

OFFICIAL STATEMENT DATED OCTOBER 22, 2018

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

THE BONDS ARE NOT DESIGNATED "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.
NEW ISSUE—Book-Entry-Only

Insured Rating (AGM): S&P "AA" (stable outlook)
Underlying Rating: S&P "BBB-"
See "MUNICIPAL BOND RATING" and "MUNICIPAL BOND INSURANCE" herein.

\$5,570,000
FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 169
(A political subdivision of the State of Texas located within Fort Bend County)
CONTRACT REVENUE BONDS
(ROAD FACILITIES)
SERIES 2018

The bonds described above (the "Bonds") are special obligations of Fort Bend County Municipal Utility District No. 169 (the "Master District" or the "District") payable solely from and to the extent of payments required to be made to the Trustee (as herein defined) by the District and Fort Bend County Municipal Utility District Nos. 170, 171, 172 and 173 (the "MUD Participants") from proceeds of an unlimited annual ad valorem tax, levied by each MUD Participant or from other revenues available to such MUD Participant (the "Road Contract Payment(s)"). Payment of Road Contract Payments by MUD Participants and use of such proceeds by the Master District to pay debt service on the Bonds is governed by the Contract for Financing, Operation, and Maintenance of Regional Facilities, as amended (the "Master District Contract") as described more fully herein under "MASTER DISTRICT CONTRACT." The Bonds are obligations of the Master District and are not obligations of the State of Texas, Fort Bend County, the City of Fulshear, any of the MUD Participants (except the Master District), or any entity other than the Master District.

Dated: November 1, 2018

Due: December 1, as shown below

The Bonds will be issued in fully registered form only, in denominations of \$5,000 or any integral multiple of \$5,000. Principal of the Bonds will be payable upon presentation of the Bonds at the principal payment office of the paying agent/registrars, initially The Bank of New York Mellon Trust Company, N.A. (the "Paying Agent/Registrar" or "Paying Agent"), in Houston, Texas. Interest on the Bonds accrues from November 1, 2018, and is payable June 1, 2019, and each December 1 and June 1 thereafter until the earlier of maturity or redemption. Interest will be calculated on the basis of a 360 day year of twelve 30 day months.

The Bonds will be initially registered and delivered only in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Beneficial owners of the Bonds will not receive physical certificates representing the Bonds, but will receive a credit balance on the books of the nominees of such beneficial owners. So long as Cede & Co. is the registered owner of the Bonds, the principal of and interest on the Bonds will be paid by the Paying Agent directly to DTC, which will, in turn, remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds as described herein. See "BOOK-ENTRY-ONLY SYSTEM."



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 **ASSURED GUARANTY MUNICIPAL CORP.** See "MUNICIPAL BOND INSURANCE" herein.

MATURITY SCHEDULE

Due (December 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (c)	CUSIP Number (b)	Due (December 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (c)	CUSIP Number (b)
2019	\$ 220,000	5.500 %	2.350 %	34682H NL6	2025	220,000 (a)	3.000 %	3.200 %	34682H NS1
2020	220,000	5.500	2.450	34682H NM4	2026	220,000 (a)	3.125	3.400	34682H NT9
2021	220,000	5.000	2.600	34682H NN2	2027	220,000 (a)	3.250	3.550	34682H NU6
2022	220,000	5.000	2.750	34682H NP7	2028	220,000 (a)	3.500	3.700	34682H NV4
2023	220,000	5.000	2.850	34682H NQ5	2029	220,000 (a)	3.500	3.800	34682H NW2
2024	220,000	3.000	3.000	34682H NR3					

\$675,000 Term Bonds due December 1, 2032 (a), 34682H NZ5 (b), 3.750% Interest Rate, 4.000% Yield (c)
 \$675,000 Term Bonds due December 1, 2035 (a), 34682H PC4 (b), 4.000% Interest Rate, 4.100% Yield (c)
 \$675,000 Term Bonds due December 1, 2038 (a), 34682H PF7 (b), 4.000% Interest Rate, 4.200% Yield (c)
 \$450,000 Term Bonds due December 1, 2040 (a), 34682H PH3 (b), 4.000% Interest Rate, 4.230% Yield (c)
 \$675,000 Term Bonds due December 1, 2043 (a), 34682H PL4 (b), 4.125% Interest Rate, 4.250% Yield (c)

- (a) Bonds maturing on or after December 1, 2025, are subject to redemption at the option of the District prior to their maturity dates in whole, or from time to time in part, on December 1, 2024, or on any date thereafter at a price of par plus accrued interest on the principal amounts called for redemption to the date fixed for redemption. The Term Bonds (as defined herein) are also subject to mandatory sinking fund redemption as more fully described herein. See "THE BONDS—Redemption Provisions."
- (b) CUSIP Numbers have been assigned to the Bonds by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association, and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Underwriter shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.
- (c) Initial reoffering yield represents the initial offering yield to the public which has been established by the Underwriter (as herein defined) for offers to the public and which may be subsequently changed by the Underwriter and is the sole responsibility of the Underwriter. The initial yields indicated above represent the lower of the yields resulting when priced to maturity or to the first call date. Accrued interest from November 1, 2018 to the date fixed for delivery is to be added to the price.

The Bonds, when issued, will constitute valid and legally binding special obligations of the District. THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS DESCRIBED HEREIN. Bond purchasers are encouraged to read this OFFICIAL STATEMENT prior to making an investment decision, particularly the section captioned "INVESTMENT CONSIDERATIONS."

The Bonds are offered, when, as and if issued by the District and accepted by the Underwriter, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Allen Boone Humphries Robinson LLP, Houston, Texas, Bond Counsel. Delivery of the Bonds in book-entry form through the facilities of DTC is expected on or about November 27, 2018, in Houston, Texas.

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USE OF INFORMATION IN OFFICIAL STATEMENT

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

This OFFICIAL STATEMENT is not to be used in 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, contracts, audited financial statements, engineering and other related reports referenced or described in this OFFICIAL STATEMENT are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from the District, c/o Allen Boone Humphries Robinson LLP, 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027 for more information.

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

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

OFFICIAL STATEMENT SUMMARY

The following is a brief summary of certain information contained herein which is qualified in its entirety by the detailed information appearing elsewhere in this OFFICIAL STATEMENT. The summary should not be detached and should be used in conjunction with more complete information contained herein. A full review should be made of the entire OFFICIAL STATEMENT and of the documents summarized or described therein.

THE MASTER DISTRICT

Description.....Fort Bend County Municipal Utility District No. 169 (the “Master District” or the “District”) is a political subdivision of the State of Texas, created by an order of the Texas Commission on Environmental Quality (the “TCEQ” or “Commission”) on August 21, 2007, and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. The District, as a MUD Participant (as hereinafter defined), will provide water, sanitary sewer, and drainage facilities to the approximate 321 acres of land within its boundaries. The District, as the Master District, serves as the provider of regional water, sanitary sewer, drainage, park/recreational and road facilities for an approximately 3,293 acre service area (the “Service Area”) comprised of the District, Fort Bend County Municipal Utility District No. 170 (“MUD 170”), Fort Bend County Municipal Utility District No. 171 (“MUD 171”), Fort Bend County Municipal Utility District No. 172 (“MUD 172”) and Fort Bend County Municipal Utility District No. 173 (“MUD 173”). The District, MUD 170, MUD 171, MUD 172 and MUD 173 are herein collectively referred to as the “MUD Participants”. See “THE MUD PARTICIPANTS” and “THE DISTRICT AND THE SERVICE AREA.”

LocationThe Service Area is located approximately 31 miles west of the central downtown business district of the City of Houston, Texas in Fort Bend County. The Service Area lies wholly within the boundaries of the City of Fulshear (the “City”). Access to the Service Area is provided via Interstate Highway 10 West or U.S. Highway 59 South to Texas State Highway 99 (the “Grand Parkway”), a limited access state highway, and the Westpark Toll Road. See “THE DISTRICT AND THE SERVICE AREA.”

Recent Extreme Weather

Events.....The greater Houston area, including the Service Area, is subject to occasional severe 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 Service Area as a result of such a weather event, the investment security of the Bonds could be adversely affected.

The greater Houston area 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.

The District constructs for the benefit of and conveyance to the City of Fulshear (the “City”), certain water, wastewater and drainage facilities needed to serve land being developed within the Service Area, and upon conveyance of the facilities to the City, the City assumes responsibility for the operation and maintenance of the facilities. According to the City, the City’s water supply and distribution system and wastewater treatment and collection system serving the property within the Service Area’s boundaries did not sustain any material damage from Hurricane Harvey and there was no interruption of water and sewer service to the Service Area as a result of Hurricane Harvey. Further according to the Developers (as hereinafter defined), no taxable improvements within the Service Area experienced structural flooding or other material damage as a result of Hurricane Harvey.

If a future weather event significantly damaged all or part of the improvements within the Service Area, the assessed value of property within the Service Area could be substantially reduced, which could result in a decrease in tax revenues and/or necessitate an increase in the tax rates. Further, there can be no assurance that a casualty loss to taxable property within the Service Area 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 Service Area. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the Service Area could be adversely affected. See “INVESTMENT CONSIDERATIONS—Recent Extreme Weather Events.”

Service AreaThe Service Area is comprised of approximately 3,293 acres, which consists of (i) Cross Creek Ranch, an approximately 3,199 acre master planned community (“Cross Creek Ranch”), (ii) an approximately 71 acre tract and; (iii) an approximately 23 acre tract.

DevelopersThe original developer of Cross Creek Ranch was Trendmaker Homes, Inc. (formerly known as TMI, Inc.), a Texas corporation (“Trendmaker”). On April 12, 2012, Trendmaker sold all of its assets in Cross Creek Ranch (except 41 acres located in MUD 170) which included approximately 2,370 acres of land and 88 lots to CCR Texas Holdings LP, a Delaware limited partnership (“CCR Texas”) with Johnson/CCR GP, LLC as its general partner. CCR Texas financed its acquisition of Cross Creek Ranch with a \$90,000,000 loan from CCR Texas Lender Inc. and PSPIB-CCR Inc.

CCR Loan Subsidiary 1, L.P. (“CCR Subsidiary”), a wholly-owned affiliate of CCR Texas, is also a developer within the Service Area.

Johnson CCR Management LLC, an affiliate of The Johnson Development Corp. (“Johnson Development”) is the development manager for Cross Creek Ranch. Johnson Development is a Houston-based, residential and commercial land development company. For more than forty years, Johnson Development has developed master-planned communities in Houston, Atlanta, San Antonio and other markets. Johnson Development engages in development activities through itself and related entities.

Landmark Industries Inc. (“Landmark”) originally owned a 71 acre site within the boundaries of MUD 173 which is being developed for commercial purposes which includes a McDonald’s, Shell Service Station, The Shops at Cross Creek, and Christian Brothers Automotive. As of January 1, 2018, Landmark owned approximately 52 acres of land in MUD 173.

The Market at CCR, Ltd. owns an approximately 20 acre tract of land on which a medical office building, bank, fast food restaurant and strip shopping center have been constructed on 10.5 acres of land.

CCR Texas, CCR Subsidiary, Landmark, and The Market at CCR, Ltd. are collectively referred to as the “Developers.” See “CROSS CREEK RANCH DEVELOPMENT” and “THE DEVELOPERS.”

No landowner, developer or any of their respective affiliates, is obligated to pay any principal of or interest on the Bonds. See “INVESTMENT CONSIDERATIONS—Dependence on Major Taxpayers and the Developers” and “THE DEVELOPERS.”

HomebuildersHomebuilders in the Service Area include Avanti Homes, Partners in Building, Huntington Homes, Highland Homes, Darling Homes, Trendmaker Homes, Perry Homes, Village Builders, Newmark Homes Houston, Sitterle Homes, Taylor Morrison Homes, Chesmar Homes and Lennar Homes. See “THE DEVELOPERS-Homebuilding.”

Status of DevelopmentDevelopment in the Service Area currently consists of the residential development within MUD 170, MUD 171, MUD 172, and MUD 173. Homes within the Service Area range in price from approximately \$250,000 to over \$1,000,000. As of August 23, 2018, there were 1,519 acres developed into 3,995 single-family lots, which includes 3,046 occupied completed homes in the Service Area, 38 unoccupied completed homes, 32 of which are model homes, 330 homes under construction (108 homes are not under contract for purchase and 222 homes are under contract for purchase) and 581 developed lots available for home construction.

The Saint Faustina Catholic Church has been constructed on approximately 33 acres of land in MUD 171 and is exempt from the payment of property taxes. A Welcome Center, which includes the Cross Creek Fitness Center, the Adventure Island Water Park, Italian Maid Cafe and a 70-foot observation tower, has been constructed on approximately 7 acres of land in MUD 171. A CVS Pharmacy, the Children’s Lighthouse Daycare facility, two shopping centers, the Cross Creek Office Complex, an Aldi’s Grocery, a shopping center, and a veterinary clinic have been constructed in MUD 172 on approximately 22 acres of land. An elementary school has been constructed on approximately 14 acres of land also in MUD 172 and is exempt from the payment of property taxes. The Market at Cross Creek Ranch, McDonald’s Restaurant and Shell Gas Station convenience store, Christian Brothers Automotive, a Sonic restaurant, 2 banks and the Shops at Cross Creek Ranch Phases 1 and 2 have been constructed in MUD 173 on approximately 38 acres of land. A HEB Grocery Store has been constructed on a 14 acre tract of land in MUD 173. The Parklane Fulshear Apartments (390 units) are under construction on a 22 acre tract of land in MUD 173 and leasing is expected to begin in December, 2018. An elementary school has been constructed on a 14 acre tract in MUD 173 which opened in August 2018. The school is exempt from the payment of property taxes. A high school and middle school are being constructed on approximately 111 acres by Katy Independent School District in MUD 173 and will be exempt from the payment of property taxes. It is expected that the middle school will be completed for the 2019 – 2020 school year and that the high school will be completed for the 2020 – 2021 school year. The Bonterra Recreation Center has been constructed on approximately 4 acres in MUD 170.

In addition, there are approximately 490 developable acres that have not been provided with water distribution, wastewater collection, storm drainage, road or park facilities and approximately 1,005 acres that are currently considered not developable. See “INVESTMENT CONSIDERATIONS—Undeveloped Acreage and Vacant Lots,” “THE DISTRICT AND THE SERVICE AREA—Land Use—Status of Development,” and “APPENDIX A.”

Master FacilitiesThe Master District, in its capacity as the provider of regional water, sanitary sewer, and drainage facilities (“Master District Water/Sewer/Drainage Facilities”), regional park and recreational facilities (“Master District Park Facilities”), and arterial, collector, or thoroughfare roads and improvements in aid thereof (“Master District Road Facilities”) necessary to serve the Service Area (hereinafter collectively referred to as the “Master District Facilities”), has contracted with each of the MUD Participants to construct the Master District Facilities and to provide service from those Master District Facilities not accepted by the City for operation and maintenance (the “Master District Contract”). See “INVESTMENT CONSIDERATIONS—Maximum Impact on Contract Tax Rate” and “THE SYSTEM—Master District Facilities.”

Pursuant to a Utility Agreement between the Master District and the City, the Master District constructs the Master District Water/Sewer/Drainage Facilities to serve the Service Area, and conveys certain of said facilities to the City for operation and maintenance by the City. The Master District retains operation and maintenance responsibilities for non-potable water facilities, Master District Park Facilities and detention/drainage ditch facilities constructed by the Master District. See “MASTER DISTRICT CONTRACT.” Pursuant to utility agreements with the City, each MUD Participant, including the District, constructs the water, sanitary sewer, and drainage facilities internal to the respective MUD Participant that serve only such MUD Participant and conveys said facilities to the City for operation and maintenance by the City. Each MUD Participant retains operation and maintenance responsibilities for park/recreational facilities and detention pond and drainage ditch facilities, if any, constructed by the MUD Participant that serve only the MUD Participant. See “THE MUD PARTICIPANTS – Utility Agreement with the City.” To date, the City has accepted operation and maintenance responsibilities for the roads within the Service Area, including the arterial, collector, and thoroughfare roads. See “THE SYSTEM – Master District Facilities.”

Payment History.....The Master District has previously issued eight series of contract revenue bonds in the principal amount of \$74,605,000 to fund Master District/Water/Sewer/Drainage Facilities, four series of contract revenue bonds in the principal amount of \$36,470,000 to fund Master District Road Facilities, and one series of contract revenue refunding bonds in the principal amount of \$2,455,000, of which \$104,540,000 collectively remains outstanding (the “Outstanding Bonds”). The Bonds are the Master District’s thirteenth issuance of contract revenue bonds and the fifth to be issued as Road Contract Revenue Bonds for the purpose of constructing and acquiring Master District Road Facilities. The Master District has never defaulted in the timely payment of principal or interest on its previously issued bonds.

Future Debt.....The Master District plans to issue its Water/Sewer/Drainage Contract Revenue Bonds, Series 2018A n the amount of \$23,000,000 in December, 2018. After issuance of the Series 2018A Bonds, the Master District will have \$385,395,000 principal amount of Water/Sewer/Drainage Contract Revenue Bonds authorized but unissued for the purpose of constructing or acquiring Master District Water/Sewer/Drainage Facilities and refunding such bonds.

THE BONDS

Description.....Fort Bend County Municipal Utility District No. 169 Contract Revenue Bonds (Road Facilities), Series 2018 are being issued in the aggregate principal amount of \$5,570,000. Interest accrues from November 1, 2018 and is payable each June 1 and December 1, beginning June 1, 2019 at the rates per annum set forth on the cover page hereof. The Bonds are being issued as serial bonds maturing December 1 in each year 2019 through 2029, both inclusive, and as term bonds maturing on December 1 in each of the years 2032, 2035, 2038, 2040 and 2043 (the “Term Bonds”) The Bonds will be issued in fully registered form only, in denominations of \$5,000 or any integral multiple of \$5,000.

Book-Entry-OnlyThe Depository Trust Company (defined as “DTC”), New York, New York, 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 each maturity of the Bonds and will be deposited with DTC.

Redemption.....Bonds maturing on or after December 1, 2025 are subject to redemption at the option of the District prior to their maturity dates on December 1, 2024, or on any date thereafter at a price of par plus accrued interest on the principal amounts called for redemption to the date fixed for redemption. The Term Bonds are also subject to mandatory sinking fund redemption as more fully described herein. See “THE BONDS—Redemption Provisions.”

Use of Proceeds.....Proceeds of the Bonds will be used by the Master District to pay for the items shown herein under “USE AND DISTRIBUTION OF BOND PROCEEDS.” Bond proceeds will also be used (1) to deposit into the Road Reserve Fund (defined below) an amount needed to satisfy the reserve requirement associated with the issuance of the Bonds, (2) to pay interest on funds advanced by a developer on behalf of the District, and (3) to pay certain other costs and engineering fees related to the issuance of the Bonds. See “USE AND DISTRIBUTION OF BOND PROCEEDS.”

Authority for Issuance.....To provide Master District Road Facilities for the entire Service Area, the Master District is authorized by the Master District Contract to issue contract revenue bonds in an amount not to exceed \$121,450,000 in principal amount for the purpose of constructing and acquiring Master District Road Facilities and for the purpose of refunding such bonds. All of the \$121,450,000 of bonds mentioned above, including the Bonds, and any other contract revenue bonds issued for the purpose of constructing and acquiring Master District Road Facilities, or refunding such bonds, which may be authorized by any future amendment to the Master District Contract, are referred to herein collectively as the “Road Contract Revenue Bonds.” All Road Contract Revenue Bonds issued by the Master District, including the Bonds, will be payable from the Road Contract Payments (as defined herein).

The Bonds are issued pursuant to the Master District Contract, a resolution authorizing the issuance of the Bonds (the “Bond Resolution”), the Road Indenture (as defined herein), the Texas Constitution and the general laws of the State of Texas. See “THE BONDS— Authority for Issuance--Issuance of Additional Debt” and “INVESTMENT CONSIDERATIONS—Future Debt.”

Source and Security of Payment.....

Principal of and interest on the Bonds are payable from and secured by an unconditional obligation of each MUD Participant to make certain Road Contract Payments (as herein defined) pursuant to the Master District Contract. By execution of the Master District Contract, each MUD Participant has agreed to pay a pro rata share of annual debt service on the Bonds, based upon the gross certified assessed valuation of each MUD Participant as a percentage of the total gross certified assessed valuation of all MUD Participants. Each MUD Participant is obligated to make such annual payments from the proceeds of an annual unlimited ad valorem tax levied by such MUD Participant for such purpose on property within its boundaries, from revenues, if any, derived from the operation of its water distribution and wastewater collection system, or from any other lawful source of its income. (Since the MUD Participants’ water distribution and wastewater collection systems are required to be conveyed to the City pursuant to individual utility agreements between the MUD Participants and the City, it is not expected that the MUD Participants will have any revenues from such systems.) No MUD Participant is liable for the payments owed by any other MUD Participant; however, failure of any MUD Participant to make its Road Contract Payment, as required by the Master District Contract, could result in an increase in the Road Contract Payment amount paid by each of the other MUD Participants during the time that such MUD Participant’s payment is delinquent. The Bonds are obligations of the Master District and are not obligations of the State of Texas, Fort Bend County, the City of Fulshear, any of the MUD Participants (except the Master District), or any entity other than the Master District. See “THE BONDS—Source and Security of Payment—Unconditional Obligation to Pay” and “MASTER DISTRICT CONTRACT.”

The Bonds are secured under an Indenture of Trust dated as of August 1, 2012 (the “Road Indenture”) between the Master District and The Bank of New York Mellon Trust Company, N.A., Houston, Texas, as trustee (the “Trustee”). Pursuant to the Road Indenture, the Master District has assigned and pledged to the Trustee for the benefit of the owners of the Bonds and all other Road Contract Revenue Bonds all of the Master District’s right, title and interest in and to the Road Contract Payments under the Master District Contract, and the Trustee has the right to assert and enforce all of the Master District’s rights and remedies under the Master District Contract relating to the Road Contract Revenue Bonds in the event of a default. Under the Road Indenture, the Trustee will maintain a Road Debt Service Fund for deposit of the Road Contract Payments in an amount equal to the annual principal and interest due on the Road Contract Revenue Bonds (the “Road Debt Service Fund”), and a reserve fund to be used to pay principal of and interest on the Road Contract Revenue Bonds when insufficient funds are available for such purpose in the Road Debt Service Fund, or to pay the principal of and interest on the Road Contract Revenue Bonds in connection with a refunding or redemption (the “Road Reserve Fund”). See “THE INDENTURE OF TRUST.” The Road Reserve Requirement has been established in the Bond Resolution to be a sum of money equal to one half of the maximum annual debt service requirements on the Road Contract Revenue Bonds then outstanding. Any funds that are in excess of the Road Reserve Requirement held in the Road Reserve Fund may be deposited into the Road Debt Service Fund, as directed by the Master District’s Board of Directors.

Municipal Bond Rating

It is expected that S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC, (“S&P”) will assign its municipal bond rating of “AA” (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by ASSURED GUARANTY MUNICIPAL CORP. (“AGM” or the “Insurer”). In addition, S&P has assigned an underlying rating of “BBB-” to the Bonds. See “INVESTMENT CONSIDERATIONS—Municipal Bond Insurance,” “MUNICIPAL BOND RATING” and “MUNICIPAL BOND INSURANCE.”

Not Qualified Tax-Exempt Obligations

The Bonds are not designated “qualified tax-exempt obligations” within the meaning of Section 265(b) of the Internal Revenue Code of 1986, as amended.

Bond CounselAllen Boone Humphries Robinson LLP, Bond Counsel, Houston, Texas. See “LEGAL MATTERS” and “TAX MATTERS.”

Disclosure CounselMcCall, Parkhurst & Horton LLP, Houston, Texas..

Financial AdvisorMasterson Advisors LLC., Houston, Texas.

Trustee.....The Bank of New York Mellon Trust Company, N.A., Houston, Texas. See “THE INDENTURE OF TRUST.”

Paying Agent/Registrar.....The Bank of New York Mellon Trust Company, N.A., Houston, Texas.

THE MASTER DISTRICT CONTRACT

MUD Participants.....The MUD Participants are the District, MUD 170, MUD 171, MUD 172 and MUD 173. Each MUD Participant is a municipal utility district organized and operating pursuant to Article XVI, Section 59 of the Constitution of Texas and Chapters 49 and 54, Texas Water Code. See “THE MUD PARTICIPANTS” and “APPENDIX A.”

Debt Service Payments.....By execution of the Master District Contract, each of the MUD Participants has agreed to make an annual contract payment in an amount equal to its annual pro rata share of debt service on the Road Contract Revenue Bonds, including the Bonds, plus all charges and expenses of paying agents, registrars and trustees, and all amounts required to establish and maintain funds, including the Road Reserve Fund, established under the Bond Resolution or Road Indenture based upon the gross certified assessed valuation of each such MUD Participant as a percentage of the total gross certified assessed valuation of all MUD Participants. MUD Participants are obligated to pay their pro rata share from the proceeds of an annual unlimited ad valorem tax levied for such purpose (the “Road Contract Tax”) or from any other lawful source of funds. The Road Reserve Requirement has been established in the Bond Resolution to be, with respect to the Road Contract Revenue Bonds, a sum of money equal to one half of the maximum annual debt service requirements on the Road Contract Revenue Bonds then outstanding. Any funds that are in excess of the Road Reserve Requirement may be deposited into the Road Debt Service Fund, as directed by the Master District’s Board of Directors. See “THE BONDS—Source and Security of Payment— Unconditional Obligation to Pay” and “MASTER DISTRICT CONTRACT.”

Each MUD Participant is obligated severally, but not jointly, to make Road Contract Payments to the Master District. No MUD Participant is obligated, contingently or otherwise, to make any Road Contract Payments owed by any other MUD Participant; however, lack of payment, as required by the Master District Contract, by any MUD Participant could result in an increase in the Road Contract Payment amount paid by each of the other MUD Participants during the time that such MUD Participant’s payment is delinquent.

