,335,000 | $ 2,471,450 | $ 5,806,450 |

See accompanying independent auditor's report.

# LAKE MUNICIPAL UTILITY DISTRICT
## LONG-TERM DEBT SERVICE REQUIREMENTS
## JULY 31, 2017

| Due During Fiscal Years Ending July 31 | ANNUAL REQUIREMENTS FOR ALL SERIES | | |
|---|---|---|---|
| | Total Principal Due | Total Interest Due | Total Principal and Interest Due |
| 2018 | $ 440,000 | $ 674,313 | $ 1,114,313 |
| 2019 | 485,000 | 656,845 | 1,141,845 |
| 2020 | 510,000 | 637,804 | 1,147,804 |
| 2021 | 530,000 | 618,017 | 1,148,017 |
| 2022 | 375,000 | 600,372 | 975,372 |
| 2023 | 425,000 | 583,935 | 1,008,935 |
| 2024 | 450,000 | 565,903 | 1,015,903 |
| 2025 | 475,000 | 546,763 | 1,021,763 |
| 2026 | 500,000 | 526,497 | 1,026,497 |
| 2027 | 525,000 | 505,138 | 1,030,138 |
| 2028 | 550,000 | 482,356 | 1,032,356 |
| 2029 | 575,000 | 457,825 | 1,032,825 |
| 2030 | 600,000 | 431,569 | 1,031,569 |
| 2031 | 625,000 | 403,588 | 1,028,588 |
| 2032 | 580,000 | 379,857 | 959,857 |
| 2033 | 605,000 | 360,823 | 965,823 |
| 2034 | 630,000 | 340,875 | 970,875 |
| 2035 | 660,000 | 319,952 | 979,952 |
| 2036 | 685,000 | 297,760 | 982,760 |
| 2037 | 715,000 | 274,052 | 989,052 |
| 2038 | 745,000 | 248,413 | 993,413 |
| 2039 | 780,000 | 220,950 | 1,000,950 |
| 2040 | 815,000 | 191,737 | 1,006,737 |
| 2041 | 850,000 | 160,750 | 1,010,750 |
| 2042 | 890,000 | 129,412 | 1,019,412 |
| 2043 | 935,000 | 97,600 | 1,032,600 |
| 2044 | 860,000 | 68,400 | 928,400 |
| 2045 | 900,000 | 42,000 | 942,000 |
| 2046 | 950,000 | 14,250 | 964,250 |
| | $ 18,665,000 | $ 10,837,756 | $ 29,502,756 |

See accompanying independent auditor's report.

# LAKE MUNICIPAL UTILITY DISTRICT
## CHANGE IN LONG-TERM BOND DEBT
## FOR THE YEAR ENDED JULY 31, 2017

| Description | Original Bonds Issued | Bonds Outstanding August 1, 2016 |
|---|---|---|
| Lake Municipal Utility District Unlimited Tax Bonds - Series 2009 | $ 2,745,000 | $ 2,060,000 |
| Lake Municipal Utility District Unlimited Tax Bonds - Series 2011 | 5,250,000 | 5,100,000 |
| Lake Municipal Utility District Unlimited Tax Bonds - Series 2013 | 3,290,000 | 3,290,000 |
| Lake Municipal Utility District Unlimited Tax Bonds - Series 2015 | 5,300,000 | 5,300,000 |
| Lake Municipal Utility District Unlimited Tax Bonds - Series 2016 | | |
| TOTAL | $ 16,585,000 | $ 15,750,000 |

| Bond Authority: | Unlimited Tax and Refunding Bonds* |
|---|---|
| Amount Authorized by Voters | $ 47,270,000 |
| Amount Issued | 31,395,000 |
| Remaining to be Issued | $ 15,875,000 |

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

* Includes all bonds secured with tax revenues. Bonds in this category may also be secured with other revenues in combination with taxes.