The Master District Contract also requires each MUD Participant to make annual contract payments (“Water/Sewer/Drainage Contract Payment”) in an amount equal to its pro rata share of annual debt service on the Master District’s outstanding and future contract revenue bonds issued for the purpose of constructing or acquiring Master District Water/Sewer/Drainage Facilities or for the purpose of refunding such bonds (“Water/Sewer/Drainage Contract Revenue Bonds”) plus all charges and expenses of paying agents, registrars and trustees, and all amounts required to establish and maintain certain funds, including the Water/Sewer/Drainage Reserve Fund, based upon the gross certified assessed valuation of each such MUD Participant as a percentage of the total gross certified assessed valuation of all MUD Participants. MUD Participants are obligated to pay Water/Sewer/Drainage Contract Payments to the Master District from the proceeds of an annual unlimited ad valorem tax levied for such purpose (the “Water/Sewer/Drainage Contract Tax”) or from any other lawful source of funds. The Water/Sewer/Drainage Contract Revenue Bonds are issued pursuant to an Indenture of Trust dated as of December 1, 2009, between the Master District and The Bank of New York Mellon Trust Company, N.A. (“Water/Sewer/Drainage Indenture”). The Road Contract Tax and Water/Sewer/Drainage Contract Tax are referred to herein collectively as the “Contract Tax.”

Water/Sewer/Drainage Contract Payments (all of which are derived from the Water/Sewer/Drainage Contract Tax or other legally available funds of a MUD Participant) are not pledged for and are not available to be used to: (i) pay debt service on the Bonds or any Road Contract Revenue Bonds; or (ii) fund or maintain the Road Reserve Fund. Road Contract Payments (all of which are derived from the Road Contract Tax or other legally available funds of a MUD Participant) are not pledged for and are not available to be used to: (i) pay debt service on the Water/Sewer/Drainage Contract Revenue Bonds; or (ii) fund or maintain the Water/Sewer/Drainage Reserve Fund.

Monthly Charges Each MUD Participant is further obligated to pay monthly charges for its share of the Master District’s operation and maintenance expenses in connection with the Master District’s provision of service from the Master District Facilities that are not being fully operated or maintained by the City. The monthly charges will be used to pay the MUD Participant’s share of Master District operation and maintenance expenses and to provide for an operation and maintenance reserve equivalent to three (3) months of operation and maintenance expenses. Each MUD Participant’s share of operation and maintenance expenses and reserve requirements is based upon a unit cost of operation and maintenance expense and reserve requirements, calculated and expressed in terms of cost per equivalent single-family residential connection. The MUD Participant’s monthly payment for operation and maintenance expenses is calculated by multiplying the number of equivalent single-family residential connections reserved to the MUD Participant on the first day of the previous month by the unit cost per equivalent single-family residential connection. See “INVESTMENT CONSIDERATIONS—Operational Expenses” and “MASTER DISTRICT CONTRACT.”

INVESTMENT CONSIDERATIONS

The purchase and ownership of the Bonds are subject to special investment considerations and all prospective purchasers are urged to examine carefully this entire Official Statement with respect to the investment security of the Bonds, particularly the section captioned “INVESTMENT CONSIDERATIONS.”

SELECTED FINANCIAL INFORMATION (UNAUDITED)

Contract Revenue Bonds of the Master District

Direct Debt (the Water/Sewer/Drainage Contract Revenue Bonds)	\$ 70,115,000 (a)
Direct Debt (the Road Contract Revenue Bonds, including the Bonds)	39,995,000
Estimated Overlapping Debt	<u>132,624,359 (b)</u>
Total Direct and Overlapping Debt	<u>\$242,734,359</u>

- (a) Does not include the Master District Water/Sewer/Drainage Contract Revenue Bonds, Series 2018A in the amount of \$23,000,000 expected to be issued in December, 2018.
- (b) See "FINANCIAL INFORMATION CONCERNING THE MASTER DISTRICT AND THE MUD PARTICIPANTS (UNAUDITED)—Estimated Overlapping Debt."

Assessed Valuations of the MUD Participants:

MUD Participant	MUD Participants' 2015 Certified Gross Assessed Valuation	MUD Participants' 2016 Certified Gross Assessed Valuation	MUD Participants' 2017 Certified Gross Assessed Valuation	MUD Participants' 2018 Certified Gross Assessed Valuation(a)	MUD Participants' Estimated Gross Appraised Valuation As of August 1, 2018 (b)
Fort Bend County MUD 169	\$6,323,860	\$6,323,120	\$7,968,880	\$7,968,880	\$7,968,880
Fort Bend County MUD 170	\$78,046,638	\$102,263,100	\$123,968,741	\$170,445,901	\$190,283,793
Fort Bend County MUD 171	\$363,861,758	\$378,087,795	\$361,492,442	\$363,033,645	\$363,033,645
Fort Bend County MUD 172	\$409,781,650	\$518,030,562	\$542,796,537	\$567,490,028	\$592,535,862
Fort Bend County MUD 173	<u>\$32,676,693</u>	<u>\$85,260,491</u>	<u>\$171,497,352</u>	<u>\$257,370,905</u>	<u>\$313,082,843</u>
	\$890,690,599	\$1,089,965,068	\$1,207,723,952	\$1,366,309,359	\$1,466,905,023

- (a) Includes 95% of the uncertified value provided by the Appraisal District for MUD Nos. 171, 172 and 173.
- (b) The Appraisal District has provided an estimated valuation as of August 1, 2018 for informational purposes for MUD 170, MUD 172 and 173, which was calculated by updating the certified 2018 Assessed value provided by the Appraisal District to add the estimated value of improvements constructed from January 1, 2018 to August 1, 2018. These estimates have no official status. The 2018 Certified Assessed Valuation is shown for MUD 169 and 171. Taxes are levied based on value as certified by the Appraisal District as of January 1 of each year, and, therefore, these estimates will not be the basis for any tax levy by any of the MUD Participants.

Direct Debt as a % of	
the 2018 Certified Gross Assessed Valuation	8.06%
the Estimated Gross Assessed Valuation as of August 1, 2018	7.51%

Direct Debt and Estimated Overlapping Debt as a % of	
the 2018 Certified Gross Assessed Valuation	17.77%
the Estimated Gross Assessed Valuation as of August 1, 2018	16.55%

MUD Participants' Summary of 2018 Assessed Valuation

	2018 Taxable Assessed Valuation	2017 Taxable Assessed Valuation	2016 Taxable Assessed Valuation	2015 Taxable Assessed Valuation	2014 Taxable Assessed Valuation
Land	\$ 446,623,360	\$ 403,926,820	\$ 297,794,530	\$ 252,998,890	\$ 212,307,610
Improvements	1,006,521,999	887,990,577	805,856,540	674,763,200	430,376,700
Personal Property	14,569,510	11,850,100	9,879,167	6,053,141	6,933,370
Exemptions	<u>(106,319,872)</u>	<u>(96,043,545)</u>	<u>(24,259,089)</u>	<u>(43,758,552)</u>	<u>(27,508,681)</u>
Total	<u>\$ 1,361,394,997</u>	<u>\$ 1,207,723,952</u>	<u>\$ 1,089,271,148</u>	<u>\$ 890,056,679</u>	<u>\$ 622,108,999</u>

MUD Participants' Gross Value as a % of all MUD Participants

<u>MUD Participant</u>	<u>2018 Gross Assessed Valuation (b)</u>	<u>2018 Certified Gross Assessed 1/1/2018</u>
MUD 169	\$7,968,880	0.58%
MUD 170	\$170,445,901	12.47%
MUD 171	\$363,033,645	26.57%
MUD 172	\$567,490,028	41.53%
MUD 173	<u>\$257,370,905</u>	<u>18.84%</u>
Total of MUD Participants	\$1,366,309,359	100.00%

(a) Includes 95% of the uncertified value provided by the Appraisal District for MUD Nos. 171, 172 and 173.

Status of Development as of August 23, 2018 (a):

District	Acreage	Completed Lots	Occupied	Unoccupied	Homes Under	Homes Under	Vacant Developed	Lots Under Construction
			Completed Homes (b)	Completed Homes (c)	Construction Not Under Contract	Construction Under Contract		
MUD 169	321	0	0	0	0	0	0	0
MUD 170	848	850	391	20	16	84	339	0
MUD 171	576	899	899	0	0	0	0	0
MUD 172	910	1294	1189	9	17	47	32	0
MUD 173	<u>638</u>	<u>952</u>	<u>567</u>	<u>9</u>	<u>75</u>	<u>91</u>	<u>210</u>	<u>0</u>
	3293	3995	3046	38	108	222	581	0

Master District Road Debt Service Funds Available:

Road Reserve Fund Balance upon closing of the Bonds.....	\$1,425,277 (d)(e)
Road Debt Service Fund Balance upon closing of the Bonds.....	<u>\$2,548,889 (e)</u>
Total Available for Road Debt Service.....	\$3,974,167

Master District Water/Sewer/Drainage Debt Service Funds Available:

Water/Sewer/Drainage Reserve Fund Balance as of July 2, 2018	\$2,675,396 (e)
Water/Sewer/Drainage Debt Service Fund Balance as of July 2, 2018	<u>\$7,233,132 (e)</u>
Total Available for Water/Sewer/Drainage Debt Service	\$9,908,528

Debt Service Requirements (includes the Bonds and all Outstanding Bonds):

Maximum Annual Debt Service Requirement (2019)	\$8,158,232 (f)
Average Annual Debt Service Requirement (2019-2043)	\$6,155,966 (f)

Master District Operating Funds Available as of July 2, 2018..... \$ 961,794

- (a) See "THE DISTRICT AND THE SERVICE AREA."
- (b) Estimated population in the Service Area is 10,661 based upon 3.5 persons per occupied single-family residence in the Service Area.
- (c) Includes 29 Model Homes.
- (d) From the proceeds of the Bonds, the District will deposit into the Road Reserve Fund, an amount needed to satisfy the Road Reserve Requirement associated with the issuance of the Bonds. See "USE AND DISTRIBUTION OF BOND PROCEEDS."
- (e) All of the Master District's Contract Revenue Bond debt is payable from Contract Taxes as follows: (i) the Road Contract Tax with respect to Road Contract Revenue Bonds, and (ii) the Water/Sewer/Drainage Contract Tax with respect to the Water/Sewer/Drainage Contract Revenue Bonds. The revenues from the Road Contract Tax will be allocated to Road Contract Revenue Bonds, including the Bonds and the outstanding Road Contract Revenue Bonds, and the revenues from the Water/Sewer/Drainage Contract Tax will be allocated to the Water/Sewer/Drainage Contract Revenue Bonds. See "FINANCIAL INFORMATION CONCERNING THE MASTER DISTRICT AND THE PARTICIPANTS (UNAUDITED)— Outstanding Bonds". The Water/Sewer/Drainage Debt Service Fund is not pledged to the Bonds or any Road Contract Revenue Bonds nor will funds deposited into the Road Debt Service Fund be pledged to Water/Sewer/Drainage Contract Revenue Bonds. See "USE AND DISTRIBUTION OF BOND PROCEEDS" and "FINANCIAL INFORMATION CONCERNING THE MASTER DISTRICT AND THE PARTICIPANTS (UNAUDITED)—Debt Service Requirements."
- (f) Each MUD Participant is obligated to pay a pro rata share of debt service on the Water/Sewer/Drainage Contract Revenue Bonds and Road Contract Revenue Bonds by the dates specified by the Master District. See "THE BONDS—Contract Payments by the MUD Participants— Unconditional Obligation to Pay" and "MASTER DISTRICT CONTRACT." The Master District has specified March 1 and September 1 as the dates by which the MUD Participants are required to pay contract payments that are due for Water/Sewer/Drainage Contract Revenue Bonds and Road Contract Revenue Bonds. The Road Indenture provides that the Road Contract Payments will be paid directly to the Trustee semiannually on or before June 1 and December 1 of each year, and the Water/Sewer/Drainage Indenture provides that the Water/Sewer/Drainage Contract Payments will be paid directly to the Trustee semiannually on or before June 1 and December 1 of each year.

Select Tax Data (a) (b):

	Anticipated 2018 Debt Service Tax Rate	Anticipated 2018 Maintenance Tax Rate	Anticipated 2018 Contract Tax Rate	Anticipated 2018 Total Participant Tax Rate
Fort Bend County MUD 169	\$0.00000	\$0.65338	\$0.68500	\$1.33838
Fort Bend County MUD 170	\$0.36750	\$0.29838	\$0.67250	\$1.33838
Fort Bend County MUD 171	\$0.27000	\$0.14150	\$0.69500	\$1.10650
Fort Bend County MUD 172	\$0.29500	\$0.17000	\$0.69500	\$1.16000
Fort Bend County MUD 173	\$0.33000	\$0.30338	\$0.70500	\$1.33838

	2017 Debt Service Tax Rate	2017 Maintenance Tax Rate	2017 Contract Tax Rate	2017 Total Participant Tax Rate
Fort Bend County MUD 169	\$0.00000	\$0.64720	\$0.69500	\$1.34220
Fort Bend County MUD 170	\$0.40000	\$0.24720	\$0.69500	\$1.34220
Fort Bend County MUD 171	\$0.28250	\$0.14000	\$0.69500	\$1.11750
Fort Bend County MUD 172	\$0.29500	\$0.19500	\$0.69500	\$1.18500
Fort Bend County MUD 173	\$0.27500	\$0.37220	\$0.69500	\$1.34220

	2016 Debt Service Tax Rate	2016 Maintenance Tax Rate	2016 Contract Tax Rate	2016 Total Participant Tax Rate
Fort Bend County MUD 169	\$0.00000	\$0.64899	\$0.69500	\$1.34399
Fort Bend County MUD 170	\$0.36000	\$0.28899	\$0.69500	\$1.34399
Fort Bend County MUD 171	\$0.26000	\$0.16500	\$0.69500	\$1.12000
Fort Bend County MUD 172	\$0.29000	\$0.23000	\$0.69500	\$1.21500
Fort Bend County MUD 173	\$0.00000	\$0.64899	\$0.69500	\$1.34399

- (a) Does not include overlapping tax rates of Fort Bend County, the City of Fulshear, Lamar Consolidated Independent School District or the Katy Independent School District. See “FINANCIAL INFORMATION CONCERNING THE MASTER DISTRICT AND THE MUD PARTICIPANTS (UNAUDITED)—Overlapping Taxes.”
- (b) None of the MUD Participants have levied a 2018 tax rate. All of the MUD Participants have authorized publication of the tax rates shown and will consider and levy their 2018 tax rates in November, 2018.

OFFICIAL STATEMENT

\$5,570,000

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 169
(A political subdivision of the State of Texas located within Fort Bend County)

CONTRACT REVENUE BONDS (ROAD FACILITIES) **SERIES 2018**

This Official Statement provides certain information in connection with the issuance by Fort Bend County Municipal Utility District No. 169 (the “Master District” or the “District”) of its \$5,570,000 Contract Revenue Bonds (Road Facilities), Series 2018 (the “Bonds”).

The Bonds are issued pursuant to the Contract for Financing, Operation, and Maintenance of Regional Facilities, as amended (the “Master District Contract”) between the Master District and each of the MUD Participants (as defined below), Article III, Section 52 of the Texas Constitution, the general laws of the State of Texas, a resolution authorizing the issuance of the Bonds (the “Bond Resolution”) adopted by the Board of Directors of the Master District (the “Board”) and an Indenture of Trust by and between the Master District and The Bank of New York Mellon Trust Company, N.A., Houston, Texas, as trustee dated as of August 1, 2012 (the “Road Indenture”).

This Official Statement includes descriptions, among others, of the Bonds; the Bond Resolution and the Road Indenture; certain other information about the District and Fort Bend County Municipal Utility District Nos. 170, 171, 172 and 173 (the “MUD Participants”); the approximate 3,293 acre area that comprises the boundaries of the MUD Participants (the “Service Area”) to be provided with regional water, sanitary sewer, and drainage facilities (“Master District Water/Sewer/Drainage Facilities”), regional park and recreational facilities (“Master District Park Facilities”), and arterial, collector, or thoroughfare roads and improvements in aid thereof (“Master District Road Facilities”) constructed by the Master District; the Master District Contract; CCR Texas Holdings LP (“CCR Texas”); CCR Loan Subsidiary 1, L.P. (“CCR Subsidiary”); Landmark Industries, Inc. (“Landmark”) and The Market at CCR, Ltd. The Master District Water/Sewer/Drainage Facilities, the Master District Park Facilities, and the Master District Road Facilities are collectively referred to herein as the “Master District Facilities.” All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of documents referenced herein may be obtained from the District, c/o Allen Boone Humphries Robinson LLP, 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027.

THE BONDS

Description

The Bonds will be dated November 1, 2018, with interest payable each June 1 and December 1, beginning June 1, 2019 (the “Interest Payment Date”), and will mature on the dates and in the amounts and accrue interest at the rates shown on the cover page hereof. If the date for payment of the principal of or interest on any Bond is not a business day, then the date for such payment shall be the next succeeding business day, as defined in the Bond Resolution. Interest calculations are based on a 360-day year comprised of twelve 30-day months. The Bonds are issued in fully registered form, in denominations of \$5,000 or any integral multiple of \$5,000.

Source of and Security of Payment

The Bonds are payable solely from payments the MUD Participants make to the Trustee for the purpose of paying the debt service on the Bonds pursuant to the requirements of the Master District Contract. The Master District Contract provides that all MUD Participants shall pay a pro rata share of the annual debt service on any Road Contract Revenue Bonds issued by the Master District, including the Bonds, based upon each MUD Participant’s gross certified assessed valuation as a percentage of the total gross certified assessed valuation of all MUD Participants. The debt service requirements shall be calculated to include the charges and expenses of paying agents, registrars and trustees utilized in connection with the Road Contract Revenue Bonds, the principal, interest and redemption requirements of the Road Contract Revenue Bonds and all amounts required to establish and maintain funds established under the Bond Resolution or Road Indenture. Each MUD Participant is obligated to pay its pro rata share of the annual debt service on the Road Contract Revenue Bonds from the proceeds of an annual ad valorem tax levied for such purpose by such MUD Participant on property within its boundaries, which is not limited as to rate or amount (the “Road Contract Tax”), revenues, if any, derived from the operation of its water distribution and wastewater collection system or from any other legally available funds of such MUD Participant. (Since the MUD Participants’ water distribution and wastewater collection systems are required to be conveyed to the City of Fulshear (the “City”) pursuant to individual utility agreements between the MUD Participants and the City, it is not expected that the MUD Participants will have any revenues from such systems.) Each MUD Participant’s pro rata share of debt service requirements will be calculated annually by the Master District; however, the levy of a Road Contract Tax for the purpose of paying debt service on the Bonds is the sole responsibility of each MUD Participant. The Bonds are obligations of the Master District and are not obligations of the State of Texas, Fort Bend County, the City of Fulshear, any of the MUD Participants except the Master District, or any entity other than the Master District.

Road Contract Payments by the MUD Participants

The Master District shall calculate on or before September 1 of each year, or as soon thereafter as practical, the amount of Road Contract Payments due from each MUD Participant in the following calendar year. The Road Contract Payments shall be billed to each MUD Participant by the Master District on or before September 1 of the year prior to the year in which such Road Contract Payments become due, or as soon thereafter as practical. Such Road Contract Payments shall be due and payable from each MUD Participant to the Trustee semiannually by the dates specified by the Master District. The Master District specified March 1 and September 1 of each year as the dates by which the MUD Participants’ Road Contract Payments are due to the Trustee. The Road Indenture provides that the Road Contract Payments will be paid directly to the Trustee semiannually on or before June 1 and December 1 of each year.

Unconditional Obligation to Pay

All charges imposed by the Master District to pay debt service on the Bonds will be made by the MUD Participants without set-off, counterclaim, abatement, suspension or diminution. No MUD Participant will have any right to terminate the Master District Contract nor be entitled to the abatement of any such payment or any reduction thereof nor will the obligations of the MUD Participants be otherwise affected for any reason, including without limitation acts or conditions of the Master District that might be considered failure of consideration, eviction or constructive eviction, destruction or damage to the Master District Facilities (as defined herein), failure of the Master District to perform and observe any agreement, whether expressed or implied, or any duty, liability or obligation arising out of or connected with the Master District Contract. All sums required to be paid by the MUD Participants to the Master District for such purposes will continue to be payable in all events and the obligations of the MUD Participants will continue unaffected, unless the requirement to pay is reduced or terminated pursuant to an express provision of the Master District Contract. If any MUD Participant disputes the amount to be paid to the Master District, the MUD Participant shall nonetheless promptly make payments as billed by the Master District, and if it is subsequently determined by agreement, arbitration, regulatory decision, or court decision that such disputed payment should have been less, the Master District will then make proper adjustments to all MUD Participants so that the MUD Participant will receive credit for its overpayments.

Funds

In the Bond Resolution, the Road Debt Service Fund and the Road Reserve Fund are confirmed, and the proceeds from Road Contract Payments collected for and on account of the Bonds shall be deposited, as collected, in such funds. See “INDENTURE OF TRUST.”

Redemption Provisions

Mandatory Redemption: The Bonds due on December 1 in the years 2032, 2035, 2038, 2040 and 2043 (the “Term Bonds”) also are subject to mandatory sinking fund redemption by the District by lot or other customary random method prior to scheduled maturity on December 1 in the years (“Mandatory Redemption Dates”) and in the amounts set forth below, subject to proportionate reduction as described below, at a redemption price of par plus accrued interest to the date of redemption:

\$675,000 Term Bonds Due December 1, 2032		\$675,000 Term Bonds Due December 1, 2035		\$675,000 Term Bonds Due December 1, 2038	
Mandatory Redemption Date	Principal Amount	Mandatory Redemption Date	Principal Amount	Mandatory Redemption Date	Principal Amount
2030	\$ 225,000	2033	\$ 225,000	2036	\$ 225,000
2031	225,000	2034	225,000	2037	225,000
2032 (maturity)	225,000	2035 (maturity)	225,000	2038 (maturity)	225,000

\$450,000 Term Bonds Due December 1, 2040		\$675,000 Term Bonds Due December 1, 2043	
Mandatory Redemption Date	Principal Amount	Mandatory Redemption Date	Principal Amount
2039	\$ 225,000	2041	\$ 225,000
2040 (maturity)	225,000	2042	225,000
		2043 (maturity)	225,000

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

Optional Redemption: The District reserves the right, at its option, to redeem the Bonds maturing on and after December 1, 2025, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000, on December 1, 2024, or on any date thereafter, at a price of par plus accrued interest on the principal amounts called for redemption to the date fixed for redemption. If fewer than all of the Bonds are redeemed at any time, the particular maturities and amounts of Bonds to be redeemed shall be selected by the District. If less than all the Bonds of any maturity are redeemed at any time, the particular Bonds within a maturity to be redeemed shall be selected by the Paying Agent/Registrar by lot or other customary method of selection (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form).

Notice of any redemption identifying the Bonds to be redeemed in whole or in part shall be given by the Paying Agent/Registrar at least thirty (30) days prior to the date fixed for redemption by sending written notice by first class mail to the Registered Owner of each Bond to be redeemed in whole or in part at the address shown on the register. Such notices shall state the redemption date, the redemption price, the place at which the Bonds are to be surrendered for payment and, if less than all the Bonds outstanding within any one maturity are to be redeemed, the numbers of the Bonds or the portions thereof to be redeemed. Any notice given shall be conclusively presumed to have been duly given, whether or not the Registered Owner receives such notice. By the date fixed for redemption, due provision shall be made with the Paying Agent/Registrar for payment of the redemption price 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.

Authority for Issuance

Pursuant to individual elections, the voters of each MUD Participant approved the Master District Contract. The Master District Contract authorizes the Master District to issue \$121,450,000 in principal amount of Road Contract Revenue Bonds for acquiring and constructing Master District Road Facilities and refunding of such bonds. The Master District Contract also authorizes the Master District to issue other contract revenue bonds for other purposes. See "Issuance of Additional Debt" below and "MASTER DISTRICT CONTRACT."

The Bonds are issued by the District pursuant to the terms and provisions of the Master District Contract, the terms and conditions of the Bond Resolution and the Road Indenture, Article III, Section 52 of the Texas Constitution, Chapter 49 and Chapter 54 of the Texas Water Code and the general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas.

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

Registration and Transfer

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

In the event the Book-Entry-Only System should be discontinued, Bonds shall be transferable only upon the presentation and surrender of such Bond at the principal payment office of the Paying Agent/Registrar, duly endorsed for transfer, or accompanied by an assignment duly executed by the Registered Owner or his authorized representative in form satisfactory to the Paying Agent/Registrar. Upon due presentation of any Bond in proper form for transfer, the Paying Agent/Registrar has been directed by the District to authenticate and deliver in exchange therefore, within three (3) business days after such presentation, a new Bond or Bonds, registered in the name of the transferee or transferees, in authorized denominations and of the same maturity and aggregate principal amount and paying interest at the same rate as the Bond or Bonds so presented. All Bonds shall be exchangeable upon presentation and surrender thereof at the principal payment office of the Paying Agent/Registrar for a Bond or Bonds of the same maturity and interest rate and in any authorized denomination in an aggregate amount equal to the unpaid principal amount of the Bond or Bonds presented for exchange. The Paying Agent/Registrar is authorized to authenticate and deliver exchange Bonds. Each Bond delivered shall be entitled to the benefits and security of the Bond Resolution and the Road Indenture to the same extent as the Bond or Bonds in lieu of which such Bond is delivered. Neither the District nor the Paying Agent/Registrar shall be required to transfer or to exchange any Bond during the period beginning on the 15th calendar day of the month next preceding an Interest Payment Date and ending on the next succeeding Interest Payment Date or to transfer or exchange any Bond called for redemption during the thirty (30) day period prior to the date fixed for redemption of such Bond. The District or the Paying Agent/Registrar may require the Registered Owner of any Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the transfer or exchange of such Bond. Any fee or charge of the Paying Agent/Registrar for such transfer or exchange shall be paid by the District. The provisions of this paragraph are subject to the Book-Entry-Only System.

Lost, Stolen or Destroyed Bonds

In the event the Book-Entry-Only System should be discontinued, upon the presentation and surrender to the Paying Agent/Registrar of a mutilated Bond, the Paying Agent/Registrar shall authenticate and deliver in exchange therefore a replacement Bond of like maturity, interest rate and principal amount, bearing a number not contemporaneously outstanding. If any Bond is lost, apparently destroyed, or wrongfully taken, the District, pursuant to the applicable laws of the State of Texas and in the absence of notice or knowledge that such Bond has been acquired by a bona fide purchaser, shall, upon receipt of certain documentation from the Registered Owner and an indemnity, execute and the Paying Agent/Registrar shall authenticate and deliver a replacement Bond of like maturity, interest rate and principal amount bearing a number not contemporaneously outstanding.

Registered Owners of lost, stolen or destroyed bonds will be required to pay the District's costs to replace such bond. In addition, the District or the Paying Agent/Registrar may require the Registered Owner to pay a sum sufficient to cover any tax or other governmental charge that may be imposed.

Replacement of Paying Agent/Registrar

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

Issuance of Additional Debt

The voters of the MUD Participants have approved the Master District Contract, which contract authorizes the Master District to issue contract revenue bonds in an amount not to exceed \$483,000,000 in principal amount for the purpose of constructing and acquiring all Master District Water/Sewer/Drainage Facilities and refunding of such bonds and in an amount not to exceed \$121,450,000 in principal amount for the purpose of constructing and acquiring all Master District Road Facilities and refunding of such bonds. Pursuant to the Master District Contract, approval by each MUD Participant and approval by the voters at an election held by each MUD Participant is required prior to any amendment to the Master District Contract that would increase such \$483,000,000 authorized amount, or such \$121,450,000 authorized amount.

After the issuance of the Bonds, the Master District will have \$408,395,000 principal amount of Water/Sewer/Drainage Contract Revenue Bonds authorized but unissued for the purpose of constructing or acquiring Master District Water/Sewer/Drainage Facilities and refunding of such bonds; and \$79,410,000 principal amount of Road Contract Revenue Bonds authorized but unissued for the purpose of constructing or acquiring Master District Road Facilities and refunding of such bonds. The Master District plans to issue its Water/Sewer/Drainage Contract Revenue Bonds, Series 2018A in the amount of \$23,000,000 in December, 2018. After issuance of the Series 2018A Bonds, the Master District will have \$385,395,000 principal amount of Water/Sewer/Drainage Contract Revenue Bonds authorized but unissued for the purpose of constructing or acquiring Master District Water/Sewer/Drainage Facilities and refunding such bonds. The Master District Contract (except as described above), imposes no limitation on the amount of Road Contract Revenue Bonds the Master District may issue payable from the Road Contract Tax, no limitation on the amount of Water/Sewer/Drainage Contract Revenue Bonds the Master District may issue payable from the Water/Sewer/Drainage Contract Tax, and no limitation on the amount of other contract revenue bonds the Master District may issue payable from other taxes levied by the MUD Participants. See "INVESTMENT CONSIDERATIONS—Future Debt."

The District (in its capacity as a MUD Participant) and each other MUD Participant may issue bonds for water, wastewater and drainage facilities, park/recreational facilities, and road facilities necessary to provide improvements and facilities to serve land within their respective boundaries consistent with the purposes for which the District or such other MUD Participant was created. TCEQ approval is required before the District or a MUD Participant can issue bonds for water, wastewater and drainage facilities or park/recreational facilities. TCEQ approval is not currently required for the Master District or any of the MUD Participants to issue bonds for road facilities. See “INVESTMENT CONSIDERATIONS— Future Debt” and “THE DISTRICT AND SERVICE AREA—General.”

The District and each other MUD Participant is also authorized by statute to engage in fire-fighting activities, including the issuance of bonds payable from taxes for such purpose. Before the District or any other MUD Participant could issue fire-fighting bonds payable from taxes, the following actions would be required: (a) authorization of a detailed master plan and bonds for such purpose by the qualified voters in the District or such MUD Participant; (b) approval of the master plan and issuance of bonds by the TCEQ; and (c) approval of bonds by the Attorney General of Texas. The Board of Directors of the District has not considered calling an election to authorize firefighting activities at this time.

Issuance of additional bonds could dilute the investment security for the Bonds.

Dissolution

Under existing Texas law, since the District lies wholly within the corporate limits of the City, the District may be dissolved by the City, without the District’s consent, subject to compliance by the City with Chapter 43 of the Texas Local Government Code, as amended. In addition, the Utility Agreement between the City and the District places certain restrictions on the City’s right to dissolve the District. See “THE MUD PARTICIPANTS – Utility Agreement with the City-Dissolution of the District.” If the District is dissolved, the City must assume the District’s assets and obligations (including the Bonds) and abolish the District. Dissolution of the District by the City is a policy-making matter within the discretion of the Mayor and City Council of the City, and therefore, the District makes no representation that the City will ever dissolve the District and assume its debt. Moreover, no representation is made concerning the ability of the City to make debt service payments should dissolution occur.

Consolidation

The District has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its assets (including cash) and liabilities (including 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.

Remedies in Event of Default

Upon the occurrence of an Event of Default (as defined herein), the Trustee may proceed to protect and enforce the rights of the Registered Owners of the Bonds. The Road Indenture provides certain limitations on the right of a Registered Owner of the Bonds to institute suits, actions or proceedings at law or in equity upon the occurrence of an Event of Default. See “THE INDENTURE OF TRUST—Remedies—Limitation on Action by Owners.” If the District defaults, the Trustee or, if permitted, the Registered Owners could petition for a writ of mandamus issued by a court of competent jurisdiction compelling and requiring the District and the District’s officials to observe and perform the covenants, obligations or conditions prescribed in the Bond Resolution and the Master District Contract. Such remedy might need to be enforced on a periodic basis and may prove time-consuming, costly, and difficult to enforce. Other than a writ of mandamus, the Bond Resolution does not provide a specific remedy for a default. 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. The enforcement of a claim for payment on the Bonds would be subject to the applicable provisions of the federal bankruptcy laws, any other similar laws affecting the rights of creditors of political subdivisions, and general principles of equity. Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government’s sovereign immunity from suits for money damages, so that in the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Resolution may not be reduced to a judgment for money damages. If such a judgment against the District were obtained, it could not be enforced by direct levy and execution against the property of the Master District or property within the Service Area. Further, the Registered Owners cannot themselves foreclose on property within the Service Area or sell property within the Service Area to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or 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. See “INVESTMENT CONSIDERATIONS—Registered Owners’ Remedies and Bankruptcy Limitation to Registered Owners’ Rights” and “THE INDENTURE OF TRUST—Remedies—Limitation on Action by Owners.”

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 might 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.

Defeasance

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

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

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

BOOK-ENTRY-ONLY SYSTEM

The information in this section concerning DTC and DTC's book-entry-only system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy or completeness thereof. The District cannot and does not give any assurances that DTC, DTC Direct Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) Bonds representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) prepayment or other notices sent to DTC or Cede & Co., its nominee, as the Registered Owner of the Bonds, or that they will so do on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will 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 "Procedure" of DTC to be followed in dealing with DTC Direct Participants are on file with DTC.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered Bonds 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 Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, 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 a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

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

All payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Bonds 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. Payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but neither the District nor the Underwriter take any responsibility for the accuracy thereof.

THE INDENTURE OF TRUST

The Road Contract Revenue Bonds are secured by an Indenture of Trust dated as of August 1, 2012 (the "Road Indenture") between the Master District and The Bank of New York Mellon Trust Company, N.A., Houston, Texas, as Trustee. Pursuant to the Road Indenture, the Master District has assigned and pledged to the Trustee all of the Master District's right, title and interest in and to the Road Contract Payments. Such Road Contract Payments, together with all amounts from time to time on deposit in the Road Debt Service Fund and Road Reserve Fund maintained by the Trustee pursuant to the Road Indenture, together with any other property from time to time hereafter conveyed or granted to the Trustee pursuant to the Road Indenture shall constitute the "Road Pledged Revenues" held by the Trustee under the Road Indenture.

Pursuant to the Road Indenture, the Trustee is to maintain the Road Debt Service Fund and Road Reserve Fund as trust funds to be held in trust solely for the benefit of the Registered Owners of the Road Contract Revenue Bonds. The Master District has covenanted in the Road Indenture that it will cause to be charged to each MUD Participant, for deposit into the Road Debt Service Fund, Road Contract Payments in amounts sufficient, together with other Road Pledged Revenues, to provide for the timely payment of all principal and interest due on the Road Contract Revenue Bonds. Subject to the provisions of applicable law and the Master District Contract, the Master District has covenanted in the Road Indenture to use its best efforts to cause to be paid by each MUD Participant all Road Contract Payments when due directly to the Trustee. The Road Debt Service Fund and the Road Reserve Fund are to be invested only in investments authorized by the laws of the State of Texas but must be invested in a manner such that the money required to be expended from any fund will be available at the proper time or times. Amounts in the Road Reserve Fund shall be used to pay interest on and principal of the Road Contract Revenue Bonds when insufficient funds are available for such purpose in the Road Debt Service Fund or shall be applied toward the payment of principal of or interest on the Road Contract Revenue Bonds in connection with a refunding or redemption. The Road Reserve Requirement has been established in the Bond Resolution to be a sum of money equal to one-half of the maximum annual debt service requirements on the Road Contract Revenue Bonds then outstanding. Pursuant to the Bond Resolution, any funds in excess of the Road Reserve Requirement held in the Road Reserve Fund may be deposited into the Road Debt Service Fund, as directed by the Master District's Board of Directors.

Events of Default

The Road Indenture provides that an Event of Default shall be either of the following occurrences:

- (a) Failure to pay when due the principal, redemption price or interest on any Road Contract Revenue Bond; or
- (b) Failure to deposit into the Road Debt Service Fund money sufficient to pay any principal of or interest on any Road Contract Revenue Bond no later than the date when it becomes due and payable.

Remedies

The Road Indenture provides that if an event of default by the Master District exists, then, in addition to other rights and remedies, the Trustee, subject to the provisions of the Road Indenture, may proceed to protect and enforce its rights and the rights of the Registered Owners by suit, action or proceeding in equity or at law or otherwise, whether for the specific performance of any covenant or agreement contained in the Road Indenture, the Bond Resolution or the Road Contract Revenue Bonds or in aid of the execution of any power granted in the Road Indenture or for the enforcement of any other legal, equitable or other remedy, as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce any of the rights of the Trustee or such Registered Owners, including, without limitation, the right to seek a writ of mandamus issued by a court of competent jurisdiction compelling the board of directors or other officers of the Master District or any MUD Participant to make any Road Contract Payment (but only from and to the extent of the sources provided in the Road Indenture and the Master District Contract) or to observe and perform the covenants, obligations or conditions of the Road Indenture or the Master District Contract relating to the Road Contract Revenue Bonds. The Road Indenture provides that the Trustee may seek the appointment of receivers, may act without possession of the Road Contract Revenue Bonds, may act as attorney in fact for the Registered Owners of the Road Contract Revenue Bonds, that no remedy is exclusive and that the delay or omission in the exercise of any right or remedy shall not constitute a waiver.

The Road Indenture does not provide for any acceleration of maturity of the Road Contract Revenue Bonds or provide for the foreclosure upon any property or assets of the Master District, other than applying the Road Pledged Revenues in the manner provided in the Road Indenture.

Limitation on Action by Owners

The Road Indenture imposes certain limitations on Registered Owners of Road Contract Revenue Bonds to institute suits, actions or proceedings at law or in equity for the appointment of a receiver or other remedy unless and until the Trustee shall have received the written request of the Registered Owners of not less than 25% of all Road Contract Revenue Bonds then outstanding and the Trustee shall have refused or neglected to institute such suit, action or proceeding for a period of 10 days after having been furnished reasonable indemnity. Notwithstanding the foregoing, Registered Owners of more than 50% of the aggregate principal amount of the Road Contract Revenue Bonds then outstanding shall have the right, by written instrument delivered to the Trustee, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Road Indenture or for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee or any other proceedings under the Road Indenture; provided, however, that such direction shall not be contrary to law or the provisions of the Road Indenture, and the Trustee shall have the right to decline to follow any such direction if the Trustee in good faith shall determine that the proceeding so directed would involve it in personal liability or would be unjustly prejudicial to the Registered Owners of the Road Contract Revenue Bonds not consenting.

Amendments to the Indenture of Trust

Under Section 9.01 of the Road Indenture, the Master District and the Trustee may, without the consent of the Registered Owners of any of the Road Contract Revenue Bonds, enter into one or more supplemental indentures, which shall form a part of the Road Indenture, for any one or more of the following purposes:

- (a) to cure any ambiguity, inconsistency or defect or omission in the Road Indenture, or any supplemental indenture, so long as said cure is not inconsistent with the Road Indenture and does not adversely affect the interests of the Registered Owners of any outstanding Road Contract Revenue Bonds;
- (b) to grant to or confer upon the Trustee for the benefit of the Registered Owners of the Road Contract Revenue Bonds any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Registered Owners of the Road Contract Revenue Bonds or the Trustee or either of them;
- (c) to subject to the lien of the Road Indenture additional revenues, properties or collateral;
- (d) to modify, amend or supplement the Road Indenture or any supplemental indenture in such manner as to provide further assurances that interest on the Road Contract Revenue Bonds will, to the greatest extent legally possible, be excludable from gross income for federal income tax purposes;
- (e) to obtain or provide for bond insurance for any Road Contract Revenue Bonds; provided, however, the Master District (at its option) may obtain or provide for bond insurance for any Road Contract Revenue Bonds through Bond Resolution(s) without the need for a supplemental indenture;
- (f) to add to any statutory terms and conditions imposed on the City of Fulshear (or any other entity that may become the legal successor to the Master District) in connection with the assumption of the Master District's obligations under the Road Indenture;
- (g) to create (or provide for the terms and conditions of) additional funds, and accounts or sub-accounts within any funds established by the Road Indenture or the bond resolutions authorizing Road Contract Revenue Bonds; provided, however, the Master District (at its option) may do any of same without the need for a supplemental indenture;

(h) to modify any of the provisions of the Road Indenture or any supplemental indenture in any respect whatsoever, provided that such action shall not adversely affect the interests of the Registered Owners of any outstanding Road Contract Revenue Bonds; provided, however, prior to the joining in the execution of any modification of the Road Indenture pursuant to this subsection, the Trustee shall receive an opinion of counsel stating that such modification is authorized and permitted under the Road Indenture; and

(i) to obtain or provide for one or more debt service reserve fund surety policies to satisfy some or all of the Road Reserve Requirement.

Except as provided in the preceding paragraph, any modification, change or amendment of the Road Indenture may be made only by a supplemental indenture adopted and executed by the Master District and the Trustee with the consent of the Registered Owners of not less than a majority of the aggregate principal amount of the Road Contract Revenue Bonds then outstanding. However, without the consent of the Registered Owner of each outstanding Road Contract Revenue Bond, no modification, change or amendment to this Road Indenture shall:

(1) extend the time of payment of the principal thereof or interest thereon, or reduce the principal amount thereof or premium, if any, thereon, or the rate of interest thereon, or make the principal thereof or premium, if any, or interest thereon payable in any coin or currency other than any coin or currency of the United States of America which on the date of payment is legal tender for the payment of debts due the United States of America, or deprive such Registered Owner of the lien imposed by the Road Indenture on the revenues pledged in the Road Indenture; or

(2) change or amend the Road Indenture to permit the creation of any lien on the revenues pledged in the Road Indenture equal or prior to the lien imposed by the Road Indenture.

Contract Revenue Bonds Other Than Road Contract Revenue Bonds

The Road Indenture provides that the Master District reserves the right to issue Water/Sewer/Drainage Contract Revenue Bonds pursuant to an Indenture of Trust dated as of December 1, 2009 between the Master District and The Bank of New York Mellon Trust Company, N.A., (“Water/Sewer/Drainage Indenture”) and (if then authorized by the Master District Contract) contract revenue bonds to fund Master District Park Facilities and to require the MUD Participants to make payment for same as provided for in the Master District Contract. The lien and revenues pledged by the Road Indenture do not include: (i) any payments to be made to the Master District by the MUD Participants pursuant to the Water/Sewer/Drainage Indenture, (ii) any payments, including the Water/Sewer/Drainage Contract Payments, to be made to the Master District by the MUD Participants to pay for Water/Sewer/Drainage Contract Revenue Bonds; nor (iii) any payments to be made to the Master District by the MUD Participants to pay for (if then authorized by the Master District Contract) contract revenue bonds to fund Master District Park Facilities.

Removal or Resignation of Trustee

The Trustee may be removed at any time by an instrument or concurrent instruments in writing, signed by the Registered Owners of a majority in principal amount of the Road Contract Revenue Bonds then outstanding and delivered to the Trustee, with notice thereof given to the Master District.

The Trustee may at any time resign and be discharged from the trusts created by giving written notice to the Master District and by providing written notice to the Registered Owners of its intended resignation at least sixty (60) days in advance thereof. Such notice shall specify the date on which such resignation shall take effect and shall be sent by first class mail, postage prepaid to each Registered Owner of Road Contract Revenue Bonds. Resignation by the Trustee shall not take effect unless and until a successor to such Trustee shall have been appointed as hereinafter provided.

Appointment of Successor Trustee

In case the Trustee shall resign, or shall be removed or dissolved, or shall be in the course of dissolution or liquidation, or shall otherwise become incapable of acting under the Road Indenture, or in case the Trustee shall be taken under control of any public officer or officers or a receiver appointed by a court, a successor may be appointed by the Registered Owners of a majority in principal amount of the Road Contract Revenue Bonds then outstanding, by an instrument or concurrent instruments in writing, signed by such Registered Owners or their duly authorized representatives and delivered to the Trustee, with notice thereof given to the Master District; provided, however, that in any of the events above mentioned, the Master District may nevertheless appoint a temporary Trustee to fill such vacancy until a successor shall be appointed by the Registered Owners in the manner above provided, and any such temporary Trustee so appointed by the Master District shall immediately and without further act be automatically succeeded by the successor to the Trustee appointed by the Registered Owners. The Master District shall provide written notice to the Registered Owners of the appointment of any successor Trustee, whether temporary or permanent, in the manner provided for providing notice of the resignation of the Trustee as described above under “Removal or Resignation of Trustee.” Any successor Trustee or temporary Trustee shall be a trust company or bank in good standing located in or incorporated under the laws of the State of Texas duly authorized to exercise trust powers and subject to examination by federal or state authority, having a reported capital and surplus of not less than \$100,000,000.

In the event that no appointment of a successor Trustee is made by the Registered Owners or by the Master District pursuant to the foregoing provisions at the time a vacancy in the office of the Trustee shall have occurred, the Registered Owner of any Road Contract Revenue Bond issued hereunder or the retiring Trustee may apply to any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice as it shall deem proper, if any, appoint a successor Trustee.

Merger, Conversion or Consolidation of Trustee

Notwithstanding any provision of the Road Indenture to the contrary, any corporation or association into which the Trustee may be merged or converted, or with which it may be consolidated, or any corporation succeeding to all or substantially all of the corporate trust business of the Trustee, or any corporation or association resulting from any merger, conversion or consolidation to which the Trustee shall be a party, shall be the successor Trustee under the Road Indenture without the execution or filing of any instrument or any other act on the part of the Trustee or the Master District.

USE AND DISTRIBUTION OF BOND PROCEEDS

The construction costs below were compiled by BGE, the District's engineer (the "Engineer"). Non-construction costs are based upon either contract amounts, or estimates of various costs by the Engineer and Masterson Advisors LLC (the "Financial Advisor"). The actual amounts to be reimbursed by the District and the non-construction costs will be finalized after the sale of the Bonds and review by the District's auditor.

CONSTRUCTION COSTS

Construction costs, engineering, landscape architect fees, materials testing, geotechnical and storm water pollution prevention for:	
FM 1463 Turn Lanes	\$687,278
Cross Creek Ranch Willows Section 1 Landscaping within West Cross Creek Bend Lane ROW	115,668
Cross Creek Ranch Cross Creek Bend Lane Extension No. 10 Landscaping	107,817
Cross Creek Bend Lane Extension No. 11 Reinforced Concrete Paving	208,361
Cross Creek Bend Lane Extension No. 5 - 8 Phase 2 Reinforced Concrete Paving	1,772,784
Cross Creek Ranch Creek Falls 8 - 9 landscaping within Creek Falls Drive ROW and Creek Falls Drive Extension No. 1	163,506
Creek Falls Drive Extension No. 2 Reinforced Concrete Paving	313,285
West Cross Creek Bend Lane Extension No. 4 Reinforced Concrete Paving	828,780
Cross Creek Ranch Creek Cove 9 landscaping within Fulshear Bend Drive ROW and Fulshear Bend Drive Extension No. 2	269,188
Fulshear Bend Drive Extension No. 1 -2 Phase 2 Reinforced Concrete Paving	748,017
CenterPoint Energy Street Light Fees	101,837
Land Acquisition for Road Right-of-Way	<u>235,945</u>
Total Construction Costs	\$5,552,466
Less Surplus Construction Funds	(\$885,000)
Total Construction Costs	\$4,667,466

NON- CONSTRUCTION COSTS

Legal Fees	\$151,400
Financial Advisor Fees	103,550
Engineering	25,000
Interest	
Developer Interest (estimated @ 4.25%)	172,126
Reserve Fund (a)	199,220
Bond Discount	167,100
Bond Issuance Expenses	32,948
Contingency (b)	45,620
Attorney General Fee	<u>5,570</u>
Total Non-Construction Costs	<u>\$902,534</u>

TOTAL BOND ISSUANCE REQUIREMENT **\$5,570,000**

- (a) The deposit to the Road Reserve Fund is based on the actual amount needed to satisfy the Road Reserve Requirement associated with the issuance of the Bonds.
- (b) Represents the difference between the estimated amount to be deposited in the Road Reserve Fund to satisfy the Road Reserve Requirement and the actual amount needed and can be used for purposes allowed, including payment for other projects.

THE MUD PARTICIPANTS

Creation, Authority and Description

All MUD Participants (including the District) were created by the TCEQ as municipal utility districts. Each MUD Participant has the power to construct, operate and finance water, sanitary sewer, drainage, park/recreational facilities and arterial, collector and thoroughfare road facilities pursuant to Chapter 49 and 54 of the Texas Water Code. Each MUD Participant may issue bonds, with the authorization of its board of directors and (if payable from taxes) its voters, to acquire and maintain water, sanitary sewer, and drainage, and park/recreational facilities, and arterial, collector and thoroughfare road facilities, to serve the land within its boundaries. Issuance of bonds for water, sanitary sewer and drainage and park and recreational facilities requires the approval of the TCEQ; issuance of road bonds does not require approval of the TCEQ. Each MUD Participant may also establish, operate, and maintain a fire department or contract for firefighting services, if the TCEQ and its voters approve a plan for that purpose.

Authorized Bonds

Voters in the District and in each of the other MUD Participants have each approved the authorization of unlimited tax bonds for purposes of providing water distribution, wastewater collection and storm drainage facilities, parks/recreational facilities and road facilities to serve land within their boundaries.

The District, in its capacity as a MUD Participant has not issued bonds to date. MUD 173 has issued two series of unlimited tax bonds in the aggregate amount of \$11,800,000 and is expected to issue its third series of bonds during 2018 in the amount of \$5,000,000. MUD 170 has issued three series of unlimited tax bonds in the aggregate amount of \$10,135,000 and is expected to issue its fourth series of bonds in the amount of \$2,400,000 during 2018. MUD 171 has issued six series of unlimited tax bonds in the aggregate amount of \$15,970,000. MUD 172 has issued five series of unlimited tax bonds in the aggregate amount of \$28,815,000. See "APPENDIX A" for a description of the voter authorized bonds for each MUD Participant.

Utility Agreement with the City

The District operates pursuant to a Utility Agreement between the City and the District dated as of December 18, 2007, as amended (the "Utility Agreement"). The Utility Agreement provides that it is in effect from December 18, 2007 and continues for a term of 30 years from the year after the year the District issues unlimited tax bonds unless otherwise previously terminated pursuant to some term or condition of the Utility Agreement. The Utility Agreement provides that the District, in addition to providing water, wastewater and drainage facilities to serve the land within its boundaries, will act as the coordinating entity for regional water, sewer, drainage, roads, and park and recreational facilities to serve the Service Area and will operate as the Master District. Pursuant to the Utility Agreement, the District agreed to acquire and construct, for ultimate conveyance to the City, certain Master District Facilities and internal water, wastewater and drainage facilities (collectively, the "District Utility Facilities") and the City agreed to make annual tax rebate payments (as described herein) to the District in consideration of the District's financing, acquisition, and construction of the District Utility Facilities. Each MUD Participant has a similar utility agreement with the City providing that each MUD Participant's internal water, wastewater, and drainage facilities (except detention ponds, drainage channels, and non-potable water facilities) will be conveyed to the City for ownership and operation by the City and the City will make annual tax rebate payments to the MUD Participant in consideration of the MUD Participant's financing, acquisition, and construction of such internal facilities.

The Facilities: The Utility Agreement provides that the District Utility Facilities shall be designed and constructed in accordance with the City's requirements and criteria. In its capacity as Master District, the District will construct a regional wastewater treatment plant to serve the Service Area, including the District. The District is authorized to construct 500,000 gallons per day of interim wastewater treatment plant capacity, and all additional capacity is required to be provided by permanent plant facilities. The District will also construct such water supply and detention and drainage facilities as it deems appropriate to serve the Service Area. See "THE SYSTEM."