See accompanying independent auditor's report.

| Current Year Transactions | | | | |
|---|---|---|---|---|
| | Retirements | | Bonds Outstanding | |
| Bonds Sold | Principal | Interest | July 31, 2017 | Paying Agent |
| $ | $ 370,000 | $ 67,705 | $ 1,690,000 | The Bank of New York Mellon Trust Company, N.A. Dallas, TX |
| | 50,000 | 227,119 | 5,050,000 | The Bank of New York Mellon Trust Company, N.A. Dallas, TX |
| | | 122,172 | 3,290,000 | The Bank of New York Mellon Trust Company, N.A. Dallas, TX |
| | | 177,094 | 5,300,000 | The Bank of New York Mellon Trust Company, N.A. Dallas, TX |
| 3,335,000 | | 52,231 | 3,335,000 | The Bank of New York Mellon Trust Company, N.A. Dallas, TX |
| $ 3,335,000 | $ 420,000 | $ 646,321 | $ 18,665,000 | |

| | |
|---|---|
| Debt Service Fund cash and investment balances as of July 31, 2017: | $ 2,014,707 |
| Average annual debt service payment (principal and interest) for remaining term of all debt: | $ 1,017,336 |

See accompanying independent auditor's report.

# LAKE MUNICIPAL UTILITY DISTRICT
## COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
## GENERAL FUND - FIVE YEARS

| | Amounts | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| **REVENUES** | | | |
| Property Taxes | $ 631,731 | $ 545,512 | $ 429,717 |
| Water Service | 837,926 | 854,543 | 773,615 |
| Wastewater Service | 1,183,577 | 1,178,948 | 1,003,228 |
| Penalty and Interest | 55,674 | 52,197 | 43,390 |
| Tap Connection and Inspection Fees | | 70,400 | 188,600 |
| Investment Revenues | 4,449 | 1,617 | 399 |
| Miscellaneous Revenues | 51,437 | 44,776 | 49,154 |
| **TOTAL REVENUES** | $ 2,764,794 | $ 2,747,993 | $ 2,488,103 |
| **EXPENDITURES** | | | |
| Professional Fees | $ 109,223 | $ 100,997 | $ 116,973 |
| Contracted Services | 519,548 | 462,546 | 420,098 |
| Purchased Water Service | 546,519 | 489,605 | 408,796 |
| Purchased Wastewater Service | 762,643 | 774,258 | 674,414 |
| Utilities | 75,345 | 67,108 | 55,089 |
| Repairs and Maintenance | 438,644 | 604,098 | 573,209 |
| Other | 152,695 | 289,286 | 267,390 |
| Capital Outlay | | 23,487 | 32,233 |
| **TOTAL EXPENDITURES** | $ 2,604,617 | $ 2,811,385 | $ 2,548,202 |
| **EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES** | $ 160,177 | $ (63,392) | $ (60,099) |
| **OTHER FINANCING SOURCES (USES)** | | | |
| Transfers In (Out) | $ 68,447 | $ | $ 30,929 |
| Voided Checks for Prior Years Expenditures | | | |
| **TOTAL OTHER FINANCING SOURCES (USES)** | $ 68,447 | $ - 0 - | $ 30,929 |
| **NET CHANGE IN FUND BALANCE** | $ 228,624 | $ (63,392) | $ (29,170) |
| **BEGINNING FUND BALANCE** | 677,493 | 740,885 | 770,055 |
| **ENDING FUND BALANCE** | $ 906,117 | $ 677,493 | $ 740,885 |

See accompanying independent auditor's report.