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

Ownership, Operation, and Maintenance of the Utility Facilities: Upon completion of construction of the District Utility Facilities, the District agrees to convey such facilities to the City, reserving for itself a security interest in such facilities for the purpose of securing the performance of the City under the Utility Agreement. When all bonds issued by the District to acquire and construct the applicable District Utility Facilities have been paid or redeemed and discharged in full, the District agrees to execute a release of the security interest retained by the District and the City shall own the District Utility Facilities without such encumbrance. As each phase of the District Utility Facilities is completed, the City agrees to inspect the same and upon approval, will accept the District Utility Facilities for operation and maintenance. From then on, the District Utility Facilities shall be operated and maintained by the City at its sole cost and expense. To date, the only District Utility Facilities that the District has conveyed to the City are Master District Facilities since no development or construction of water, sewer or drainage facilities internal to the District has occurred. Initially the City will operate the District Utility Facilities by contracting with a qualified third-party company, and at such time as the land within the MUD Participants has more than 3,000 connections, the City is authorized by the Utility Agreement to independently operate the District Utility Facilities. Although the District now has over 3,000 connections, the City has not begun independently operating the District Utility Facilities. The City currently uses Inframark, Inc. to operate the District Utility Facilities and the water and sewer facilities of the other MUD Participants. Detention pond and drainage ditch facilities, as well as park/recreational facilities and non-potable water facilities, constructed by the District that serve the Service Area are not conveyed to the City and the District, as the Master District is responsible for operation and maintenance thereof.

The Utility Agreement provides that the City shall fix rates and charges for customers of the District Utility Facilities for services afforded by the District Utility Facilities, provided that such rates and charges will not exceed the rates charged other users within the City and subject to certain restrictions, including (among others): (1) the City water and sewer rates will be set at a rate that only provides sufficient income to operate, maintain and insure the District Utility Facilities and to establish and maintain an operating reserve of not more than 12 months; (2) the City water and sewer rates will not include any component attributable to debt service on City bonds; and (3) the revenues from the District Utility Facilities will be maintained in a separate City account and used solely for the purpose of operating, maintaining and insuring the District Utility Facilities and will not be used for any other purpose. The City may charge the builders within the District a tap fee and inspection charges, provided that such fees do not exceed the tap fees and inspection fees charged by Cinco Southwest Municipal Utility District No. 1, a nearby utility district, for similar taps. Other than water and sewer rates and tap fees, the City may not impose any additional fee or charge (including a capital recovery fee) on users of the District Utility Facilities. The District is not entitled to any water and sewer charges, tap fees, or any other revenue from the District Utility Facilities, as all of same belongs exclusively to the City.

Tax Rebate: The City agrees to annually rebate to the District all of the City's ad valorem tax revenue from the property in the boundaries of the District in excess of \$0.10 per \$100 of assessed value (the "Tax Rebate"). The Utility Agreement provides that the Tax Rebate shall be made each year following the year the District issues its first series of unlimited tax bonds and shall continue for 30 years from the year after the year the District first issues unlimited tax bonds. Because it is unknown when the District will develop internally and therefore issue unlimited tax bonds, it is also unknown when the District will start to receive the Tax Rebate. The City will pay the rebate portion of the taxes actually collected to the District on February 28th of the year following the year in which the taxes are levied and quarterly thereafter until the Tax Rebate has been paid in full. The Utility Agreement provides that the Tax Rebate shall be used by the District to pay for the design and construction of water, sewer, drainage, road and recreational facilities, or to pay debt service on outstanding bonds issued by the District, or to pay the District's contractual obligation to pay a portion of the debt service on Contract Revenue Bonds issued by the Master District to finance regional facilities. The Utility Agreement does not require the District to pledge the Tax Rebate for payment of bonds or for any other purpose. Therefore, the Tax Rebate is subject to modification by agreement of the District and the City.

Dissolution of the District: The City has the right to abolish and dissolve the District and to acquire the District's assets and assume the District's obligations in accordance with state law. The Utility Agreement provides, however, that the District shall not be abolished (1) until the developers have fully developed 90% of their developable acreage within the District; (2) the remaining 10% developable acreage owned by the developers has had water, sewer and drainage facilities necessary to serve the area installed; and (3) the developers have been fully reimbursed by the District, in accordance with TCEQ rules for all of the developers' eligible development and construction costs.

Debt Service Tax

Each of the MUD Participants, including the District, has the statutory authority to issue unlimited tax bonds for the purpose of providing water distribution, wastewater collection and storm drainage facilities, road facilities, and park/recreational facilities to serve the land within its boundaries. To the extent MUD Participants issue such bonds, the bonds are secured by a continuing, annual unlimited ad valorem tax adequate to provide funds to pay the principal of and interest on such bonds. Such tax is in addition to the Water/Sewer/Drainage Contract Tax and the Road Contract Tax. See "THE MUD PARTICIPANTS—Authorized Bonds" and "APPENDIX A" for a description of the voter authorized bonds for each MUD Participant.

Contract Tax

The District as the Master District has the authority to issue Water/Sewer/Drainage Contract Revenue Bonds and Road Contract Revenue Bonds pursuant to the Master District Contract. The pro rata share of the debt service requirements on the Water/Sewer/Drainage Contract Revenue Bonds and the Road Contract Revenue Bonds for each MUD Participant, including the District, shall be determined by dividing each MUD Participant's gross certified assessed value by the total of all of the MUD Participants' gross certified assessed valuation. The Master District Contract obligates each MUD Participant to pay its pro rata share of annual debt service requirements on the Water/Sewer/Drainage Contract Revenue Bonds from the proceeds of an annual unlimited Water/Sewer/Drainage Contract Tax, from revenues, if any, derived from the operation of its water distribution and wastewater collection system, or from any other legally available funds. The Master District Contract obligates each MUD Participant to pay its pro rata share of annual debt service requirements on the Road Contract Revenue Bonds from the proceeds of an annual unlimited Road Contract Tax, from revenues, if any, derived from the operation of its water distribution and wastewater collection system, or from any other legally available funds. Since the water distribution and wastewater collection systems of each MUD Participant, including the District, are expected to be conveyed to the City, it is not expected that the MUD Participants will have any revenues from such systems and it is expected that all of such system revenues will belong to the City. The debt service requirement shall include principal, interest and redemption requirements on the Water/Sewer/Drainage Contract Revenue Bonds and the Road Contract Revenue Bonds, charges and expenses of paying agents/registrars and trustees, and all amounts necessary to establish and maintain funds established under the resolution(s) or indenture(s) of trust pursuant to which the Master District's Water/Sewer/Drainage Contract Revenue Bonds and Road Contract Revenue Bonds are issued. Water/Sewer/Drainage Contract Payments (all of which are derived from the Water/Sewer/Drainage Contract Tax or other legally available funds of a MUD Participant) are not pledged for and are not available to be used to: (i) pay debt service on the Road Contract Revenue Bonds, including the Bonds; or (ii) fund or maintain the Road Reserve Fund. Road Contract Payments (all of which are derived from the Road Contract Tax or other legally available funds of a MUD Participant) are not pledged for and are not available to be used to: (i) pay debt service on Water/Sewer/Drainage Contract Revenue Bonds; or (ii) fund or maintain the Water/Sewer/Drainage Reserve Fund.

Maintenance Taxes

Each of the MUD Participants, including the District, has the statutory authority to levy and collect an annual ad valorem tax for the operation and maintenance of water distribution, wastewater collection, storm drainage facilities, road facilities and park/recreational facilities to serve land within its boundaries. Such a maintenance tax has been authorized by each MUD Participant's voters. A maintenance tax is in addition to: (i) taxes which the MUD Participant is authorized to levy for paying principal of and interest on its unlimited tax bonds, (ii) the Water/Sewer/Drainage Contract Tax, and the (iii) the Road Contract Tax.

Management

Each MUD Participant is governed by a board of directors, consisting of five (5) members, which has control and management of all affairs of such MUD Participant. Unless all candidates are unopposed, a directors election will be held within the boundaries of each MUD Participant in May in even-numbered years. Directors are elected to serve four-year staggered terms. All directors must reside or own property within the MUD Participant on whose board they serve. None of the MUD Participants has any employees. Each MUD Participant contracts for all services required to maintain its operations. The TCEQ exercises continuing supervisory jurisdiction over each MUD Participant, and construction by each MUD Participant of water, wastewater and storm drainage facilities. Construction of any road facilities is subject to regulation by other government entities.

Financial Data

For more information on each MUD Participant, including historical tax rates, see "APPENDIX A."

Enlargement of Service Area/Future MUD Participants

The Master District has contracted with MUD Participants covering the Service Area. The Service Area currently includes approximately 3,293 acres. The Service Area may only be enlarged upon the approval of two-thirds (2/3) of all MUD Participants. Such an enlargement of the Service Area may occur by a MUD Participant annexing additional land into its boundaries or by the Master District contracting with participant(s) other than the MUD Participants. Any contract with a participant outside the existing Service Area and any enlargements in size and capacity of the Master District Facilities is subject to the terms and conditions of the Master District Contract and must not impair the right of the existing MUD Participants to receive services from the Master District, which are established under the Master District Contract for the number of connections reserved to the MUD Participant, except with the consent of the MUD Participants. The Master District agrees that it will only contract with participants other than the MUD Participants, if any, on substantially the same terms and conditions as are set out in the Master District Contract. In February 2011, Fort Bend County Municipal Utility District No. 173 annexed approximately 71 acres of land adjacent to Cross Creek Ranch originally owned by Landmark Industries Inc., and via amendment to the Master Contract, all MUD Participants agreed to enlarge the Service Area to include such approximate 71 acres. In December 2016, MUD 171 annexed approximately 23 acres of land adjacent to Cross Creek Ranch owned by the Archbishop of Galveston-Houston and via amendment to the Master District Contract, all MUD Participants agreed to enlarge the Service Area to include such approximate 23 acres.

MASTER DISTRICT CONTRACT

The Master District provides the regional water, sanitary sewer, drainage, park/recreational and road facilities (collectively, the “Master District Facilities”) necessary to serve the Service Area. By execution of the “Contract for Financing, Operation, and Maintenance of Regional Facilities”, as amended (the “Master District Contract”), each of the MUD Participants agrees that the Master District will construct Master District Facilities. In addition, each MUD Participant will be obligated to make contract payments equal to its pro rata share of annual debt service (i) on the Water/Sewer/Drainage Contract Revenue Bonds, plus all charges and expenses of paying agents, registrars and trustees, and all amounts required to establish and maintain funds, including the Water/Sewer/Drainage Reserve Fund established under the bond resolutions for Water/Sewer/Drainage Contract Revenue Bonds or the Water/Sewer/Drainage Indenture based upon the gross certified assessed valuation of each such MUD Participant as a percentage of the total gross certified assessed valuation of all MUD Participants (“Water/Sewer/Drainage Contract Payment(s)”); and (ii) on the Road Contract Revenue Bonds, including the Bonds, plus all charges and expenses of paying agents, registrars and trustees, and all amounts required to establish and maintain funds, including the Road Reserve Fund established under the Bond Resolution or Road Indenture based upon the gross certified assessed valuation of each such MUD Participant as a percentage of the total gross certified assessed valuation of all MUD Participants (the “Road Contract Payment(s)”). The Master District Contract also provides for operation and maintenance expenses for facilities constructed pursuant to the Master District Contract; duties of the parties; establishment and maintenance of funds; assignment; arbitration; amendments; force majeure; insurance; and other provisions.

The Master District Facilities will be financed pursuant to the Master District Contract. The Master District is authorized to issue contract revenue bonds in the principal amount of \$483,000,000 for acquiring and constructing regional water, sewer and drainage facilities (and for the purpose of refunding such bonds), and \$121,450,000 principal amount for acquiring and constructing arterial, collector or thoroughfare roads and improvements in aid thereof (and for the purpose of refunding such bonds). Pursuant to the Master District Contract, approval by each MUD Participant and approval by the voters at an election held by each MUD Participant is required prior to any amendment to the Master District Contract that would increase such \$483,000,000 authorized amount, or such \$121,450,000 authorized amount. After issuance of the Bonds, the Master District will be authorized under the Master District Contract to issue an additional \$79,410,000 of Road Contract Revenue Bonds and an additional \$408,395,000 of Water/Sewer/Drainage Contract Revenue Bonds. Each MUD Participant's pro rata share of the debt service requirements on the Water/Sewer/Drainage Contract Revenue Bonds and the Road Contract Revenue Bonds is determined annually by dividing the MUD Participant's certified gross appraised value by the cumulative total of the certified gross appraised values of all the MUD Participants. The Master District Contract obligates each MUD Participant to pay its pro rata share of annual debt service requirements on the Water/Sewer/Drainage Contract Revenue Bonds from the proceeds of an annual ad valorem tax levied for such purpose by such MUD Participant on property within its boundaries, which is not limited as to rate or amount (the “Water/Sewer/Drainage Contract Tax”), revenues, if any, derived from the operation of the MUD Participant's water distribution and wastewater collection system or from any other legally available funds of the District. The Master District Contract obligates each MUD Participant to pay its pro rata share of annual debt service requirements on the Road Contract Revenue Bonds from the proceeds of an annual ad valorem tax levied for such purpose by such MUD Participant on property within its boundaries, which is not limited as to rate or amount (the “Road Contract Tax”), revenues, if any, derived from the operation of the MUD Participant's water distribution and wastewater collection system or from any other legally available funds of the District. See “INVESTMENT CONSIDERATIONS—Overlapping Debt and Taxes,” and “TAX DATA—Contract Tax.” Since each MUD Participant’s water distribution and wastewater collection system is required to be conveyed to the City pursuant to the utility agreement between the MUD Participant and the City, it is not expected that any MUD Participant will have any revenues from such system. All of such system revenues belong to the City. See “THE MUD PARTICIPANTS – Utility Agreement with City.”

Each MUD Participant will be obligated severally, but not jointly, to make Water/Sewer/Drainage Contract Payments to the Master District in an amount sufficient to pay its pro rata share of the annual debt service requirements on Water/Sewer/Drainage Contract Revenue Bonds issued by the Master District and to make Road Contract Payments to the Master District in an amount sufficient to pay its pro rata share of the annual debt service requirements on Road Contract Revenue Bonds issued by the Master District. No MUD Participant is obligated, contingently or otherwise, to make any Water/Sewer/Drainage Contract Payments or Road Contract Payments owed by any other MUD Participant; however, lack of payment, as required by the Master District Contract, of Water/Sewer/Drainage Contract Payments by any MUD Participant could result in an increase in the Water/Sewer/Drainage Contract Payment amount paid by each of the other MUD Participants and lack of payment of Road Contract Payments by any MUD Participant could result in an increase in the Road Contract Payment amount paid by each of the other MUD Participants during the time that such MUD Participant’s payment is delinquent.

The Master District Contract originally authorized the Master District to pay the capital costs of designing and constructing the regional park/recreational facilities (“Master District Park Facilities”) through either: (1) issuance of contract revenue bonds in a principal amount not to exceed \$237,440,000 to pay for Master District Park Facilities and refund bonds issued for Master District Park Facilities, all of which bonds would be payable from and secured by the MUD Participants’ unconditional obligation to make payments to the Master District from the proceeds of ad valorem taxes levied by the MUD Participants, or (2) park construction charges (“Park Construction Charges”) imposed by the Master District on each MUD Participant based on the number of connections reserved by a MUD Participant. In January, 2012, each MUD Participant executed an amendment to the Master District Contract providing that the Master District will fund Master District Park Facilities through such Park Construction Charges to be paid by each MUD Participant (including the District in its capacity as a MUD Participant). Accordingly, the Master District is not authorized to issue any of said \$237,440,000 for contract revenue bonds to fund Master District Park Facilities unless the Master District Contract is amended by the MUD Participants in the future to allow it to do so. The Master District Contract provides that the Master District will compute Park Construction Charges on the basis of the then estimated total capital costs of providing the Master District Park Facilities for all of the Service Area minus the Park Construction Charges which have been previously paid to the Master District, and dividing the result by the number of estimated total connections to be constructed within the Service Area minus the number of connections for which Park Construction Charges have been previously paid to the Master District. Each MUD Participant may issue bonds, or use other legally available funds, to pay for Park Construction Charges. In no event will a MUD Participant owe an amount for Park Construction Charges (whether paid by bond proceeds of the MUD Participant or other available funds) that exceeds any legal limit that would apply if the MUD Participant were to fund its obligation to pay for Park Construction Charges solely through the issuance of bonds. Under Section 49.4645 of the Water Code, the outstanding principal amount of bonds issued by any MUD Participant to finance park/recreational facilities payable from any source may not exceed an amount equal to one percent of the value of the taxable property in that district. Park Construction Charges are generally due from each MUD Participant to the Master District at the time a MUD Participant reserves capacity in the Master District Facilities (as hereafter defined); however, no Park Construction Charges are due until a MUD Participant’s certified taxable value exceeds \$100,000,000. The Master District Contract allows the Master District to delay the due date for Park Construction Charges from a MUD Participant until such time as that MUD Participant has sufficient bond funds available to pay same. The Master District may refuse to allow a MUD Participant to receive additional connections in the Master District Facilities if the MUD Participant fails to pay the Master District the Park Construction Charges. For the purpose of funding Park Construction Charges, the Master District may require that each MUD Participant file one or more bond applications with the TCEQ no later than the date that 75% of the above-ground improvements within the MUD Participant have been constructed or are under construction. Fort Bend County Municipal Utility District No. 171 has issued \$1,600,000 of unlimited tax bonds for the purpose of paying Park Construction Charges to the Master District and paid the Master District for additional Park Construction Charges in 2016 using surplus bond proceeds and operating funds. Fort Bend County Municipal Utility District No. 172 has issued \$4,900,000 of unlimited tax bonds for the purpose of paying Park Construction Charges to the Master District. Fort Bend County Municipal Utility District No. 170 has issued \$1,335,000 of unlimited tax bonds for the purpose of paying Park Construction Charges to the Master District.

The Master District Facilities will be constructed in stages to meet the needs of a continually expanding population within the Service Area. In the event that the Master District fails to meet its obligations under the Master District Contract to provide Master District Water/Sewer/Drainage Facilities, each of the other MUD Participants has the right pursuant to the Master District Contract to design, acquire, construct, or expand such regional facilities needed to provide service to such MUD Participants, and convey such facilities to the Master District in consideration of payment by the Master District of the actual reasonable and necessary capital costs expended by such MUD Participant for such facilities.

Each MUD Participant is further obligated to pay monthly charges for its share of the Master District’s operation and maintenance expense in connection with the Master District’s provision of service from regional park/recreational, detention pond, and drainage ditch facilities and service from any regional water, sanitary sewer, storm sewer, or road facilities that are not being fully operated or maintained by the City. The monthly charges will be used to pay the MUD Participant’s share of Master District operation and maintenance expenses and to provide for an operation and maintenance reserve equivalent to three (3) months of operation and maintenance expenses. The Master District does not currently have such 3 month operation and maintenance reserve in place. The MUD Participant’s share of operation and maintenance expenses and reserve requirements is based upon a unit cost of operation and maintenance expense and reserve requirements, calculated and expressed in terms of cost per equivalent single-family residential connection. The MUD Participant’s monthly payment for operation and maintenance expenses is calculated by multiplying the number of equivalent single-family residential connections reserved to the MUD Participant on the first day of the previous month by the unit cost per equivalent single-family residential connection.

Pursuant to the Master District Contract, each MUD Participant is obligated to levy and collect the Water/Sewer/Drainage Contract Tax and Road Contract Tax, together with taxes levied and funds received from any other lawful sources, in amounts that are sufficient at all times to pay the MUD Participant’s obligations pursuant to the Master District Contract, including the MUD Participant’s pro rata share of the Master District’s annual debt service requirements on the Road Contract Revenue Bonds, including the Bonds, the Water/Sewer/Drainage Contract Revenue Bonds and monthly charges. All sums payable by each MUD Participant pursuant to the Master District Contract are to be paid by the MUD Participant without set off, counterclaim, abatement, suspension or diminution.

THE DISTRICT AND THE SERVICE AREA

General

The Master District is a municipal utility district created by the TCEQ on August 21, 2007. The rights, powers, privileges, authority and functions of the District are established by the general laws of the State of Texas pertaining to utility districts, including Article XVI, Section 59 of the Texas Constitution, Article III, Section 52 of the Texas Constitution, and Chapters 49 and 54 of the Texas Water Code.

The Master District is empowered, among other things, to purchase and construct all works, improvements, facilities and plants necessary to be the provider of regional water, sanitary sewer, drainage, park/recreational and road facilities. The Master District will operate and maintain those facilities that are not conveyed to the City for operation (including park/recreational facilities, detention pond and drainage ditch facilities, and non-potable water facilities).

The TCEQ exercises continuing supervisory jurisdiction over the MUD Participants, including the Master District. The Master District, pursuant to the City resolution consenting to the creation of the District (the “City’s Consent Resolution”) is required to observe certain requirements of the City which (1) limit the purposes for which the District may sell bonds to the acquisition, construction, and improvement of waterworks, wastewater, drainage, park/recreational, road, and fire-fighting facilities, and for refunding purposes, (2) limit the net effective interest rate on such bonds and other terms of such bonds, (3) require approval by the City of District construction plans (except for park/recreational facilities), and (4) permit connections only to platted lots and reserves which have been approved by the Planning Commission of the City. Construction and operation of facilities constructed by the District is subject to the regulatory jurisdiction of additional governmental agencies. See “THE SYSTEM—Regulation.”

Description and Location

The District in its capacity as a MUD Participant encompasses approximately 321 acres of land. The Master District Contract provides that the District, in its capacity as Master District, has a Service Area of approximately 3,293 acres, which is comprised of the land within the District, MUD 170, MUD 171, MUD 172 and MUD 173. The Master District and its Service Area are located approximately 31 miles west of the central downtown business district of the City of Houston. The District and Service Area are located within Fort Bend County. The Service Area lies wholly within the corporate boundaries of the City and within the boundaries of either the Katy Independent School District or Lamar Consolidated Independent School District. Access to the Service Area is currently provided by Interstate Highway 10 west or U.S. Highway 59 south to Texas State Highway 99 (the “Grand Parkway”), a limited access state highway, and the Westpark Tollway.

Land Use

The Service Area currently includes approximately 1,519 developed acres of single-family residential development (3,995 lots), approximately 1,005 acres that are currently considered not developable (greenbelts, public rights-of-way, detention, open spaces, easements, parks and utility sites), and approximately 490 developable acres that have not been provided with water distribution, wastewater collection and storm drainage facilities. The table below represents a detailed breakdown of the current acreage and development in the Service Area as of August 1, 2018.

<u>Single Family Residential</u>	Approximate Acres	Lots/ESFCs	<u>Single Family Residential</u>	Approximate Acres	Lots/ESFCs
<u>Fort Bend MUD No. 171</u>			<u>Fort Bend MUD No. 173</u>		
Creekside at Cross Creek Ranch Section 1	25	75	Creek Falls at Cross Creek Ranch Section 1	23	76
Creekside at Cross Creek Ranch Section 2	26	88	Creek Falls at Cross Creek Ranch Section 2	14	49
Creekside at Cross Creek Ranch Section 3	13	25	Creek Falls at Cross Creek Ranch Section 3	12	47
Creekside at Cross Creek Ranch Section 4	22	76	Creek Falls at Cross Creek Ranch Section 4	24	74
Creekside at Cross Creek Ranch Section 5	19	45	Creek Falls at Cross Creek Ranch Section 5	14	46
Creekside at Cross Creek Ranch Section 6	24	48	Creek Falls at Cross Creek Ranch Section 6	15	60
Creekside at Cross Creek Ranch Section 7	20	62	Creek Falls at Cross Creek Ranch Section 7	10	48
Creekside at Cross Creek Ranch Section 8	36	97	Creek Falls at Cross Creek Ranch Section 8	26	104
Creekside at Cross Creek Ranch Section 9	17	53	Creek Falls at Cross Creek Ranch Section 9	22	83
Creekside at Cross Creek Ranch Section 10	16	36	Creek Falls at Cross Creek Ranch Section 10	21	74
Creekside at Cross Creek Ranch Section 11	22	66	Creek Falls at Cross Creek Ranch Section 11	15	69
Lakeside at Cross Creek Ranch	27	35	Creek Cove at Cross Creek Ranch Section 7	27	69
Legacy at Cross Creek Ranch Section 1	37	85	Creek Cove at Cross Creek Ranch Section 10	48	88
Legacy at Cross Creek Ranch Section 2	34	98	Creek Cove at Cross Creek Ranch Section 11	24	65
The Cove at Cross Creek Ranch	7	10			
<u>Fort Bend MUD No. 170</u>			<u>Total Single Family</u>		
Lakes of Cross Creek Ranch Section 1	27	67		1519	3995
Lakes of Cross Creek Ranch Section 2	26	37	<u>Commercial Development</u>		
Lakes of Cross Creek Ranch Section 3	13	34	<u>Fort Bend MUD No. 173</u>		
The Pond at Cross Creek Ranch	21	68	Convenience Store and Fast Food Restaurant	6	22
Bonterra at Cross Creek Ranch Section 1	14	8	Shops at Cross Creek Ranch	4	35
Bonterra at Cross Creek Ranch Section 2	13	57	Shops at Cross Creek Ranch Phase 2	5	32
Bonterra at Cross Creek Ranch Section 3	11	37	Market at CCR Parcel A	16	69
Bonterra at Cross Creek Ranch Section 4	21	83	Christian Brothers Automotive	1	3
Bonterra at Cross Creek Ranch Section 5	12	53	KISD Middle and High Schools (a)	111	144
Bonterra at Cross Creek Ranch Section 6	22	41	HEB Grocery Store	14	82
The Brooks at Cross Creek Ranch Section 1	30	106	Fast Food Restaurant and Bank	6	27
The Brooks at Cross Creek Ranch Section 2	10	39	Apartments (a)	22	156
The Brooks at Cross Creek Ranch Section 3	48	146	KISD Elementary School	14	29
Willows at Cross Creek Ranch Section 1	9	74			
<u>Fort Bend MUD No. 172</u>			<u>Fort Bend MUD No. 172</u>		
Creekbend at Cross Creek Ranch Section 1	22	53	KISD Elementary School No. 37	14	29
Creekbend at Cross Creek Ranch Section 2	17	60	CVS Pharmacy	2	3
Creekbend at Cross Creek Ranch Section 3	13	36	Day Care (Children's Lighthouse)	2	9
Creekbend at Cross Creek Ranch Section 4	15	62	Shopping Center (Patton Tract 1)	2	24
Creekbend at Cross Creek Ranch Section 5	15	57	Veterinary Clinic (Southpaw)	1	14
Creekbend at Cross Creek Ranch Section 6	15	44	Shopping Center (Patton Tract 2)	2	20
Creekbend at Cross Creek Ranch Section 7	33	63	Cross Creek Office Complex	3	34
Creekbend at Cross Creek Ranch Section 8	14	45	Grocery, Shopping Center and car wash	10	58
Creekbend at Cross Creek Ranch Section 9	12	38			
Creekbend at Cross Creek Ranch Section 10	19	74	<u>Fort Bend MUD No. 171</u>		
Creekbend at Cross Creek Ranch Section 11	28	60	Saint Faustina Catholic Church	33	29
Creekbend at Cross Creek Ranch Section 12	21	66			
Creekbend at Cross Creek Ranch Section 13	19	60	Subtotal-ESFCs	1787	4814
Creek Cove at Cross Creek Ranch Section 1	46	68	Welcome Center	7	----
Creek Cove at Cross Creek Ranch Section 2	38	54	Bonterra Recreation Center	4	----
Creek Cove at Cross Creek Ranch Section 3	38	54	Potential Future Development	490	----
Creek Cove at Cross Creek Ranch Section 4	28	56	Non-developable (b)	1005	----
Creek Cove at Cross Creek Ranch Section 5	33	56	Total	3293	4814
Creek Cove at Cross Creek Ranch Section 6	45	61			
Creek Cove at Cross Creek Ranch Section 8	23	50			
Creek Cove at Cross Creek Ranch Section 9	25	56			
Legacy at Cross Creek Ranch Section 3	54	60			
Legacy at Cross Creek Ranch Section 4	29	61			

(a) Includes public rights-of-way, detention, open spaces, easements, parks and utility sites.

Status of Development

Development in the Service Area currently consists of the residential development within MUD 170, MUD 171, MUD 172, and MUD 173. Homes within the Service Area range in price from approximately \$250,000 to over \$1,000,000. As of August 23, 2018, there were 1,519 acres developed into 3,995 single-family lots, which includes 3,046 occupied completed homes in the Service Area, 38 unoccupied completed homes, 29 of which are model homes, 330 homes under construction (108 homes are not under contract for purchase and 222 homes are under contract for purchase) and 581 developed lots available for home construction.

The Market at Cross Creek Ranch, McDonald's Restaurant and Shell Gas Station convenience store, Christian Brothers Automotive, the Shops at Cross Creek Ranch Phases 1 and 2, a Sonic restaurant, and 2 banks have been constructed in MUD 173 on approximately 38 acres of land. A CVS Pharmacy, the Children's Lighthouse Daycare facility, two shopping centers, the Cross Creek Office Complex, an Aldi's Grocery, a shopping center, and a veterinary clinic have been constructed in MUD 172 on approximately 22 acres of land. An elementary school has been constructed on approximately 14 acres of land also in MUD 172 and is exempt from the payment of property taxes. The Saint Faustina Catholic Church has been constructed on approximately 33 acres of land in MUD 171 and is exempt from the payment of property taxes. A Welcome Center, which includes the Cross Creek Fitness Center, the Adventure Island Water Park, Italian Maid Cafe and a 70-foot observation tower, has been constructed on approximately 7 acres in MUD 171. A HEB Grocery Store has been constructed on a 14 acre tract of land in MUD 173. An elementary school has been constructed on a 14 acre tract in MUD 173 which opened in August, 2018. The school is exempt from the payment of property taxes. The Parklane Fulshear Apartments (390 units) are under construction on a 22 acre tract of land in MUD 173 and leasing is expected to begin in December, 2018. A high school and middle school are being constructed by Katy Independent School District in MUD 173 on approximately 111 acres of land and will be exempt from the payment of property taxes. It is expected that the middle school will be completed for the 2019 – 2020 school year and that the high school will be completed for the 2020 – 2021 school year. The Bonterra Recreation Center has been constructed on approximately 4 acres in MUD 170.

In addition, there are approximately 490 developable acres that have not been provided with water distribution, wastewater collection and storm drainage facilities and approximately 1,005 acres that are currently considered as not developable. See "INVESTMENT CONSIDERATIONS—Undeveloped Acreage and Vacant Lots," "THE DISTRICT AND THE SERVICE AREA—Land Use—Status of Development," and "APPENDIX A."

MANAGEMENT OF THE DISTRICT

Board of Directors

The District is governed by a Board of Directors consisting of five (5) directors which has control over and management supervision of all affairs of the District, including responsibilities related to the District in its capacity as a MUD Participant and as Master District. Directors are elected to four-year terms and elections may be held May in even numbered years only. None of the members of the Board resides in the District. Each of the members owns land within the District, subject to a note and deed of trust in favor of CCR Texas. Directors have staggered four-year terms. The current members of the Board along with their titles and terms are listed as follows:

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Arden J. Morley	President	May 2020
William H. Yost	Vice President	May 2022
Gary Swafford	Secretary	May 2022
David W. D'Andrea	Assistant Secretary	May 2022
John Preston	Assistant Vice President	May 2020

District Consultants

The Master District does not have a general manager or other full-time employees, but contracts for certain necessary services as described below.

Bond Counsel/Attorney: The Master District has engaged Allen Boone Humphries Robinson LLP as general counsel to the Master District and as Bond Counsel in connection with the issuance of the Master District's bonds. The legal fees to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered and, therefore, such fees are contingent upon the sale and delivery of the Bonds.

Financial Advisor: Masterson Advisors LLC, serves as the District's Financial Advisor. The fee for services rendered in connection with the issuance of the Bonds is based on a percentage of the Bonds actually issued, sold and delivered and, therefore, such fee is contingent upon the sale and delivery of the Bonds.

Auditor: The Master District's financial statements for the year ended September 30, 2017, were audited by McGrath & Co., PLLC. See "APPENDIX B" for a copy of the District's September 30, 2017 financial statement.

Engineer: The Master District's consulting engineer is BGE, Inc.

Tax Appraisal: The Fort Bend Central Appraisal District has the responsibility of appraising all property within the boundaries of the MUD Participants. See "TAXING PROCEDURES."

Tax Assessor/Collector: The District has appointed an independent tax assessor/collector to perform the tax collection function. Assessments of the Southwest Inc. (the "Tax Assessor/Collector") has been employed by the District to serve in this capacity.

Bookkeeper: The Master District has contracted with F. Matuska, Inc. for bookkeeping services.

Utility System Operator: The City of Fulshear currently uses Inframark, Inc. to operate the water and sewer facilities serving the MUD Participants.

THE DEVELOPERS

Role of a Developer

In general, the activities of a landowner or developer in a municipal utility district such as the District and the other districts in the Service Area include designing the project, defining a marketing program and setting building schedules; securing necessary governmental approvals and permits for development; arranging for the construction of roads and the installation of utilities; and selling or leasing improved tracts or commercial reserves to other developers or third parties. A developer is under no obligation to a district to undertake development activities according to any particular plan or schedule. Furthermore, there is no restriction on a developer's right to sell any or all of the land which the developer owns within a district. In addition, the developer is ordinarily the major taxpayer within the district during the early stages of development. The relative success or failure of a developer to perform in the above-described capacities may affect the ability of a district to collect sufficient taxes to pay debt service and retire bonds.

None of the Developers (hereinafter defined) nor any of their affiliates, is obligated to pay principal of or interest on the Bonds. Furthermore, none of the Developers has a binding commitment to the District to carry out any plan of development and each of the Developers may sell or otherwise dispose of its property within the Service Area, or any other assets, at any time, and the furnishing of information relating to the proposed development by the Developers should not be interpreted as such a commitment. Prospective purchasers are encouraged to inspect the Service Area in order to acquaint themselves with the nature of development that has occurred or is occurring within the boundaries of the Service Area. See "INVESTMENT CONSIDERATIONS."

Prospective Bond purchasers should note that any prior real estate experience discussed below of CCR Texas Holdings LP, CCR Loan Subsidiary 1, L.P., Landmark Industries Inc., and The Market at CCR Ltd. (collectively, the "Developers") should not be construed as an indication that further development within the Service Area will occur, or that construction of taxable improvements upon property within the Service Area will occur, or that marketing or leasing of taxable improvements constructed upon property within the Service Area will be successful. See "INVESTMENT CONSIDERATIONS."

CCR Texas Holdings LP and its wholly owned affiliate CCR Loan Subsidiary 1, L.P.

On April 12, 2012, CCR Texas Holdings LP, a Delaware limited partnership ("CCR Texas") with Johnson/CCR GP, LLC as its general partner, purchased Cross Creek Ranch, consisting of approximately 2,370 acres of land and 88 lots. CCR Texas financed its acquisition of Cross Creek Ranch with combined loans totaling \$90,000,000 from CCR Texas Lender Inc. and PSPIB-CCR Inc. The combined balance of the loans was \$15,496,564 as of June 30, 2018 and the loans mature December 31, 2019.

In 2013 CCR Texas transferred approximately 423 acres in the Service Area to its wholly owned subsidiary, CCR Loan Subsidiary 1, L.P. ("CCR Subsidiary"). In 2014 CCR Texas transferred an additional 310 acres in the Service Area to CCR Subsidiary. In 2016 CCR Texas transferred an additional 400 acres in the Service Area to CCR Subsidiary.

CCR Texas and CCR Subsidiary are financing the development of Cross Creek Ranch through a combination of equity funds and a development loan. CCR Subsidiary has a revolving development loan in the amount of \$25,000,000 with Housing Capital Company, a division of US Bank. The loan is secured by CCR Subsidiary's real estate, plus certain MUD development reimbursables. The loan matures June 2, 2019 and as of June 30, 2018 had a balance of \$8,177,227.

Johnson CCR Management LLC, an affiliate of The Johnson Development Corp. ("Johnson Development") is the development manager of CCR Texas. Johnson Development is a Houston-based residential and commercial land development company. For more than forty years, Johnson Development has developed master-planned communities in Houston, Atlanta, San Antonio and other markets. Johnson Development engages in development activities through itself and related entities. In addition to Cross Creek Ranch, projects in which Johnson Development or its principals are involved in include: Sienna Plantation, a 10,500 acre mixed use project southwest of Houston; Fall Creek, a 2,300 acre mixed use project in northeast Houston; Riverstone, a 3,700 acre mixed use project southwest of Houston in Fort Bend County; Imperial, a 700 acre master planned community in Sugar Land, Texas; Towne Lake and Towne Lake Hills, a 3,700 acre residential project in the Atlanta, Georgia area; Lake Arrowhead, a 6,000 acre residential project in the Atlanta, Georgia area; Silverlake, a 1,700 acre residential project located south of Houston in Brazoria County; Bridge Mill, a 1,700 acre project near Atlanta, Georgia; Berkshire, a 200 acre residential project in west Houston; Woodforest, a 3,200 acre project located north of Houston in Montgomery County; Edgewater, a 538 acre project southwest of Houston in Webster; and Tuscan Lakes, a 900 acre residential project southeast of Houston in Galveston County.

Landmark Industries, Inc.

Landmark Industries Inc. ("Landmark") originally owned a 71 acre site within the boundaries of MUD 173 which is being developed for commercial purposes which includes a McDonald's, Shell Service Station, The Shops at Cross Creek, and Christian Brothers Automotive. Landmark Industries Inc. has developed or sold 19 acres of the approximate 71 acre site within the boundaries of MUD 173 which it owned. As of January 1, 2018, Landmark owned approximately 52 acres of land in the District.

The Market at CCR, Ltd.

The Market at CCR, Ltd. is a developer of land within MUD 173. The Market at CCR, Ltd. owns an approximately 20 acre tract of land on which a medical office building, bank and fast food restaurant and strip shopping center have been constructed on 10.5 acres of land.

Homebuilding

Homebuilders in the Service Area include Avanti Homes, Partners in Building, Huntington Homes, Highland Homes, Darling Homes, Trendmaker Homes, Perry Homes, Village Builders, Newmark Homes Houston, Sitterle Homes, Taylor Morrison Homes, Chesmar Homes, and Lennar Homes. Homes in the Service Area range in sales price from approximately \$250,000 to \$1,000,000. Homebuilding is currently occurring in MUD 170, 172 and MUD 173.

THE SYSTEM

Master District Facilities

Operation of Master District Facilities: The potable water supply facilities and wastewater treatment facilities constructed by or on the behalf of the Master District are conveyed to the City for operation and maintenance in accordance with the Utility Agreement and all capacity in said facilities is reserved for the Master District. The City currently uses Inframark, Inc., to operate such facilities. Each MUD Participant's customers are billed by the City for water and sewer service. See "THE MUD PARTICIPANTS—Utility Agreement with the City."

Water Supply: The potable water supply facilities constructed by or on behalf of the Master District and being operated by the City ("Water Supply Facilities") currently consist of two water plants. Water Plant No. 1 consists of a 1,500 gallon per minute ("gpm") water well and one 1,000 gpm water well; 840,000 gallons of ground storage capacity; 9,300 gpm of booster pump capacity; pressure tank capacity of 60,000 gallons and all related appurtenances. Water Plant No. 2 consists of a 1,650 gpm water well, 860,000 gallons of ground storage capacity, pressure tank capacity of 60,000 gallons, 4,900 gpm of booster tank capacity and all related appurtenances. The major components of the Master District's Water Supply Facilities have the capacity to serve approximately 4,831 equivalent single-family connections ("ESFCs"). According to the District's Engineer, the Master District has a current reserved capacity of 4,926 ESFCs for the MUD Participants and 3,658 active connections are being served by the Water Supply Facilities.

In order to fully provide water supply to the Service Area, the Water Supply Facilities will need to be expanded from time to time to meet the demand for such facilities. By reserving capacity, the Master District assumes the responsibility to expand facilities as needed to provide service for reserved connections as they become active. Water Plant No. 3 is currently under construction and completion is expected in the third quarter of 2019.

The Master District owns and operates non-potable water pump stations and waterlines used for irrigation purposes within the Service Area.

Wastewater Treatment: The wastewater treatment facilities constructed by or on behalf of the Master District and being operated by the City (“Wastewater Treatment Facilities”) consist of a leased plant (the “Leased Wastewater Plant”) with a total capacity of 500,000 gallons per day (“gpd”) and a permanent plant with a capacity of 1,000,000 gpd (the “Permanent Wastewater Plant”). The City has assumed certain rights and obligations under the lease for the Leased Wastewater Plant. The Master District remains obligated to pay the lease payment for the Leased Wastewater Plant, which is currently \$13,000 per month. Such lease cost is included in the Master District’s operation and maintenance expenses and therefore is shared by all MUD Participants that have reserved equivalent single-family connections (“ESFCs”). Current wastewater treatment capacity of the Wastewater Treatment Facilities will serve 8,333 ESFCs. According to the District’s Engineer, the Master District has reserved capacity for 4,926 ESFCs for the MUD Participants and approximately 3,131 active ESFCs are being served by the Wastewater Treatment Facilities.

In order to fully provide wastewater treatment for the Service Area, the Wastewater Treatment facilities will need to be expanded from time to time to meet the demand for such facilities. By reserving capacity, the Master District assumes the responsibility to expand facilities as needed to provide service for reserved connections as they become active.

Major Water Distribution and Wastewater Collection: Major water distribution facilities consist of waterlines ranging in size from 12-inch to 24-inch, generally located within the rights-of-way. These water distribution facilities supply water from the Water Supply Facilities to the internal facilities constructed by or on behalf of each MUD Participant. The major wastewater collection facilities include sanitary sewer lines ranging in size from 10-inch to 36-inch generally located within the rights-of-way of collector roads, arterial roads and major thoroughfares. These collection lines collect waste from the internal facilities constructed by or on behalf of each MUD Participant and transport it to the Wastewater Treatment Facilities. These potable water distribution and wastewater collection lines are conveyed to the City for operation and maintenance in accordance with the Utility Agreement.

Master Drainage: The Master District also provides the Service Area with drainage facilities designed for a 100-year storm event. These facilities include drainage channel facilities, detention pond facilities, water quality ponds, and conveyance storm sewer lines. Conveyance storm sewer lines are conveyed to the City for operation and maintenance in accordance with the Utility Agreement. Drainage channels, detention ponds, and water quality ponds are not conveyed to the City and the Master District is responsible for operation and maintenance thereof.

Road System: The Master District is constructing Master District Road Facilities. To date, the City has accepted the Master District Road Facilities for operation and maintenance. In the event the City were to fail to accept the Master District Road Facilities, the Master District is expected to include the cost of maintenance of same in the Master District’s operation and maintenance expenses to be shared by all MUD Participants based on the number of equivalent single-family connections reserved by each MUD Participant, and such cost could be significant.

Master Park Facilities: The Master District is constructing Master District Park Facilities. The Master District will be responsible for the cost of operation and maintenance of same, which costs are shared by all MUD Participants based on the number of equivalent single-family connections reserved by each MUD Participant.

Internal Water Distribution, Wastewater Collection and Storm Drainage Facilities

Internal water distribution, wastewater collection and storm drainage facilities have been constructed or are currently being constructed by MUD 170 to serve 850 single-family residential lots, by MUD 171 to serve 899 single-family residential lots and 29 ESFCs of commercial development, by MUD 172 to serve 1,294 single-family lots and 191 ESFCs of commercial development, and by MUD 173 to serve 952 single-family residential lots and 455 ESFCs of commercial development. See “THE DISTRICT—Land Use—Status of Development.”

Storm Water Drainage Facilities and Flood Plain

Undeveloped land in the Service Area drains naturally by way of overland sheet flow to Flewellen Creek. Internal storm-water collection lines will be constructed for drainage system improvements to serve each MUD Participant’s development and, pursuant to utility agreements between the City and each MUD Participant will be conveyed to the City for operation and maintenance. This storm sewer system will serve all the MUD Participants’ drainage area and will convey flows to several storm water detention basins owned and maintained by the Master District. The detention basins will ultimately drain to Flewellen Creek.

“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. According to the Engineer, no areas in the Service Area are located within the 100-year flood plain. See “INVESTMENT CONSIDERATIONS—Recent Extreme Weather Events; Hurricane Harvey.”

The Federal Emergency Management Agency is in a process to remap the Special Flood Hazard Area (SFHA) (commonly referred to as the 100-year flood plain elevation) and create a new digital Flood Insurance Rate Map (DFIRM) in Fort Bend County. Preliminary DFIRM maps have been released, and no changes were made to the 100-year flood plain within the Service Area. The Preliminary Flood Insurance Study report is subject to public comment, revisions and changes. Although no changes are anticipated within the Service Area, if the final study concludes that the level of the 100-year flood plain is substantially higher than current standards, land currently mapped outside the floodplain could be remapped inside the floodplain and remedial actions may be required that could have a material adverse impact on the Service Area. Remedial actions could require the removal of property from the floodplain by way of channel or other improvements and the issuance of additional debt by the Master District.

Subsidence and Conversion to Surface Water Supply

The Service Area is within the boundaries of the Fort Bend Subsidence District (the “Subsidence District”), which regulates groundwater withdrawal. The City’s authority to pump groundwater from water wells conveyed to the City by the Master District is subject to an annual permit issued by the Subsidence District. The Subsidence District has adopted regulations requiring reduction of groundwater withdrawals through conversion to alternate source water (e.g., surface water) in certain areas within the Subsidence District’s jurisdiction, including the area within the Service Area. In 2005, the Texas legislature created the North Fort Bend Water Authority (the “Authority”) to, among other things, reduce groundwater usage in, and to provide surface water to, the northern portion of Fort Bend County (including the Service Area) and a small portion of Harris County. The Authority has entered into a Water Supply Contract with the City of Houston, Texas (“Houston”) to obtain treated surface water from Houston. The Authority has developed a groundwater reduction plan (“GRP”) and obtained Subsidence District approval of its GRP. The Authority’s GRP sets forth the Authority’s plan to comply with Subsidence District regulations, construct surface water facilities, and convert users from groundwater to alternate source water (e.g., surface water). The water wells conveyed by the Master District to the City are included within the Authority’s GRP.

The Authority, among other powers, has the power to: (i) issue debt supported by the revenues pledged for the payment of its obligations; (ii) establish fees (including fees imposed on the City for groundwater pumped by the City), user fees, rates, charges and special assessments as necessary to accomplish its purposes; and (iii) mandate water users, including the City, to convert from groundwater to surface water. The Authority currently charges the City, and other major groundwater users, a fee per 1,000 gallons based on the amount of groundwater pumped by the City and a fee per 1,000 gallons of surface water received from the Authority, if any. The Authority has issued revenue bonds to fund, among other things, Authority surface water project costs. It is expected that the Authority will continue to issue a substantial amount of bonds by the year 2025 to finance the Authority’s project costs, and it is expected that the fees charged by the Authority will increase substantially over such period.

Under the Subsidence District regulations and the GRP, the Authority is required to: (i) limit groundwater withdrawals to no more than 70% of the total annual water demand of the water users within the Authority’s GRP, beginning in the year 2014; and (ii) limit groundwater withdrawals to no more than 40% of the total annual water demand of the water users within the Authority’s GRP, beginning in the year 2025. If the Authority fails to comply with the above Subsidence District regulations, the Authority is subject to a disincentive fee penalty, currently \$6.50 per 1,000 gallons (“Disincentive Fees”), imposed by the Subsidence District for any groundwater withdrawn in excess of 40% of the total annual water demand in the Authority’s GRP. In the event of such Authority failure to comply, the Subsidence District may also seek to collect Disincentive Fees from the City. If the City failed to comply with surface water conversion requirements mandated by the Authority, the Authority would likely impose monetary or other penalties against the City.

The Master District cannot predict the amount or level of fees and charges, which may be due the Authority in the future, but anticipates that the City will pass such fees through to City customers (including customers within the Service Area). In addition, conversion to surface water could necessitate improvements to the water system conveyed to the City which could require the issuance of additional Water/Sewer/Drainage Contract Revenue Bonds by the Master District. No representation is made that the Authority: (i) will build the necessary facilities to meet the requirements of the Subsidence District for conversion to surface water, (ii) will comply with the Subsidence District’s surface water conversion requirements, or (iii) will comply with its GRP.

Regulation

Construction and operation of the Master District Facilities as it now exists or as it may be expanded from time to time is subject to regulatory jurisdiction of federal, state and local authorities. The TCEQ exercises continuing, supervisory authority over the District, in its capacity as the Master District and in its capacity as a provider of internal utility services. Discharge of treated sewage into Texas waters, if any, is also subject to the regulatory authority of the TCEQ and the United States Environmental Protection Agency. Construction of drainage facilities is subject to the regulatory authority of the Fort Bend County Drainage District. Fort Bend County and the City also exercise regulatory jurisdiction over the Master District Facilities.

According to the Engineer, the improvements constructed by or on behalf of the Master District that will be financed with proceeds of the Bonds, have been designed and the corresponding plans prepared in accordance with accepted engineering practices and specifications and the approval and permitting requirements of the TCEQ, the Texas Department of Health, Fort Bend County and the City, where applicable.

FINANCIAL INFORMATION CONCERNING THE MASTER DISTRICT AND THE MUD PARTICIPANTS (UNAUDITED)

Contract Revenue Bonds of the Master District

Direct Debt Water/Sewer/Drainage Contract Revenue Bonds	\$ 70,115,000 (a)
Direct Debt Road Contract Revenue Bonds (includes the Bonds)	39,995,000
Estimated Overlapping Debt	<u>132,624,359 (b)</u>
Total Direct and Overlapping Debt	<u>\$242,734,359</u>

Gross Assessed Valuation

2018 Gross Assessed Valuation	\$1,366,309,359 (c)
Estimated Value as of August 1, 2018	<u>\$1,466,714,019 (d)</u>

Direct Debt as a % of	
the 2018 Certified Gross Assessed Valuation	8.06%
the Estimated Value as of August 1, 2018	7.51%

Direct Debt and Estimated Overlapping Debt as a % of	
the 2018 Certified Gross Assessed Valuation	17.77%
the Estimated Value as of August 1, 2018	16.55%

Master District Debt Service Funds Available:

Water/Sewer/Drainage Reserve Fund Balance as of July 2, 2018	\$2,675,396
Water/Sewer/Drainage Debt Service Fund Balance as of July 2, 2018	<u>\$7,233,132</u>
Total Available for Water/Sewer/Drainage Debt Service	\$9,908,528
Road Reserve Fund Balance upon closing of the Bonds	\$1,425,277 (e)
Road Debt Service Fund Balance upon closing of the Bonds	<u>\$2,548,889 (f)</u>
Total Available for Road Reserve Debt Service Funds	\$3,974,167

Master District Operating Funds Available as of July 2, 2018\$ 961,794

- (a) Does not include the Master District Water/Sewer/Drainage Contract Revenue Bonds, Series 2018A Bonds in December 2018. After issuance of the Series 2018A Bonds, the Master District will have \$385,395,000 principal amount of Water/Sewer/Drainage Contract Revenue Bonds authorized but unissued for the purpose of constructing or acquiring Master District Water/Sewer/Drainage Facilities and refunding such bonds.
- (b) See "FINANCIAL INFORMATION CONCERNING THE MASTER DISTRICT AND THE MUD PARTICIPANTS (UNAUDITED)—Estimated Overlapping Debt."
- (c) Includes 95% of the uncertified value provided by the Appraisal District for MUD Nos. 171, 172 and 173.
- (d) The Appraisal District has provided an estimated valuation as of August 1, 2018 for informational purposes for MUD 170, MUD 172 and 173, which was calculated by updating the certified 2018 Assessed value provided by the Appraisal District to add the estimated value of improvements constructed from January 1, 2018 to August 1, 2018. These estimates have no official status. The 2018 Certified Assessed Valuation is shown for MUD 169 and 171. Taxes are levied based on value as certified by the Appraisal District as of January 1 of each year, and, therefore, these estimates will not be the basis for any tax levy by any of the MUD Participants.
- (e) From the proceeds of the Bonds, the District will deposit into the Road Reserve Fund, an amount needed to satisfy the Road Reserve Requirement associated with the issuance of the Bonds. See "USE AND DISTRIBUTION OF BOND PROCEEDS."
- (f) All of the Master District's contract revenue bond debt is payable from contract taxes as follows: (i) the Road Contract Tax with respect to Road Contract Revenue Bonds, and (ii) the Water/Sewer/Drainage Contract Tax with respect to the Water/Sewer/Drainage Contract Revenue Bonds. The revenues from the Road Contract Tax will be allocated to Road Contract Revenue Bonds, including the outstanding Road Contract Revenue Bonds and the Bonds, and the revenues from the Water/Sewer/Drainage Contract Tax will be allocated to the Water/Sewer/Drainage Contract Revenue Bonds, including the outstanding Water/Sewer/Drainage Contract Revenue Bonds. See "FINANCIAL INFORMATION CONCERNING THE MASTER DISTRICT AND THE PARTICIPANTS (UNAUDITED)—Outstanding Bonds". The Water/Sewer/Drainage Debt Service Fund is not pledged to the Bonds or any Road Contract Revenue Bonds nor will funds deposited into the Road Debt Service Fund be pledged to Water/Sewer/Drainage Contract Revenue Bonds. See "USE AND DISTRIBUTION OF BOND PROCEEDS."