| | | Percentage of Total Revenue | | | | |
|---|---|---|---|---|---|---|
| 2014 | 2013 | 2017 | 2016 | 2015 | 2014 | 2013 |
| $ 345,422 | $ 298,078 | 22.8 % | 19.8 % | 17.3 % | 15.2 % | 15.8 % |
| 710,157 | 575,541 | 30.3 | 31.1 | 31.1 | 31.1 | 30.3 |
| 847,940 | 754,643 | 42.8 | 42.9 | 40.3 | 37.2 | 39.7 |
| 36,108 | 40,533 | 2.0 | 1.9 | 1.7 | 1.6 | 2.1 |
| 306,434 | 165,000 | | 2.6 | 7.6 | 13.4 | 8.7 |
| 271 | 808 | 0.2 | 0.1 | | | |
| 35,118 | 63,951 | 1.9 | 1.6 | 2.0 | 1.5 | 3.4 |
| $ 2,281,450 | $ 1,898,554 | 100.0 % | 100.0 % | 100.0 % | 100.0 % | 100.0 % |
| | | | | | | |
| $ 184,010 | $ 125,397 | 4.0 % | 3.7 % | 4.7 % | 8.0 % | 6.6 % |
| 377,118 | 345,980 | 18.8 | 16.8 | 16.9 | 16.5 | 18.2 |
| 339,948 | 322,924 | 19.8 | 17.8 | 16.4 | 14.9 | 17.0 |
| 582,343 | 485,786 | 27.6 | 28.2 | 27.1 | 25.5 | 25.6 |
| 43,919 | 49,422 | 2.7 | 2.4 | 2.2 | 1.9 | 2.6 |
| 511,942 | 306,039 | 15.9 | 22.0 | 23.0 | 22.4 | 16.1 |
| 280,930 | 233,702 | 5.5 | 10.5 | 10.7 | 12.3 | 12.3 |
| | | | 0.9 | 1.3 | | |
| $ 2,320,210 | $ 1,869,250 | 94.3 % | 102.3 % | 102.3 % | 101.5 % | 98.4 % |
| | | | | | | |
| $ (38,760) | $ 29,304 | 5.7 % | (2.3) % | (2.3) % | (1.5) % | 1.6 % |
| | | | | | | |
| $ | $ | | | | | |
| | 771 | | | | | |
| $ - 0 - | $ 771 | | | | | |
| | | | | | | |
| $ (38,760) | $ 30,075 | | | | | |
| 808,815 | 778,740 | | | | | |
| $ 770,055 | $ 808,815 | | | | | |

See accompanying independent auditor’s report.

# LAKE MUNICIPAL UTILITY DISTRICT
## COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
## DEBT SERVICE FUND - FIVE YEARS

| | Amounts | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| **REVENUES** | | | |
| Property Taxes | $ 1,107,598 | $ 1,147,343 | $ 1,031,679 |
| Penalty and Interest | 13,020 | 18,612 | 11,394 |
| Investment Revenues | 9,769 | 6,899 | 800 |
| Miscellaneous Revenues | 8,492 | 10,191 | 2,100 |
| **TOTAL REVENUES** | $ 1,138,879 | $ 1,183,045 | $ 1,045,973 |
| **EXPENDITURES** | | | |
| Tax Collection Expenditures | $ 36,651 | $ 42,359 | $ 31,924 |
| Debt Service Principal | 420,000 | 400,000 | 385,000 |
| Debt Service Interest and Fees | 654,321 | 622,251 | 450,556 |
| **TOTAL EXPENDITURES** | $ 1,110,972 | $ 1,064,610 | $ 867,480 |
| **EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES** | $ 27,907 | $ 118,435 | $ 178,493 |
| **OTHER FINANCING SOURCES (USES)** | | | |
| Long-Term Debt Issued | $ | $ | $ |
| Refund of Prior Years Taxes | | | |
| **TOTAL OTHER FINANCING SOURCES (USES)** | $ - 0 - | $ - 0 - | $ - 0 - |
| **NET CHANGE IN FUND BALANCE** | $ 27,907 | $ 118,435 | $ 178,493 |
| **BEGINNING FUND BALANCE** | 2,005,651 | 1,887,216 | 1,708,723 |
| **ENDING FUND BALANCE** | $ 2,033,558 | $ 2,005,651 | $ 1,887,216 |
| **TOTAL ACTIVE RETAIL WATER CONNECTIONS** | 2,017 | 2,011 | 1,947 |
| **TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS** | 2,007 | 1,999 | 1,945 |

See accompanying independent auditor's report.

| | | Percentage of Total Revenue | | | | |
|---|---|---|---|---|---|---|
| 2014 | 2013 | 2017 | 2016 | 2015 | 2014 | 2013 |
| $ 863,343 | $ 745,197 | 97.3 % | 96.9 % | 98.6 % | 96.5 % | 98.6 % |
| 9,613 | 7,927 | 1.1 | 1.6 | 1.1 | 1.1 | 1.0 |
| 69 | 1,416 | 0.9 | 0.6 | 0.1 | | 0.2 |
| 21,410 | 1,288 | 0.7 | 0.9 | 0.2 | 2.4 | 0.2 |
| $ 894,435 | $ 755,828 | 100.0 % | 100.0 % | 100.0 % | 100.0 % | 100.0 % |
| $ 27,566 | $ 104,192 | 3.2 % | 3.6 % | 3.1 % | 3.1 % | 13.8 % |
| 50,000 | 320,000 | 36.9 | 33.8 | 36.8 | 5.6 | 42.3 |
| 438,057 | 352,271 | 57.5 | 52.6 | 43.1 | 49.0 | 46.6 |
| $ 515,623 | $ 776,463 | 97.6 % | 90.0 % | 83.0 % | 57.7 % | 102.7 % |
| $ 378,812 | $ (20,635) | 2.4 % | 10.0 % | 17.0 % | 42.3 % | (2.7) % |
| $ | $ 82,305 | | | | | |
| | (193) | | | | | |
| $ - 0 - | $ 82,112 | | | | | |
| $ 378,812 | $ 61,477 | | | | | |
| 1,329,911 | 1,268,434 | | | | | |
| $ 1,708,723 | $ 1,329,911 | | | | | |
| 1,728 | 1,541 | | | | | |
| 1,718 | 1,530 | | | | | |