MUD Participants' Gross Value as a Percentage of all MUD Participants

<u>MUD Participant</u>	2018 Gross Assessed Valuation (b)	2018 Certified Gross Assessed 1/1/2018
MUD 169	\$7,968,880	0.58%
MUD 170	\$170,445,901	12.47%
MUD 171	\$363,033,645	26.57%
MUD 172	\$567,490,028	41.53%
MUD 173	<u>\$257,370,905</u>	18.84%
Total of MUD Participants	\$1,366,309,359	100.00%

(a) Gross Assessed Valuation as Certified by the Fort Bend Central Appraisal District (the "Appraisal District"). Includes 95% of the uncertified value provided by the Appraisal District for MUD Nos. 171, 172 and 173.

Outstanding Bonds

The District has issued twelve series of contract revenue bonds in the aggregate principal amount of \$113,530,000. Eight of such series were issued to fund Master District Water/Sewer/Drainage Facilities in the aggregate principal amount of \$74,605,000, of which \$67,660,000 remains outstanding, and four of such series were issued to fund Master District Road Facilities in the aggregate principal amount of \$36,470,000, of which \$34,425,000 remains outstanding. The District has also issued one series of Water/Sewer/Drainage Contract Revenue Refunding Bonds in the aggregate principal amount of \$2,455,000, all of which remains outstanding. The following table lists the original principal amount and current principal amount of the outstanding Water/Sewer/Drainage Contract Revenue Bonds, including the contract revenue refunding bonds, and the outstanding Road Contract Revenue Bonds (collectively, the "Outstanding Bonds").

<u>Series</u>	<u>Title</u>	Original Principal Amount	Outstanding Bonds (as of 8/1/18)
2009	Water/Sewer/Drainage Contract Revenue Bonds	\$3,590,000	\$210,000
2010	Water/Sewer/Drainage Contract Revenue Bonds	6,570,000	5,990,000
2011	Water/Sewer/Drainage Contract Revenue Bonds	7,785,000	7,245,000
2011A	Water/Sewer/Drainage Contract Revenue Bonds	4,030,000	3,860,000
2012	Road Contract Revenue Bonds	10,720,000	10,460,000
2013	Water/Sewer/Drainage Contract Revenue Bonds	11,310,000	11,035,000
2014	Road Contract Revenue Bonds	8,460,000	8,275,000
2015	Water/Sewer/Drainage Contract Revenue Bonds	15,000,000	13,750,000
2015A	Road Contract Revenue Bonds	8,850,000	7,250,000
2016	Water/Sewer/Drainage Contract Revenue Bonds	11,000,000	10,250,000
2017	Water/Sewer/Drainage Contract Revenue Bonds	15,320,000	15,320,000
2017A	Water/Sewer/Drainage Contract Revenue Refunding Bonds	2,455,000	2,455,000
2017B	Road Contract Revenue Bonds	8,440,000	8,440,000
Total		\$113,530,000	\$104,540,000

Operating Fund Statement

The following statement sets forth in condensed form the General Operating Fund for the Master District as shown in the District's audited financial statements for the fiscal years ended September 30, 2014 through September 30, 2017 and an unaudited summary as of July 31, 2018, prepared by the Bookkeeper. Such figures are included for informational purposes only. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Reference is made to "APPENDIX B" for further and complete information.

	Unaudited 10/1/2017 to 7/31/2018(a)	Fiscal Year Ended September 30			
		2017	2016	2015	2014
Revenues					
Investment Income	\$ 1,264	\$ 886	\$ 469	\$ 204	\$ 748
Miscellaneous Revenue	-	-		53,136	-
Water Supply	-	-	7,200	7,200	7,200
Master District Fees	1,324,170	1,551,660	1,117,110	929,040	833,430
Total Revenues	\$ 1,325,434	\$ 1,552,546	\$ 1,124,779	\$ 989,580	\$ 841,378
Expenditures					
Professional Fees	\$ 168,191	\$ 282,285	\$ 193,729	\$ 150,100	\$ 221,529
Contracted Services	25,744	21,775	24,002	15,435	11,430
Regional Water Authority Fees	205,302	162,985	129,380	203,343	120,348
Repairs and Maintenance	384,272	370,809	262,195	130,261	109,139
Utilities	31,255	155,018	138,096	115,099	51,783
Administrative	6,779	21,697	74,866	33,989	23,830
Other	8,915	-	-	-	-
Capital Outlay	-	-	-	24,278	870,829
WWTP Lease Expense	143,200	235,200	249,515	259,740	259,740
Total Expenditures	\$ 973,657	\$ 1,249,769	\$ 1,071,783	\$ 932,245	\$ 1,668,628
Revenues Over (Under) Expenditures	\$ 351,777	\$ 302,777	\$ 52,996	\$ 57,335	\$ (827,250)
Other Financing Sources					
Developer Advances					\$ 85,000
Developer Advances for Capital Expenditures (b)					\$ 894,579
Fund Balance (Beginning of Year)	\$ 504,233	\$ 201,456	\$ 148,460	\$ 91,125	\$ (61,204)
Fund Balance (End of Year)	\$ 856,010	\$ 504,233	\$ 201,456	\$ 148,460	\$ 91,125

(a) Unaudited.

(b) Funds advanced by Landmark for lease payments and costs to expand the wastewater and water plants.

Debt Service Requirements

The following sets forth the debt service requirements for the Outstanding Bonds and the Bonds.

Year	Outstanding Bonds Debt Service Requirements	Plus: Debt Service on the Bonds			Total Debt Service Requirements
		Principal	Interest	Total	
2018	\$ 5,776,530 (a)				\$ 5,776,530
2019	7,694,503	\$ 220,000	\$ 243,730	\$ 463,730	8,158,232
2020	7,641,363	220,000	212,881	432,881	8,074,244
2021	7,587,493	220,000	200,781	420,781	8,008,274
2022	7,549,711	220,000	189,781	409,781	7,959,493
2023	7,096,606	220,000	178,781	398,781	7,495,388
2024	7,077,641	220,000	167,781	387,781	7,465,423
2025	7,059,191	220,000	161,181	381,181	7,440,373
2026	7,045,719	220,000	154,581	374,581	7,420,300
2027	7,048,373	220,000	147,706	367,706	7,416,079
2028	7,031,516	220,000	140,556	360,556	7,392,073
2029	7,007,744	220,000	132,856	352,856	7,360,600
2030	6,978,863	225,000	125,156	350,156	7,329,019
2031	6,947,481	225,000	116,719	341,719	7,289,200
2032	6,932,813	225,000	108,281	333,281	7,266,094
2033	6,914,838	225,000	99,844	324,844	7,239,681
2034	6,868,094	225,000	90,844	315,844	7,183,938
2035	6,612,275	225,000	81,844	306,844	6,919,119
2036	5,988,244	225,000	72,844	297,844	6,286,088
2037	5,377,300	225,000	63,844	288,844	5,666,144
2038	4,963,531	225,000	54,844	279,844	5,243,375
2039	3,159,231	225,000	45,844	270,844	3,430,075
2040	2,445,413	225,000	36,844	261,844	2,707,256
2041	1,725,788	225,000	27,844	252,844	1,978,631
2042	1,071,644	225,000	18,563	243,563	1,315,206
2043		225,000	9,281	234,281	234,281
Total	\$ 151,601,901	\$ 5,570,000	\$ 2,883,211	\$ 8,453,211	\$ 160,055,112

(a) Reflects the 12/1/18 Debt Service payment.

Average Annual Debt Service Requirements (2019-2043)	\$6,155,966
Maximum Annual Debt Service Requirement (2019)	\$8,158,232

Estimated Overlapping Debt

The following table of entities located within the MUD Participants’ boundaries indicates the outstanding debt payable from ad valorem taxes, of governmental entities within which the MUD Participants’ boundaries is located and the estimated percentages and amounts of such indebtedness attributable to property within the MUD Participants’ boundaries. Debt figures equated herein to outstanding obligations payable from ad valorem taxes are based upon data obtained from individual jurisdictions or Texas Municipal Reports compiled and published by the Municipal Advisory Council of Texas. Furthermore, certain entities listed below may have issued additional obligations since the date listed and may have plans to incur significant amounts of additional debt. Political subdivisions overlapping the MUD Participants’ boundaries are authorized by Texas law to levy and collect ad valorem taxes for the purposes of operation, maintenance and/or general revenue purposes in addition to taxes for the payment of debt service and the tax burden for operation, maintenance and/or general revenue purposes is not included in these figures. The District has no control over the issuance of debt or tax levies of any such entities.

Taxing Jurisdiction	Outstanding Bonds	As of	Overlapping	
			Percent	Amount
Fort Bend County.....	\$ 591,210,527	9/2/2018	1.93%	\$ 11,389,365
City of Fulshear.....	-	9/2/2018	100.00%	-
Katy Independent School District.....	1,741,495,000	9/2/2018	2.83%	49,334,396
Lamar Consolidated Independent School District...	972,270,000	9/2/2018	0.98%	9,500,598
Fort Bend County MUD 171.....	13,780,000	9/2/2018	100.00%	13,780,000
Fort Bend County MUD 172.....	27,235,000	9/2/2018	100.00%	27,235,000
Fort Bend County MUD 170.....	9,685,000	9/2/2018	100.00%	9,685,000
Fort Bend County MUD 173.....	11,700,000	9/2/2018	100.00%	11,700,000
Total Estimated Overlapping Debt.....				\$ 132,624,359
The District.....	110,110,000 (a)	Current	100.00%	110,110,000
Total Direct and Estimated Overlapping Debt.....				\$ 242,734,359

Direct and Estimated Overlapping Debt as a Percentage of:

Certified Gross Assessed Valuation as of January 1, 2018 of \$1,366,309,359 (b) 17.77%
 Estimated Gross Assessed Valuation as of August 1, 2018 of \$1,466,714,019 (c) 16.55%

- (a) Includes the Bonds.
- (b) Includes 95% of the uncertified value provided by the Appraisal District for MUD Nos. 171, 172 and 173.
- (c) The Appraisal District has provided an estimated valuation as of August 1, 2018 for informational purposes for MUD 170, MUD 172 and 173, which was calculated by updating the certified 2018 Assessed value provided by the Appraisal District to add the estimated value of improvements constructed from January 1, 2018 to August 1, 2018. These estimates have no official status. The 2018 Certified Assessed Valuation is shown for MUD 169 and 171. Taxes are levied based on value as certified by the Appraisal District as of January 1 of each year, and, therefore, these estimates will not be the basis for any tax levy by any of the MUD Participants.

Overlapping Taxes

Property within each MUD Participant is subject to taxation by several taxing authorities in addition to the taxes levied by each MUD Participant. On January 1 of each year a tax lien attaches to property to secure the payment of all taxes, penalties and interest imposed on such property. The lien exists in favor of each taxing unit, including each MUD Participant, having the power to tax the property. Each MUD Participant's tax lien is on a parity with tax liens of taxing authorities shown below. In addition to ad valorem taxes required to pay debt service on any contract revenue bonds issued by the Master District (including Water/Sewer/Drainage Contract Revenue Bonds and Road Contract Revenue Bonds), to pay debt service on bonded debt issued by each MUD Participant and other taxing authorities, certain taxing jurisdictions, including each MUD Participant, are also authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administrative and/or general revenue purposes.

Set forth below is a summary of taxes levied for the 2018 tax year by all entities which tax property within the MUD Participants' boundaries. No recognition is given to local assessments for civic association dues, fire department contributions, solid waste disposal charges or any other levy of entities other than political subdivisions.

	2018 Tax Rate per \$100 of Taxable <u>Assessed Valuation</u>	2018 Tax Rate per \$100 of Taxable <u>Assessed Valuation</u>
Fort Bend County (a).....	\$ 0.464000	\$ 0.464000
Fort Bend County ESD No. 4 (b).....	\$ 0.100000	\$ 0.100000
Katy ISD (c).....	\$ 1.516600	
Lamar Consolidated ISD (c).....		\$ 1.390050
City of Fulshear.....	\$ 0.162510	\$ 0.162510
MUD Participants (d).....	<u>\$ 1.338380</u>	<u>\$ 1.338380</u>
 Total Tax Rate.....	 \$ 3.581490	 \$ 3.454940

- (a) Includes Fort Bend County Drainage District.
- (b) Represents 2017 Tax Rate.
- (c) A portion of the Service Area is located in Katy ISD and a portion of the Service Area in Lamar CISD.
- (d) Represents the highest total tax rate for any of the MUD Participants.

TAX DATA

Contract Tax

The District, in its capacity as Master District, has the authority to issue contract revenue bonds, including the Water/Sewer/Drainage Contract Revenue Bonds and the Road Contract Revenue Bonds, pursuant to the Master District Contract. The pro rata share of the annual debt service requirements on the contract revenue bonds, including the Water/Sewer/Drainage Contract Revenue Bonds and the Road Contract Revenue Bonds, for each MUD Participant, including the District, shall be determined annually by dividing each of such MUD Participant's gross certified assessed value by the total of all of the MUD Participants' gross certified assessed valuation. The Master District Contract obligates each MUD Participant to pay its pro rata share of debt service requirements on the Water/Sewer/Drainage Contract Revenue Bonds from the proceeds of an annual unlimited ad valorem tax levied by each MUD Participant, from revenues, if any, derived from the operation of its water distribution and wastewater collection system, or from any other legally available funds. The Master District Contract obligates each MUD Participant to pay its pro rata share of debt service requirements on the Road Contract Revenue Bonds from the proceeds of an annual unlimited ad valorem tax levied by each MUD Participant, from revenues, if any, derived from the operation of its water distribution and wastewater collection system, or from any other legally available funds. Since the water distribution and wastewater collection systems of each MUD Participant, including the District, are expected to be conveyed to the City, it is not expected that the MUD Participants will have any revenues from such systems and it is expected that all of such system revenues will belong to the City. The debt service requirement for the Water/Sewer/Drainage Contract Revenue Bonds shall include principal, interest and redemption requirements on the Water/Sewer/Drainage Contract Revenue Bonds, charges and expenses of paying agents/registrars and trustees, and all amounts necessary to establish and maintain funds established under the resolution(s) or indenture(s) of trust pursuant to which the Water/Sewer/Drainage Contract Revenue Bonds are issued. The debt service requirement for the Road Contract Revenue Bonds shall include principal, interest and redemption requirements on the Road Contract Revenue Bonds, charges and expenses of paying agents/registrars and trustees, and all amounts necessary to establish and maintain funds established under the resolution(s) or indenture(s) of trust pursuant to which the Road Contract Revenue Bonds are issued. Historical contract tax rates levied by the MUD Participants are reflected in APPENDIX "A".

Tax Roll Information

The MUD Participants’ assessed value as of January 1 of each year will be used by the Master District in establishing the Water/Sewer/Drainage Contract Payments and Road Contract Payments and recommending the Water/Sewer/Drainage Contract Tax rate and Road Contract Tax rate to the MUD Participants. The following represents the 2015 through 2018 Certified Gross Assessed Valuations of the MUD Participants. Historical tax roll information concerning each MUD Participant is included in APPENDIX A herein.

MUD Participant	MUD Participants'	MUD Participants'	MUD Participants'	MUD Participants'	MUD Participants'
	2015 Certified Gross Assessed Valuation	2016 Certified Gross Assessed Valuation	2017 Certified Gross Assessed Valuation	2018 Certified Gross Assessed Valuation(a)	Estimated Gross Appraised Valuation As of August 1, 2018 (b)
Fort Bend County MUD 169	\$6,323,860	\$6,323,120	\$7,968,880	\$7,968,880	\$7,968,880
Fort Bend County MUD 170	\$78,046,638	\$102,263,100	\$123,968,741	\$170,445,901	\$190,283,793
Fort Bend County MUD 171	\$363,861,758	\$378,087,795	\$361,492,442	\$363,033,645	\$363,033,645
Fort Bend County MUD 172	\$409,781,650	\$518,030,562	\$542,796,537	\$567,490,028	\$592,535,862
Fort Bend County MUD 173	<u>\$32,676,693</u>	<u>\$85,260,491</u>	<u>\$171,497,352</u>	<u>\$257,370,905</u>	<u>\$313,082,843</u>
	\$890,690,599	\$1,089,965,068	\$1,207,723,952	\$1,366,309,359	\$1,466,905,023

- (a) Includes 95% of the uncertified value provided by the Appraisal District for MUD Nos. 171, 172 and 173.
- (b) The Appraisal District has provided an estimated valuation as of August 1, 2018 for informational purposes for MUD 170, MUD 172 and 173, which was calculated by updating the certified 2018 Assessed value provided by the Appraisal District to add the estimated value of improvements constructed from January 1, 2018 to August 1, 2018. These estimates have no official status. The 2018 Certified Assessed Valuation is shown for MUD 169 and 171. Taxes are levied based on value as certified by the Appraisal District as of January 1 of each year, and, therefore, these estimates will not be the basis for any tax levy by any of the MUD Participants.

Historical Contract Payment Collections

The District, in its capacity as a MUD Participant, and MUD 170, 171, 172 and 173 levied a 2017 Contract Tax Rate in the amount of \$0.695 per \$100 of gross assessed valuation. Contract Tax Payments for 2017 were due to the Master District in equal payments on March 1 and September 1, 2018.

2010 Water/Sewer/Drainage Contract Payment Collection Rate	100.00%
2011 Water/Sewer/Drainage Contract Payment Collection Rate	100.00%
2012 Water/Sewer/Drainage Contract Payment Collection Rate	100.00%
2013 Water/Sewer/Drainage Contract Payment Collection Rate	100.00%
2014 Water/Sewer/Drainage Contract Payment Collection Rate	100.00%
2015 Water/Sewer/Drainage Contract Payment Collection Rate	100.00%
2016 Water/Sewer/Drainage Contract Payment Collection Rate	100.00%
2017 Water/Sewer/Drainage Contract Payment Collection Rate	100.00%
2013 Road Contract Payment Collection Rate	100.00%
2014 Road Contract Payment Collection Rate	100.00%
2015 Road Contract Payment Collection Rate	100.00%
2016 Road Contract Payment Collection Rate	100.00%
2017 Road Contract Payment Collection Rate	100.00%

Water/Sewer/Drainage Contract Payments (all of which are derived from the Water/Sewer/Drainage Contract Tax or other legally available funds of a MUD Participant) are not pledged for and are not available to be used to: (i) pay debt service on the Bonds or any Road Contract Revenue Bonds; or (ii) fund or maintain the Road Reserve Fund. Road Contract Payments (all of which are derived from the Road Contract Tax or other legally available funds of a MUD Participant) are not pledged for and are not available to be used to: (i) pay debt service on the Water/Sewer/Drainage Contract Revenue Bonds; or (ii) fund or maintain the Water/Sewer Drainage Reserve Fund.

Contract Payment Allocation Data

<u>MUD Participant</u>	2018 Gross Assessed Valuation (b)	2018 Certified Gross Assessed 1/1/2018
MUD 169	\$7,968,880	0.58%
MUD 170	\$170,445,901	12.47%
MUD 171	\$363,033,645	26.57%
MUD 172	\$567,490,028	41.53%
MUD 173	<u>\$257,370,905</u>	18.84%
Total of MUD Participants	\$1,366,309,359	100.00%

(a) As certified by the Fort Bend Central Appraisal District (“Appraisal District”). Includes 95% of the uncertified value provided by the Appraisal District for MUD Nos. 171, 172 and 173. See “TAXING PROCEDURES.”

Tax Adequacy for Debt Service

The Contract Tax (comprised of Water/Sewer/Drainage Contract Tax and Road Contract Tax) rate calculations set forth below are presented to indicate the tax rates per \$100 assessed valuation which would be required to meet average annual and maximum annual debt service requirements if no growth in the MUD Participants’ tax base occurred beyond the 2018 Certified Gross Assessed Valuation or the August 1, 2018 Estimated Assessed Value. The calculations contained in the following table merely represent the tax rates required to pay principal and interest on the Outstanding Bonds and the Bonds when due, assuming no further increase or any decrease in taxable values of the MUD Participants, collection of ninety- five percent (95%) of taxes levied, the sale of no additional contract revenue bonds by the Master District, and no other funds available for the payment of debt service. See “FINANCIAL INFORMATION CONCERNING THE MASTER DISTRICT AND THE MUD PARTICIPANTS (UNAUDITED)—Debt Service Requirements.”

Average Annual Debt Service Requirement (2019-2043)	\$6,155,966
\$0.48 Tax Rate on 2018 Certified Gross Assessed Valuation	\$6,230,371
\$0.45 Tax Rate on Estimated Value as of August 1, 2018.....	\$6,271,019
Maximum Annual Debt Service Requirement (2019)	\$8,158,232
\$0.63 Tax Rate on 2018 Certified Gross Assessed Valuation	\$8,177,362
\$0.59 Tax Rate on Estimated Value as of August 1, 2018.....	\$8,222,003

TAXING PROCEDURES

Authority to Levy Taxes

Each MUD Participant, including the District in its capacity as a MUD Participant, is authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within its boundaries in an amount sufficient to pay the principal of and interest on the outstanding bonds issued by such MUD Participant, to pay its pro rata share of debt service requirements (including reserve fund requirements) on the contact revenue bonds (including Water/Sewer/Drainage Contract Revenue Bonds and Road Contract Revenue Bonds) issued by the Master District, and to pay the expenses of assessing and collecting such taxes. Under Texas law, the board of directors of each MUD Participant may also levy and collect an annual ad valorem tax for the operation and maintenance of such MUD Participant and its facilities. See “INVESTMENT CONSIDERATIONS—Future Debt” and “TAX DATA—Contract Tax.”

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 MUD Participants. 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 of Texas an appraisal district with the responsibility for recording and appraising property for all taxing units within a county and an appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. The Fort Bend Central Appraisal District (the “Appraisal District”) has the responsibility for appraising property for all taxing units within Fort Bend County, including the MUD Participants. Such appraisal values are subject to review and change by the Fort Bend Central Appraisal Review Board (the “Appraisal Review Board”).

Property Subject to Taxation by the MUD Participants

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in a MUD Participant are subject to taxation by that MUD Participant. Principal categories of exempt property include, but are not limited to: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; certain goods, wares and merchandise in transit; farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; travel trailers; and most individually owned automobiles. In addition, each MUD Participant 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 respective boards. A MUD Participant may be required to offer such an exemption if a majority of voters approve it at an election. A MUD Participant would be required to call such an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the preceding election. Each MUD Participant is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair a MUD Participant's obligation to pay tax supported debt incurred prior to adoption of the exemption by a MUD Participant. Furthermore, each MUD Participant must grant exemptions to disabled veterans, or certain surviving dependents of disabled veterans, if requested, of between \$5,000 and \$12,000 depending on the disability rating of the veteran. A veteran who receives a disability rating of 100% is entitled to an exemption for the full amount of the veteran's residence homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who was entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. 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, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. The surviving spouse of a first responder who was killed or fatally injured in the line of duty is, subject to certain conditions, also entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and, subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

Residential Homestead Exemptions: The Property Tax Code authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) of the assessed value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of a homestead exemption may be considered each year, but must be adopted before July 1. See "TAX DATA."

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

Tax Abatement

Fort Bend County or the City of Fulshear may designate all or part of the Service Area as a reinvestment zone. Thereafter, Fort Bend County, the City of Fulshear, and the MUD Participants, under certain circumstances, may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including any MUD Participant participating in the abatement agreement, for a period of up to ten (10) years, all or any part of any increase in the appraised valuation of property covered by the agreement over its appraised valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with the terms of the tax abatement. Each taxing jurisdiction has discretion to determine terms for its tax abatement agreements without regard to the terms approved by the other taxing jurisdictions.