See accompanying independent auditor's report.

# LAKE MUNICIPAL UTILITY DISTRICT
## BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
## JULY 31, 2017

| | | |
|---|---|---|
| District Mailing Address | - | Lake Municipal Utility District<br>c/o Bacon & Wallace, L.L.P.<br>6363 Woodway, Suite 800<br>Houston, TX 77057 |
| District Telephone Number | - | (713) 739-1060 |

| **Board Members** | Term of Office (Elected or Appointed) | Fees of Office for the year ended July 31, 2017 | Expense Reimbursements for the year ended July 31, 2017 | Title |
|---|---|---|---|---|
| Kathleen Witkowski | 05/16<br>05/20<br>(Elected) | $ 4,950 | $ -0- | President |
| Kenneth J. Sandor | 05/14<br>05/18<br>(Elected) | $ 5,250 | $ 2,055 | Vice President |
| Jason M. Poitras | 05/16<br>05/20<br>(Elected) | $ 2,100 | $ -0- | Secretary |
| Shelia Crianza | 05/16<br>05/20<br>(Elected) | $ 3,600 | $ 1,290 | Assistant Secretary |
| Alias Jones | 09/16<br>05/18<br>(Appointed) | $ 1,650 | $ -0- | Director |

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

Submission date of most recent District Registration Form (TWC Sections 36.054 and 49.054): October 4, 2016.

The limit on Fees of Office that a Director may receive during a fiscal year is $7,200 as set by Board Resolution (TWC Section 49.060) on August 15, 2002. Fees of Office are the amounts actually paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report.

# LAKE MUNICIPAL UTILITY DISTRICT
## BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
## JULY 31, 2017

| **Consultants:** | Date Hired | Fees for the year ended July 31, 2017 | Title |
|---|---|---|---|
| Bacon & Wallace, L.L.P. | 11/14/90 | $ 53,933 | General Counsel |
| | | $ 90,225 | Bond Counsel |
| McCall Gibson Swedlund Barfoot PLLC | 07/17/14 | $ 11,250 | Auditor |
| | | $ 8,250 | Bond Related |
| District Data Services, Inc. | 01/18/81 | $ 18,017 | Bookkeeper |
| Langford Engineering, Inc. | 02/14/13 | $ 45,504 | Engineer |
| Rathmann & Associates, L.P. | 04/09/03 | $ 68,200 | Financial Advisor |
| Texas Operations & Professional Services | 06/30/12 | $ 477,930 | Operator |
| Perdue, Brandon, Fielder, Collins & Mott, L.L.P. | 03/03/15 | $ 5,520 | Delinquent Tax Attorney |
| San Jacinto Tax Service Company, LLC | 12/04/80 | $ 16,791 | Tax Assessor/ Collector |

See accompanying independent auditor's report.

## APPENDIX C

## SPECIMEN OF MUNICIPAL BOND INSURANCE POLICY

BAM

# MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER] Policy No: _____

MEMBER: [NAME OF MEMBER]

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

Effective Date: _________

Risk Premium: $__________
Member Surplus Contribution: $_________
Total Insurance Payment: $_________

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

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

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

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

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

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

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: ________________________________________

Authorized Officer

**Notices (Unless Otherwise Specified by BAM)**

Email:
claims@buildamerica.com
Address:
1 World Financial Center, 27th floor
200 Liberty Street
New York, New York 10281
Telecopy:
212-962-1524 (attention: Claims)