Valuation of Property for Taxation

Generally, property in the Service Area must be appraised by the Appraisal District at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the MUD Participants in establishing their tax rolls and tax rates. Generally, assessments under the Property Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Property Tax Code. In determining market value, either the replacement cost or the income or the market data method of valuation may be used, whichever is appropriate. Nevertheless, certain land may be appraised at less than market value under the Property Tax Code. Increases in the appraised value of residence homesteads are limited by the Texas Constitution to 10 percent annually regardless of the market value of the property.

The Property Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its 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. Provisions of the Property Tax Code are complex and are not fully summarized here. Landowners wishing to avail themselves of the agricultural use, open space or timberland designation or residential real property inventory designation must apply for the designation and the appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions while claiming it as to another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the MUD Participant can collect taxes based on the new use, including taxes for the previous three (3) years for agricultural use and taxes for the previous five (5) years for open space land and timberland.

The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraisal values. The plan must provide for appraisal of all real property in the Appraisal District at least once every three (3) years. It is not known what frequency of reappraisal will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone or county-wide basis. Each MUD Participant, however, at its expense has the right to obtain from the Appraisal District a current estimate of appraised values within the MUD Participant or an estimate of any new property or improvements within the MUD Participant. While such current estimate of appraised values may serve to indicate the rate and extent of growth of taxable values within the MUD Participant, it cannot be used for establishing a tax rate within the MUD Participant until such time as the Appraisal District chooses formally to include such values on its appraisal roll.

MUD Participant and Taxpayer Remedies

Under certain circumstances taxpayers and taxing units (such as the MUD Participants) may appeal the orders of the Appraisal Review Board by filing a timely petition for review in State district court. In such event, the value of the property in question will be determined by the court or by a jury if requested by any party. Additionally, taxing units may bring suit against the Appraisal District to compel compliance with the Property Tax Code. The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

Levy and Collection of Taxes

Each MUD Participant is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. The rate of taxation is set by the Board of Directors of each MUD Participant, after the legally required notice has been given to owners of property within such MUD Participant, based upon: a) the valuation of property within such MUD Participant as of the preceding January 1, and b) the amount required to be raised for maintenance purposes, debt service on the MUD Participant's bonds, the MUD Participant's pro rata share of the annual debt service requirements (including reserve fund requirements) on contract revenue bonds (including Water/Sewer/Drainage Contract Revenue Bonds and Road Contract Revenue Bonds) issued by the Master District, and other authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent if not paid before February 1 of the year following the year in which imposed, except as set forth herein with respect to residential homesteads of persons sixty-five (65) years of age or older or disabled. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty for collection costs of an amount established by the MUD Participant and a delinquent tax attorney. For those taxes billed at a later date and that become delinquent on or after June 1, they will also incur an additional penalty for collection costs of an amount established by the MUD Participant and a delinquent tax attorney. The delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the MUD Participants may be rejected. A MUD Participant's tax collector is required to enter into an installment payment agreement with any person who is delinquent on the payment of tax on a residence homestead for payment of tax, penalties and interest, if the person requests an installment agreement in writing and has not entered into an installment agreement with the collector in the preceding 24 months. The installment agreement must provide for payments to be made in equal monthly installments and must extend for a period of at least 12 months and no more than 36 months. Additionally, the owner of a residential homestead property who is (i) sixty-five (65) years of age or older, (ii) disabled, or (iii) a disabled veteran, is entitled by law to pay current taxes on a residential homestead in installments without penalty or to defer the payment of taxes during the time of ownership. In the instance of tax deferral, a tax lien remains on the property and interest continues to accrue during the period of deferral.

Additional Penalties

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

Rollback of Operation and Maintenance Tax Rate

The qualified voters of each MUD Participant have the right to petition for a rollback of such MUD Participant'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.

MUD Participant's Rights in the Event of Tax Delinquencies

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

At any time after taxes on property become delinquent, a MUD Participant may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both, subject to the limitations set forth under "Levy and Collection of Taxes". In filing a suit to foreclose a tax lien on real property, a MUD Participant must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, and by taxpayer redemption rights. A taxpayer may redeem commercial property within six months and all other types of property within two (2) years after the purchaser's deed issued at the foreclosure sale is filed in the county records. See "INVESTMENT CONSIDERATIONS—General—Tax Collection Limitations and Foreclosure Remedies."

The Effect of FIRREA on Tax Collections of the District

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 (“FIRREA”) contains certain provisions which affect the time for protesting property valuations, the fixing of tax liens and the collection of penalties and interest on delinquent taxes on real property owned by the Federal Deposit Insurance Corporation (“FDIC”) when the FDIC is acting as the conservator or receiver of an insolvent financial institution.

Under FIRREA, real property held by the FDIC is still subject to ad valorem taxation, but such act states (i) that no real property of the FDIC shall be subject to foreclosure or sale without the consent of the FDIC and no involuntary liens shall attach to such property, (ii) the FDIC shall not be liable for any penalties, interest, or fines, including those arising from the failure to pay any real or personal property tax when due, and (iii) notwithstanding failure of a person to challenge an appraisal in accordance with state law, such value shall be determined as of the period for which such tax is imposed.

To the extent that the FDIC attempts to enforce the same, these provisions may affect the timeliness of collection of taxes on property, if any, owned by the FDIC in a MUD Participant and may prevent the collection of penalties and interest on such taxes or may affect the valuation of such property.

INVESTMENT CONSIDERATIONS

General

The Bonds are obligations solely of the Master District and are not obligations of the State of Texas, Fort Bend County, the City, any of the MUD Participants except the Master District, or any entity other than the Master District. The Bonds are payable solely from and to the extent of certain contract payments received by the Master District from the MUD Participants pursuant to the Master District Contract, with each MUD Participant’s annual contract payment being equal to its pro rata share of annual debt service on the Road Contract Revenue Bonds, including the Bonds, plus all charges and expenses of paying agents, registrars and trustees, and all amounts required to establish and maintain funds, including the Road Reserve Fund, established under the Bond Resolution or the Road Indenture based upon the gross certified assessed valuation of each such MUD Participant as a percentage of the total gross certified assessed valuation of all MUD Participants (the “Road Contract Payment(s)”). In addition to Road Contract Payments, MUD Participants are required to make separate Water/Sewer/Drainage Contract Payments, described below, in connection with the Water/Sewer/Drainage Contract Revenue Bonds. The Water/Sewer/Drainage Contract Revenue Bonds are payable solely from and to the extent of certain contract payments received by the Master District from the MUD Participants pursuant to the Master District Contract, with each MUD Participant’s annual contract payment being equal to its pro rata share of annual debt service on the Water/Sewer/Drainage Contract Revenue Bonds plus all charges and expenses of paying agents, registrars and trustees, and all amounts required to establish and maintain funds, including the Water/Sewer/Drainage Reserve Fund, established under bond resolutions for Water/Sewer/Drainage Contract Revenue Bonds or the Water/Sewer/Drainage Indenture based upon the gross certified assessed valuation of each such MUD Participant as a percentage of the total gross certified assessed valuation of all MUD Participants (the “Water/Sewer/Drainage Contract Payment(s)”). The Road Contract Payments and Water/Sewer/Drainage Contract Payments are referred to herein collectively as the “Contract Payments.” The obligations of the MUD Participants to make Road Contract Payments are several, not joint, obligations pro-rated among the MUD Participants based upon the proportion of the gross assessed valuation of property within their respective boundaries to the total gross assessed valuation of property within all of the MUD Participants as described herein. No MUD Participant is obligated to pay the Road Contract Payments allocated to any other MUD Participant; however, lack of payment, as required by the Master District Contract, by any MUD Participant could result in an increase in the Road Contract Payment amount paid by each of the other MUD Participants during the time that such MUD Participant’s payment is delinquent. The security for payment of the principal of and interest on the Bonds by the Master District, therefore, depends on the ability of each MUD Participant to collect annual ad valorem taxes (without legal limit as to rate or amount) levied on taxable property within its boundaries sufficient to make its Road Contract Payments.

Recent Extreme Weather Events

The greater Houston area, including the Service Area, is subject to occasional severe 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 Service Area as a result of such a weather event, the investment security of the Bonds could be adversely affected. The greater Houston area 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.

The District constructs for the benefit of and conveyance to the City of Fulshear (the “City”), certain water, wastewater and drainage facilities needed to serve land being developed within the Service Area, and upon conveyance of the facilities to the City, the City assumes responsibility for the operation and maintenance of the facilities. According to the City, the City’s water supply and distribution system and wastewater treatment and collection system serving the property within the Service Area’s boundaries did not sustain any material damage from Hurricane Harvey and there was no interruption of water and sewer service to the Service Area as a result of Hurricane Harvey. Further, according to the Developers, no taxable improvements within the Service Area experienced structural flooding or other material damage as a result of Hurricane Harvey.

If a future weather event significantly damaged all or part of the improvements within the Service Area, the assessed value of property within the Service Area could be substantially reduced, which could result in a decrease in tax revenues and/or necessitate an increase in the Service Area's tax rates. Further, there can be no assurance that a casualty loss to taxable property within the Service Area 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 Service Area. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the Service Area could be adversely affected.

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 MUD Participants 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.

Specific Flood Type Risks

Ponding (or Pluvial) Flood. 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.

Riverine (or Fluvial) Flood. Riverine, or fluvial, flooding occurs when water levels rise over the top of river, bayou or channel banks due to excessive rain from tropical systems making landfall and/or persistent thunderstorms over the same area for extended periods of time. The damage from a riverine flood can be widespread. The overflow can affect smaller rivers and streams downstream, or may sheet-flow over land. Flash flooding is a type of riverine flood that is characterized by an intense, high velocity torrent of water that occurs in an existing river channel with little to no notice. Flash flooding can also occur even if no rain has fallen, for instance, after a levee, dam or reservoir has failed or experienced an uncontrolled release, or after a sudden release of water by a debris or ice jam. In addition, planned or unplanned controlled releases from a dam, levee or reservoir also may result in flooding in areas adjacent to rivers, bayous or drainage systems downstream.

Economic Factors and Interest Rates

A substantial percentage of the taxable value of the Service Area results from the current market value of single-family residences and of developed lots which are currently being marketed by CCR Texas and CCR Subsidiary for sale to homebuilders for the construction of primary residences. The market value of such homes and lots 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 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 Service Area or could adversely impact such values.

Interest rates and the availability of mortgage and development funding have a direct impact on the construction activity, particularly short-term interest rates at which developers are able to obtain financing for development costs. Interest rate levels may affect the ability of a landowner with undeveloped property to undertake and complete construction activities within the Service Area. Because of the numerous and changing factors affecting the availability of funds, the District is unable to assess the future availability of such funds for continued construction within the Service Area. In addition, since the Service Area is located approximately 31 miles from the central downtown business district of the City of Houston, the success of development within the Service Area and growth of Service Area taxable property values are, to a great extent, a function of the Houston metropolitan and regional economies. A downturn in the economic conditions of Houston and the nation could adversely affect development and home-building plans in the Service Area and restrain the growth of the Service Area's property tax base or reduce it from current levels.

Competition

The demand for and construction of single-family homes in the Service Area, which is 31 miles from downtown Houston, could be affected by competition from other residential developments including other residential developments located in the western portion of the Houston metropolitan area. In addition to competition for new home sales from other developments, there are numerous previously-owned homes in the area of the Service Area and in more established neighborhoods closer to downtown Houston. Such homes could represent additional competition for new homes proposed to be sold within the Service Area.

The competitive position of CCR Texas and CCR Subsidiary in the sale of developed lots and of prospective builders in the construction of single-family residential houses within the Service Area is affected by most of the factors discussed in this section. Such a competitive position directly affects the growth and maintenance of taxable values in the Service Area. The District can give no assurance that building and marketing programs in the Service Area by CCR Texas and CCR Subsidiary will be implemented or, if implemented, will be successful.

Maximum Impact on Contract Tax Rate

Assuming no further development, the value of the land and improvements currently within the MUD Participants' boundaries will be the major determinant of the ability or willingness of owners of property within the MUD Participants' boundaries to pay their taxes. The Certified Gross Assessed Value of the Participants as of January 1, 2018 is \$1,366,309,359. After issuance of the Bonds, the maximum debt service requirement on the Outstanding Bonds and the Bonds will be \$8,158,232 (2019), and the average annual debt service requirement will be \$6,155,966 (2019-2043, inclusive). Assuming no increase or decrease from the Certified Gross Assessed Value as of January 1, 2018, the issuance of no additional debt, and no other funds available for the payment of debt service, Contract Tax rates of \$0.63 and \$0.59 per \$100 of assessed valuation at a ninety-five percent (95%) collection rate would be necessary to pay the maximum debt service requirement of the Outstanding Bonds and the Bonds and Contract Tax rates of \$0.48 and \$0.45 per \$100 of assessed valuation at a ninety-five percent (95%) collection rate would be necessary to pay the average annual debt service requirements of the Outstanding Bonds and the Bonds, respectively. Water/Sewer/Drainage Contract Payments (all of which are derived from the Water/Sewer/Drainage Contract Tax or other legally available funds of a MUD Participant) are not pledged for and are not available to be used to: (i) pay debt service on the Bonds or any Road Contract Revenue Bonds; or (ii) fund or maintain the Road Reserve Fund. Road Contract Payments (all of which are derived from the Road Contract Tax or other legally available funds of a MUD Participant) are not pledged for and are not available to be used to: (i) pay debt service on the Water/Sewer/Drainage Contract Revenue Bonds; or (ii) fund or maintain the Water/Sewer/Drainage Reserve Fund. See "FINANCIAL INFORMATION CONCERNING THE MASTER DISTRICT AND THE MUD PARTICIPANTS (UNAUDITED)—Debt Service Requirements."

Debt Burden on Property within the MUD Participants

The Master District expects that each MUD Participant (including the District in its capacity as a MUD Participant) will derive funds to make its Road Contract Payments to the Master District from the collection of ad valorem taxes (without legal limit as to rate or amount) levied on taxable property within its boundaries. In addition to the annual levy of a tax to make its annual Road Contract Payment, each MUD Participant (including the District in its capacity as a MUD Participant) is authorized, and expected, to levy a tax on property within its boundaries (without legal limit as to rate or amount) to pay its Water/Sewer/Drainage Contract Payments, and annual principal and interest on bonds issued by the MUD Participant and to pay its operations and maintenance expenses. It is expected that if and when sufficient taxable value exists within each MUD Participant, each MUD Participant will issue bonds to finance the internal water, wastewater and storm drainage facilities within its boundaries, and to finance Park Construction Charges due to the Master District, as permitted by the rules of the TCEQ. The TCEQ rules permit the issuance of bonds by a MUD Participant based, to a certain extent, upon projections of growth in ad valorem taxable value within the boundaries of the MUD Participant. In the event those growth projections are not realized, the MUD Participant's tax rate to pay debt service on its bonds may increase in future years. The Master District has no control over such tax rate. See "FINANCIAL INFORMATION CONCERNING THE MASTER DISTRICT AND THE PARTICIPANTS—Estimated Overlapping Debt" and "APPENDIX A" for information on each MUD Participant's debt and taxes.

The composite tax rate to which property in each MUD Participant is subject may be higher than the composite tax rate of property within other competing subdivisions. To the extent that such composite tax rate is not competitive, the growth of property tax values in each MUD Participant and the investment quality or security of the Bonds could be adversely affected. The Master District has no control over such composite tax rate. See "Competition" in this section and "FINANCIAL INFORMATION CONCERNING THE MASTER DISTRICT AND THE PARTICIPANTS—Overlapping Taxes."

The Master District can make no representation that the taxable property values in the MUD Participants' boundaries will maintain a value sufficient to justify continued payment of taxes by property owners. See "FINANCIAL INFORMATION CONCERNING THE MASTER DISTRICT AND THE MUD PARTICIPANTS (UNAUDITED)," "TAX DATA—Tax Adequacy for Debt Service," and "APPENDIX A."

Undeveloped Acreage and Vacant Lots

There are approximately 490 developable acres of land within the Service Area that have not been provided with water, sanitary sewer, drainage, park, road and other facilities necessary for the construction of taxable improvements. In addition, there are 581 vacant developed lots. Approximately 1,005 acres of land in the Service Area are currently considered undevelopable, which includes Flewellen Creek, drainage ditches, detention ponds, easements and plant sites. The District makes no representation as to when or if development of the undeveloped acreage will occur or that the lot sales and building program will be successful or that the parks and greenbelts will be created. See "THE DISTRICT AND THE SERVICE AREA— Land Use."

Dependence on Major Taxpayers and the Developers

The ten principal taxpayers represent \$109,800,635 or 8.04% of the 2018 Gross Certified Assessed Valuation of \$1,366,309,359, which represents ownership in the MUD Participants' boundaries as of January 1, 2018. CCR Texas (including CCR Subsidiary) represents \$45,713,970 or 3.35% of such value. If a developer or another principal taxpayer were to default in the payment of taxes in an amount which exceeds the amount in the Road Debt Service Fund and the amounts in the Road Reserve Fund, the ability of the District to make timely payment of debt service on the Road Contract Revenue Bonds, including the Bonds, could be dependent on the ability of MUD Participants to enforce and liquidate their tax liens, which is a time-consuming process. Failure to recover or borrow funds in a timely fashion could result in a MUD Participant not having sufficient funds to pay its Contract Payments unless it sets a higher tax rate, hindering growth and leading to further defaults in the payment of taxes. The Master District is not required by law or the Bond Resolution to maintain any specified amount of surplus in its Road Debt Service Fund but is required to maintain the Road Reserve Fund in the amount of the Road Reserve Requirement, which is an amount equal to one-half of maximum annual debt service on the Bonds, and any additional Road Contract Revenue Bonds outstanding. See "Tax Collection Limitations and Foreclosure Remedies" in this section, "TAXING PROCEDURES—Levy and Collection of Taxes" and "APPENDIX A."

The Developers have informed the Board that their current plans are to develop the remaining undeveloped land and to continue marketing the remaining developed lots and land in the Service Area to homebuilders or commercial users. However, none of the Developers nor any future developer is obligated to implement development plans on any particular schedule or at all. Thus, the furnishing of information related to any proposed development should not be interpreted as such a commitment. The District makes no representation about the probability of development continuing in a timely manner or about the ability of the Developers or any other landowner within the Service Area to implement any plan of development. Furthermore, there is no restriction on any landowner's right to sell land. The District can make no prediction as to the effects that current or future economic or governmental circumstances may have on any plans of any of the Developers or any other landowner. See "THE DEVELOPERS".

Operational Expenses

The Master District is reliant on each MUD Participant to pay the Master District's operating expenses. Each MUD Participant is obligated to pay monthly charges to the Master District for its share of the Master District's operation and maintenance expenses in connection with the Master District's provision of service from the Master District Facilities that are not being fully operated or maintained by the City. The monthly charges to be paid by each MUD Participant to the Master District will be used to pay each MUD Participant's share of operation and maintenance expenses and to provide for an operation and maintenance reserve equivalent to three (3) months of operation and maintenance expenses. Each MUD Participant's share of operation and maintenance expenses and reserve requirements is based upon a "unit cost" of operation and maintenance expense and reserve requirements, calculated by the Master District and expressed in terms of "cost per equivalent single-family residential connection." Each MUD Participant's monthly payment to the Master District for operation and maintenance expenses will be calculated by multiplying the number of equivalent single-family residential connections reserved to each MUD Participant on the first day of the previous month by the unit cost per equivalent single-family residential connection. The monthly cost per single family equivalent connection being charged by the Master District to the MUD Participants is presently \$30.00. The Master District Operating Account's only sources of revenue to pay operating expenses are monthly charges paid by the MUD Participants and investment income. See "THE SYSTEM" herein.

Environmental Regulations

Wastewater treatment, water supply, storm sewer facilities and construction activities within the Service Area 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 Service Area. Further, changes in regulations occur frequently, and any changes that result in more stringent and costly requirements could materially impact the Service Area.

Air Quality 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—has been designated a nonattainment area under three separate federal ozone standards: the one-hour (124 parts per billion (“ppb”)) and eight-hour (84 ppb) standards promulgated by the EPA in 1997 (“the 1997 Ozone Standards”); the tighter, eight-hour ozone standard of 75 ppb promulgated by the EPA in 2008 (“the 2008 Ozone Standard”), and the EPA’s most-recent promulgation of an even lower, 70 ppb eight-hour ozone standard in 2015 (“the 2015 Ozone Standard”). While the State of Texas has been able to demonstrate steady progress and improvements in air quality in the HGB area, the HGB area remains subject to CAA nonattainment requirements.

The HGB area is currently designated as a severe ozone nonattainment area under the the 1997 Ozone Standards. While the EPA has revoked the 1997 Ozone Standards, EPA historically has not formally redesignated nonattainment areas for a revoked standard. As a result, the HGB area remained subject to continuing severe nonattainment area “anti-backsliding” requirements, despite the fact that HGB area air quality has been attaining the 1997 Ozone Standards since 2014. In late 2015, EPA approved the TCEQ’s “redesignation substitute” for the HGB area under the revoked 1997 Ozone Standards, leaving the HGB area subject only to the nonattainment area requirements under the 2008 Ozone Standard (and later, the 2015 Ozone Standard).

In February 2018, the U.S. Court of Appeals for the District of Columbia Circuit issued an opinion in *South Coast Air Quality Management District v. EPA*, 882 F.3d 1138 (D.C. Cir. 2018) vacating the EPA redesignation substitute rule that provided the basis for EPA’s decision to eliminate the anti-backsliding requirements that had applied in the HGB area under the 1997 Ozone Standard. The court has not responded to EPA’s April 2018 request for rehearing of the case. To address the uncertainty created by the *South Coast* court’s ruling, the TCEQ has developed a formal request that the HGB area be redesignated to attainment under the 1997 Ozone Standards. The TCEQ Commissioners approved publication of a proposed HGB area redesignation request under the 1997 Ozone Standards on September 5, 2018.

The HGB area is currently designated as a “moderate” nonattainment area under the 2008 Ozone Standard, with an attainment deadline of July 20, 2018. If the EPA ultimately determines that the HGB area has failed to meet the attainment deadline based on the relevant data, the area is subject to reclassification to a nonattainment classification that provides for more-stringent controls on emissions from the industrial sector. In addition, the EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects if it finds that an area fails to demonstrate progress in reducing ozone levels.

The HGB area is currently designated as a “marginal” nonattainment area under the 2015 Ozone Standard. For purposes of the 2015 Ozone Standard, the HGB area consists of only six counties: Brazoria, Chambers, Fort Bend, Galveston, Harris, and Montgomery Counties.

In order to demonstrate progress toward attainment of the EPA’s ozone standards, the TCEQ has established a state implementation plan (“SIP”) for the HGB area 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. These SIP requirements can negatively impact business due to the additional permitting/regulatory constraints that accompany this designation and because of the community stigma associated with a nonattainment designation. It is possible that additional controls will be necessary to allow the HGB area to reach attainment with the ozone standards 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 Service Area, may be required to comply with involve: (1) public water supply systems, (2) waste water discharges from treatment facilities, (3) storm water discharges, and (4) wetlands dredge and fill activities. Each of these is addressed below:

Pursuant to the federal Safe Drinking Water Act (“SDWA”) and Environmental Protection Agency’s National Primary Drinking Water Regulations (“NPDWRs”), which are implemented by the TCEQ’s Water Supply Division, a municipal utility district’s provision of water for human consumption is subject to extensive regulation as a public water system.

Municipal utility districts must generally provide treated water that meets the primary and secondary drinking water quality standards adopted by the TCEQ, the applicable disinfectant residual and inactivation standards, and the other regulatory action levels established under the agency’s rules. The EPA has established NPDWRs for more than ninety (90) contaminants and has identified and listed other contaminants which may require national drinking water regulation in the future.

Texas Pollutant Discharge Elimination System (“TPDES”) permits set limits on the type and quantity of discharge, in accordance with state and federal laws and regulations. The TCEQ reissued the TPDES Construction General Permit (TXR150000), with an effective date of March 5, 2018, which is a general permit authorizing the discharge of stormwater runoff associated with small and large construction sites and certain nonstormwater discharges into surface water in the state. It has a 5-year permit term, and is then subject to renewal. Moreover, the Clean Water Act (“CWA”) and Texas Water Code require municipal wastewater treatment plants to meet secondary treatment effluent limitations and more stringent water quality-based limitations and requirements to comply with the Texas water quality standards. Any water quality-based limitations and requirements with which a municipal utility district must comply may have an impact on the municipal utility district’s ability to obtain and maintain compliance with TPDES permits.

The TCEQ renewed the General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the “MS4 Permit”) on December 13, 2013. The MS4 Permit authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems. The renewed MS4 Permit impacts a much greater number of MS4s that were not previously subject to the MS4 Permit and contains more stringent requirements than the standards contained in the previous MS4 Permit. While the Service Area is currently not subject to the MS4 Permit, if the Service Area’s inclusion were required at a future date, the Service Area 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 renewed MS4 Permit. The TCEQ has published notice of a proposed renewal of the Phase II (Small) MS4 Permit that is intended to be issued prior to the December 12, 2018 expiration date of the current MS4 Permit.

In 2015, the EPA and the United States Army Corps of Engineers (“USACE”) promulgated a rule known as the Clean Water Rule (“CWR”) aimed at redefining “waters of the United States” over which the EPA and USACE have jurisdiction under the CWA. The CWR significantly expands the scope of the federal government’s CWA jurisdiction over intrastate water bodies and wetlands. The CWR could have an adverse impact on municipal utility districts, including the Service Area, particularly with respect to jurisdictional wetland determinations, and could increase the size and scope of activities requiring USACE permits. The CWR has been challenged in various jurisdictions, including the Southern District of Texas, and the litigation challenging the CWR is still pending.

On February 28, 2017, the President signed an executive order ordering the EPA and USACE to modify or rescind the CWR. In response, the EPA and the USACE subsequently released a proposed rule rescinding the CWR, reinstating the regulatory text that existed prior to the adoption of the CWR and proposing the development of a revised definition of “waters of the United States.” In June 2018, the EPA and USACE issued a supplemental notice of proposed rulemaking to the 2017 proposed action to repeal the 2015 definition of “waters of the United States” to clarify that the agencies are proposing to permanently repeal the CWR in its entirety and reinstate language in place before the adoption of the CWR while developing a revised definition of “waters of the United States.”

Meanwhile, in January 2018, the EPA and the USACE finalized a rule extending the effective date of the CWR until 2020 while the agencies finalize actions to repeal and replace the CWR. This rule delaying the effective date of the CWR was challenged in court and, on August 16, 2018, the U.S. District Court for the District of South Carolina issued a nation-wide injunction rendering the rule extending the effective date of the CWR void, thereby reinstating the CWR in 26 states, including Texas. However, on September 12, 2018, the U.S. District Court for the Southern District of Texas temporarily enjoined the implementation of the CWR in Texas, Louisiana and Mississippi until the case filed by the States of Texas, Louisiana and Mississippi in 2015 is finally resolved.

Due to the pending rulemaking activity and rule challenge litigation, there is significant uncertainty regarding the ultimate scope of “waters of the United States” and the extent of EPA and USACE jurisdiction. If the CWR is not rescinded and is ultimately upheld and goes into effect, operations of municipal utility districts, including the Service Area, 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 the expanded scope of jurisdictional “waters of the United States” under the CWR.

Tax Collections Limitations and Foreclosure Remedies

The District's ability to make debt service payments may be adversely affected by one or more MUD Participant's inability to collect ad valorem taxes necessary to make its Contract Payments. Under Texas law, the levy of ad valorem taxes by each MUD Participant constitutes a lien in favor of the MUD Participant on a parity with the liens of all other local taxing authorities on the property against which taxes are levied, and such lien may be enforced by judicial foreclosure. Each MUD Participant's ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time-consuming and expensive collection procedures, (b) a bankruptcy court's stay of tax collection procedures against a taxpayer, or (c) market conditions affecting the marketability of taxable property within the MUD Participant and limiting the proceeds from a foreclosure sale of such property. Moreover, the proceeds of any sale of property within the MUD Participant will be allocated pro rata among the MUD Participant's tax obligations (including Road Contract Payments, Water/Sewer/Drainage Contract Payments, maintenance and operation expenses, and debt service for any unlimited tax bonds issued by the MUD Participant). The proceeds of any such sale of property may be limited by the existence of other tax liens on the property (see "FINANCIAL INFORMATION CONCERNING THE MASTER DISTRICT AND THE MUD PARTICIPANTS (UNAUDITED) — Overlapping Taxes"), by the current aggregate tax rate being levied against the property, and by other factors (including the taxpayers' right to redeem property within two years of foreclosure for residential and agricultural use property and six months for other property). Finally, any bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within a MUD Participant pursuant to the Federal Bankruptcy Code could stay any attempt by the MUD Participant to collect delinquent ad valorem taxes assessed against such taxpayer. In addition to the automatic stay against collection of delinquent taxes afforded a taxpayer during the pendency of a bankruptcy, a bankruptcy could affect payment of taxes in two other ways: first, a debtor's confirmation plan may allow a debtor to make installment payments on delinquent taxes for up to six years; and, second, a debtor may challenge, and a bankruptcy court may reduce, the amount of any taxes assessed against the debtor, including taxes that have already been paid. See "TAXING PROCEDURES – MUD Participant's Rights in the Event of Tax Delinquencies."

Registered Owners' Remedies and Bankruptcy Limitation to Registered Owner's Rights

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created or confirmed in the Bond Resolution, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Resolution, the registered owners of the Bonds ("Registered Owners") have the statutory right of a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Resolution. Except for mandamus, the Bond Resolution does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, the Road Indenture provides certain limitations on the right of Registered Owners of the Bonds to institute suits, actions or proceedings at law or in equity upon the occurrence of an event of default. See "THE BONDS – Remedies in Event of Default" and "THE INDENTURE OF TRUST – Remedies – Limitation on Action by Owners." Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages, so that in the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Resolution may not be reduced to a judgment for money damages. If such a judgment against the District were obtained, it could not be enforced by direct levy and execution against the property of the Master District or property within the Service Area. Further, the Registered Owners cannot themselves foreclose on property within the Service Area or sell property within the Service Area to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the District.

Subject to the requirements of Texas law discussed below, a political subdivision such as the District (or another MUD Participant) may voluntarily file a petition for relief from creditors under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. Sections 901-946. The filing of such petition would automatically stay the enforcement of Registered Owners' remedies, including mandamus. The automatic stay would remain in effect until the federal bankruptcy judge hearing the case dismisses the petition, enters an order granting relief from the stay or otherwise allows creditors to proceed against the petitioning political subdivision. A political subdivision such as the District may qualify as a debtor eligible to proceed in a Chapter 9 case only if it (1) is authorized to file for federal bankruptcy protection by applicable 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. Special districts such as the District must obtain the approval of the TCEQ as a condition to seeking relief under the federal Bankruptcy Code. The TCEQ is required to investigate the financial condition of a financially troubled district and authorize such district to proceed under federal bankruptcy law only if such district has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

Notwithstanding noncompliance by a district with Texas law requirements, the District could file a voluntary bankruptcy petition under Chapter 9, thereby invoking the protection of the automatic stay until the bankruptcy court, after a hearing, dismisses the petition. A federal bankruptcy court is a court of equity and federal bankruptcy judges have considerable discretion in the conduct of bankruptcy proceedings and in making the decision of whether to grant the petitioning district relief from its creditors. While such a decision might be appealable, the concomitant delay and loss of remedies to the Registered Owner could potentially and adversely impair the value of the Registered Owner's claim.

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

A district may not be forced into bankruptcy involuntarily.

Future Debt

Pursuant to the Master District Contract and in connection with the development of the Service Area, the Master District may issue contract revenue bonds in a principal amount not to exceed \$483,000,000 to acquire and construct Master District Water/Sewer/Drainage Facilities and refunding of such bonds; and in a principal amount not to exceed \$121,450,000 to acquire and construct Master District Road Facilities and refunding of such bonds. All of the \$483,000,000 of bonds mentioned above and any other contract revenue bonds issued for the purpose of constructing and acquiring Master District Water/Sewer/Drainage Facilities, or refunding such bonds, which may be authorized by any future amendment to the Master District Contract, are referred to herein collectively as the "Water/Sewer/Drainage Contract Revenue Bonds." All of the \$121,450,000 of bonds mentioned above, including the Bonds, and any other contract revenue bonds issued for the purpose of constructing and acquiring Master District Road Facilities, or refunding such bonds, which may be authorized by any future amendment to the Master District Contract, are referred to herein collectively as the "Road Contract Revenue Bonds." Pursuant to the Master District Contract, approval by each MUD Participant and approval by the voters at an election held by each MUD Participant is required prior to any amendment to the Master District Contract that would increase such \$483,000,000 authorized amount or such \$121,450,000 authorized amount. After the issuance of the Bonds, the Master District will have \$79,410,000 principal amount of Road Contract Revenue Bonds and \$408,395,000 principal amount of Water/Sewer/Drainage Contract Revenue Bonds authorized but unissued. The Master District plans to issue its Water/Sewer/Drainage Contract Revenue Bonds, Series 2018A in the amount of \$23,000,000, on or about December 7, 2018. After the issuance of the Series 2018A Bonds, the Master District will have \$385,395,000 principal amount of Water/Sewer/Drainage Contract Revenue Bonds authorized but unissued. The Bonds and all other Road Contract Revenue Bonds issued by the Master District, will be payable from the Road Contract Tax and the Water/Sewer/Drainage Contract Revenue Bonds will be payable from the Water/Sewer/Drainage Contract Tax. The Road Contract Tax and Water/Sewer/Drainage Contract Tax are referred to herein collectively as the "Contract Tax." The Master District anticipates that it will issue additional Water/Sewer/Drainage Contract Revenue Bonds and Road Contract Revenue Bonds. The Master District does not employ any formula with respect to assessed valuations, tax collections or otherwise to limit the amount of Water/Sewer/Drainage Contract Revenue Bonds it may issue payable from the Water/Sewer/Drainage Contract Tax, the amount of Road Contract Revenue Bonds it may issue payable from the Road Contract Tax, or other contract revenue bonds it may issue payable from other taxes levied by the MUD Participants.

The issuance of additional Water/Sewer/Drainage Contract Revenue Bonds (other than refunding bonds) is subject to approval by the TCEQ pursuant to its rules regarding issuance and feasibility of bonds. The TCEQ does not currently have rules in place regulating the review and approval of road bonds issued by districts.

Pursuant to the Master District Contract and in connection with the development of the Service Area, the Master District was originally authorized to pay the capital costs of designing and constructing the regional park/recreational facilities ("Master District Park Facilities") through either: (1) issuance of contract revenue bonds in a principal amount not to exceed \$237,440,000 to pay for Master District Park Facilities and refund bonds issued for Master District Park Facilities, all of which bonds would be payable from and secured by the MUD Participants' unconditional obligation to make payments to the Master District from the proceeds of ad valorem taxes levied by the MUD Participants, or (2) park construction charges imposed by the Master District on each MUD Participant based on the number of connections reserved by a MUD Participant. In January, 2012, each MUD Participant executed an amendment to the Master District Contract providing that the Master District will fund Master District Park Facilities through such park construction charges. Accordingly, the Master District is not authorized to issue any of said \$237,440,000 for contract revenue bonds to fund Master District Park Facilities unless the Master District Contract is amended by the MUD Participants in the future to allow it to do so. See "MASTER DISTRICT CONTRACT."

To date, the Developers have advanced certain funds for construction of facilities for which they have not been reimbursed. After the reimbursements are made to CCR Texas, CCR Subsidiary, and The Market at CCR, Ltd. from the Bonds, the District will owe approximately \$22,700,000 plus interest to the Developers. Included within said \$22,700,000 is approximately \$8,000,000 attributable to Master District Water/Sewer/Drainage Facilities serving the Service Area, and approximately \$14,700,000 attributable to Master District Park Facilities serving the Service Area. The \$8,000,000 will be paid for by contract revenue bonds to be issued by the Master District; and \$14,700,000 will be paid for by park construction charges funded by bonds to be issued by the MUD Participants or other legally available funds of the MUD Participants. However, reimbursement to the Developers may be limited by the requirement that the outstanding principal amount of bonds issued by any MUD Participant for park/recreational facilities not exceed one percent of the value of the taxable property in that MUD Participant. See “MASTER DISTRICT CONTRACT.” The Master District intends to issue additional contract revenue bonds in order to reimburse the Developers for Master District Water/Sewer/Drainage Facilities and Master District Road Facilities and to develop the remainder of undeveloped but developable land in the boundaries of the MUD Participants. The Service Area is comprised of the District, MUD 170, MUD 171, MUD 172 and MUD 173. There are approximately 490 acres of undeveloped but developable land within the boundaries of the MUD Participants. In addition, future changes in health or environmental regulations could require the issuance of additional bonds to finance the construction of additional improvements without any corresponding increases in taxable value. See “THE BONDS— Issuance of Additional Debt.”

The District, as a MUD Participant, has the right to issue obligations other than the contract revenue bonds, including unlimited tax bonds for the purpose of financing water, sanitary sewer and storm drainage facilities, road and park/recreational facilities that serve land within the District’s boundaries, tax anticipation notes and bond anticipation notes, and to borrow for any valid corporate purpose. The voters of the District have authorized the issuance of \$48,748,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities (and for the purpose of refunding such bonds); \$23,212,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing park and recreational facilities (and for the purpose of refunding such bonds); and \$10,556,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing road facilities (and for the purpose of refunding such bonds), all of which remains authorized but unissued. See “Maximum Impact on Contract Tax Rate” in this section and “THE BONDS—Issuance of Additional Debt.”

Marketability of the Bonds

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

Risk Factors Related to the Purchase of Municipal Bond Insurance

The Underwriter (defined herein) has entered into an agreement with ASSURED GUARANTY MUNICIPAL CORP. (“AGM”) for the purchase of a municipal bond insurance policy (the “Policy”). At the time of entering into the agreement, the Insurer was rated “AA” (stable outlook) by S&P. See “MUNICIPAL BOND INSURANCE.”

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.

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.

Continuing Compliance with Certain Covenants

Failure of the District to comply with certain covenants contained in the Bond Resolution on a continuing basis prior to the maturity of the Bonds could result in interest on the Bonds becoming taxable retroactive to the date of original issuance. See “TAX MATTERS.”

Changes in Tax Legislation

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

LEGAL MATTERS

Legal Proceedings

Delivery of the Bonds will be accompanied by the approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and legally binding special obligations of the District under the Constitution and laws of the State of Texas, payable from the Road Pledged Revenues, and, based upon their examination of a transcript of certified proceedings relating to the issuance and sale of the Bonds, the approving legal opinion of Bond Counsel, to a like effect and to the effect that (i) interest on the Bonds is excludable from gross income for federal income tax purposes under existing law and (ii) interest on the Bonds is not subject to the alternative minimum tax on individuals.

Bond Counsel has reviewed the information appearing in this Official Statement under "THE BONDS," "THE INDENTURE OF TRUST," "THE MUD PARTICIPANTS-Utility Agreement with the City," "MASTER DISTRICT CONTRACT," "TAXING PROCEDURES," "LEGAL MATTERS," "TAX MATTERS" and "CONTINUING DISCLOSURE OF INFORMATION" solely to determine if such information, insofar as it relates to matters of law, is true and correct, and whether such information fairly summarizes the provisions of the documents referred to therein. Bond Counsel has not, however, independently verified any of the factual information contained in this Official Statement nor has it conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of any information contained herein.

Allen Boone Humphries Robinson LLP also serves as general counsel to the District on matters other than the issuance of bonds. The legal fees paid to Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the bonds actually issued, sold, and delivered and, therefore, such fees are contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed upon for the District by McCall, Parkhurst & Horton LLP, Houston, Texas, as Disclosure Counsel.

No Material Adverse Change

The obligations of the Underwriter to take and pay for the Bonds, and of the District to deliver the Bonds, are subject to the condition that, up to the time of delivery of and receipt of payment for the Bonds, there shall have been no material adverse change in the financial condition of the District from that set forth or contemplated in the Preliminary Official Statement, as amended or supplemented through the date of sale. If the Underwriter elects to purchase municipal bond guaranty insurance on the Bonds, the rating of the insurer's creditworthiness by one rating agency does not and will not in any manner affect the District's financial condition.

No-Litigation Certificate

The District will furnish the Underwriter a certificate, executed by both the President or Vice President and Secretary or Assistant Secretary of the Board, and dated as of the date of delivery of the Bonds, to the effect that no litigation of any nature is pending or to its knowledge threatened, either in state or federal courts, contesting or attacking the Bonds, the Master District Contract, restraining or enjoining the levy, collection and pledge of the funds from which the Bonds are payable; in any manner questioning the authority or proceedings for the issuance, execution or delivery of the Bonds or the title of the present officers of the District.

TAX MATTERS

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

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

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

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

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

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

Tax Accounting Treatment of Original Issue Discount Bonds

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

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

The foregoing is based on the assumptions that (a) the Initial Purchaser has purchased the Bonds for contemporaneous sale to the general public and not for investment purposes, and (b) all of the Original Issue Discount Bonds have been offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm's-length transactions for a cash price (and with no other consideration being included) equal to the initial offering prices thereof stated on the cover page of this Official Statement, and (c) the respective initial offering prices of the Original Issue Discount Bonds to the general public are equal to the fair market value thereof. Neither the District nor Bond Counsel warrants that the Original Issue Discount Bonds will be offered and sold in accordance with such assumptions.

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

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

Not Qualified Tax-Exempt Obligations

The Bonds are not designated "qualified tax-exempt obligations" within the meaning of Section 265(b) of the Internal Revenue Code of 1986.

REGISTRATION AND QUALIFICATION UNDER SECURITIES LAWS

The offer and sale of the Bonds have not been registered or qualified 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; and the Bonds have not 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 jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated 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 provisions.

SALE AND DISTRIBUTION OF THE BONDS

After requesting competitive bids for the Bonds, the District accepted the bid resulting in the lowest net interest cost, which bid was rendered by SAMCO Capital Markets Inc. (the "Underwriter" or "Initial Purchaser") bearing the interest rates shown on the cover page of this Official Statement, at a price of 97.000% of the principal amount thereof plus accrued interest to the date of delivery which resulted in a net effective interest rate of 4.163726% as calculated pursuant to Chapter 1204, Texas Government Code.

The delivery of the Bonds is conditional upon the receipt by the District of a certificate executed and delivered by the Underwriter on or before the date of delivery of the Bonds stating the prices at which a substantial amount of the Bonds of each maturity have been sold. Otherwise, the District has no understanding with the Underwriter regarding the reoffering yields or prices of the Bonds. Information concerning reoffering yields or prices is the responsibility of the Underwriter.

The prices and other terms with respect to the offering and the sale of the Bonds may be changed from time to time by the Underwriter after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial prices, including sales to dealers who may sell the Bonds into investment accounts. In connection with the offering of the Bonds, the Underwriter may over-allocate or effect transactions which stabilize or maintain the market prices of the Bonds at levels above those which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

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

CONTINUING DISCLOSURE OF INFORMATION

In the Bond Resolution, the District has made the following agreement for the benefit of the registered 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"), or any successor to its functions as a repository, through the Electronic Municipal Market Access ("EMMA") system.

Annual Reports

The District will provide certain updated financial information and operating data to the MSRB through its EMMA System. 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 "THE SYSTEM – Master District Facilities," "FINANCIAL INFORMATION CONCERNING THE MASTER DISTRICT AND THE MUD PARTICIPANTS (UNAUDITED)," "TAX DATA," and "APPENDICES A (Certain Financial Information Regarding the MUD Participants) and "B" (Audited Financial Statements of MUD Participants). The District will update and provide this information within six months after the end of each fiscal year 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 ("Rule"). The updated information will include audited financial statements if the District 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 month period, and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in the Bond Resolution, 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 current fiscal year end is September 30. Accordingly, it must provide updated information by March 31 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

Specified Event Notices

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

Availability of Information from MSRB

The District has agreed to provide the foregoing updated information only to the MSRB. The MSRB makes the information available to the public without charge through an internet portal at www.emma.msrb.org.

Limitations and Amendments

The District has agreed to update information and to provide notices of specified events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although Registered Owners 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 or the MUD Participants, 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 the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (2) either (a) the Registered Owners 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. The District may amend or repeal the agreement in the Bond Resolution if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction determines that such provisions are invalid or unenforceable, but only to the extent that its right to do so would not prevent the Underwriter from lawfully purchasing the Bonds in the initial offering. 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 as provided.

Compliance with Prior Undertakings

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

MUNICIPAL BOND RATING

It is expected that S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC, ("S&P") will assign a municipal bond rating of "AA" (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Assured Guaranty Municipal Corp. S&P has also assigned an underlying rating of "BBB-" to the Bonds. An explanation of the ratings may be obtained from S&P.

There is no assurance that such rating will continue for any given period of time or that it will not be revised or withdrawn entirely by S&P, if in its judgment, circumstances so warrant. Any such revisions or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

MUNICIPAL BOND INSURANCE

Bond Insurance Policy

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

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

Assured Guaranty Municipal Corp.

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

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

Current Financial Strength Ratings

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

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

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

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

Capitalization of AGM

At June 30, 2018:

- The policyholders' surplus of AGM was approximately \$2,221 million.
- The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. ("MAC") (as described below) were approximately \$1,166 million. Such amount includes 100% of AGM's contingency reserve and 60.7% of MAC's contingency reserve.
- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately \$1,898 million. Such amount includes (i) 100% of the net unearned premium reserve and deferred ceding commission income of AGM, (ii) the consolidated net unearned premium reserves and net deferred ceding commissions of AGM's wholly owned subsidiary Assured Guaranty (Europe) plc ("AGE"), and (iii) 60.7% of the net unearned premium reserve of MAC.

The policyholders' surplus of AGM and the contingency reserves, net unearned premium reserves and deferred ceding commission income of AGM and MAC were determined in accordance with statutory accounting principles. The net unearned premium reserves and net deferred ceding commissions of AGE were determined in accordance with accounting principles generally accepted in the United States of America.

Incorporation of Certain Documents by Reference

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

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2017 (filed by AGL with the SEC on February 23, 2018);
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2018 (filed by AGL with the SEC on May 4, 2018); and
- (iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2018 (filed by AGL with the SEC on August 2, 2018).

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

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

Miscellaneous Matters

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

PREPARATION OF OFFICIAL STATEMENT

Sources and Compilation of Information

The financial data and other information contained in this OFFICIAL STATEMENT has been obtained primarily from the District’s records, the Developers, the Engineer, the Tax Assessor/Collector, the Appraisal District and information from other sources. All of these sources are believed to be reliable, but no guarantee is made by the District as to the accuracy or completeness of the information derived from such sources, and its inclusion herein is not to be construed as a representation on the part of the District to such effect except as specified below under “Certification of Official Statement.” Furthermore, there is no guarantee that any of the assumptions or estimates contained herein will be realized. The summaries of the agreements, reports, statutes, resolutions, indentures, engineering and other related information set forth in this OFFICIAL STATEMENT are included herein subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents for further information.

Consultants

In approving this OFFICIAL STATEMENT the District has relied upon the following consultants. Each consultant has consented to the use of information provided by such firms.

Engineer: The information contained in this OFFICIAL STATEMENT relating to engineering and to the description of the water, wastewater, drainage, park/recreational and road facilities serving the MUD Participants and, certain information included in the sections entitled “THE DISTRICT AND SERVICE AREA—Description and Location—Status of Development,” and “THE SYSTEM” has been provided by BGE, Inc., and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

Appraisal District: The information contained in this OFFICIAL STATEMENT relating to the historical certified taxable assessed valuations has been provided by the Fort Bend Central Appraisal District and has been included herein in reliance upon the authority of such entity as experts in assessing the values of property in Fort Bend County, including within the boundaries of the MUD Participants.

Tax Assessor/Collector: The information contained in this OFFICIAL STATEMENT relating to the historical breakdown of the MUD Participants’ assessed valuations and certain other historical data concerning tax rates and tax collections has been provided by Assessments of the Southwest and is included herein in reliance upon the authority of such entity as experts in assessing property values and collecting taxes.

Independent Auditor: The MUD Participants’ financial statements for the fiscal year ended September 30, 2017, were audited by McGrath & Co., PLLC. See “APPENDIX B” for a copy of MUD Participants’ audited financial statement.

Bookkeeper: The information related to the “unaudited” summary of the District’s General Operating Fund as it appears in “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED) – Operating Fund” has been provided by F.Matuska, Inc., and is included herein in reliance upon the authority of such firm as experts in tracking and managing the various funds of municipal utility districts.

Updating the Official Statement

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

Certification of Official Statement

The District, acting through its Board in its official capacity, hereby certifies, as of the date hereof, that the information, statements, and descriptions or any addenda, supplement and amendment thereto pertaining to the District and its affairs contained herein, to the best of its knowledge and belief, contain no untrue statement of a material fact and do not omit to state any material fact necessary to make the statements herein, in the light of the circumstances under which they are made, not misleading. With respect to information included in this OFFICIAL STATEMENT other than that relating to the District, the District has no reason to believe that such information contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements herein, in the light of the circumstances under which they are made, not misleading; however, the Board has made no independent investigation as to the accuracy or completeness of the information derived from sources other than the District. In rendering such certificate, the official executing this certificate may state that he has relied in part on his examination of records of the District relating to matters within his own area of responsibility, and his discussions with, or certificates or correspondence signed by, certain other officials, employees, consultants and representatives of the District.

MISCELLANEOUS

All estimates, statements and assumptions in this OFFICIAL STATEMENT and the APPENDICES hereto have been made on the basis of the best information available and are believed to be reliable and accurate. Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact, and no representation is made that any such statements will be realized.

This Official Statement was approved by the Board of Directors of Fort Bend County Municipal Utility District No. 169, as of the date shown on the cover page.

ATTEST:

/s/ Arden J. Morley
President, Board of Directors

/s/ David W. D'Andrea
Assistant Secretary, Board of Directors

AERIAL LOCATION MAP

(Approximate boundaries of the Service Area as of August, 2018)

CROSS CREEK RANCH



FB MUD 173

FB MUD 172

FB MUD 170

FB MUD 169

FB MUD 171

F.M. 1093

F.M. 1463

FB MUD 173

PHOTOGRAPHS OF THE DISTRICT
(Taken August, 2018)















APPENDIX A

Certain Financial Information Regarding the MUD Participants

Selected information concerning the MUD Participants is included in this Appendix in addition to certain general information concerning the MUD Participants and their obligation under the Master District Contract contained in the body of the OFFICIAL STATEMENT. See "THE MUD PARTICIPANTS" and "MASTER DISTRICT CONTRACT" therein. Each MUD Participant is severally liable for its Water/Sewer/Drainage Contract Payments in an amount equal to its pro rata share of annual debt service requirements on the Water/Sewer/Drainage Contract Revenue Bonds and severally liable for its Road Contract Payments in an amount equal to its pro rata share of annual debt service requirements on the Road Contract Revenue Bonds. No MUD Participant is liable for more than its share of such debt service. Consequently, the ability of the Master District to make timely payment of principal of and interest: (i) on the Water/Sewer/Drainage Contract Revenue Bonds would be impaired if any MUD Participant does not make its Water/Sewer/Drainage Contract Payments in full when due, unless the funds otherwise available in the Water/Sewer/Drainage Debt Service Fund and Water/Sewer/Drainage Reserve Fund exceeded the amount of such MUD Participant's deficiency; and (ii) on the Road Contract Revenue Bonds would be impaired if any MUD Participant does not make its Road Contract Payments in full when due, unless the funds otherwise available in the Road Debt Service Fund and Road Reserve Fund exceeded the amount of such MUD Participant's deficiency.

Certain Calculations

The information concerning the debt burden of the MUD Participants makes reference to the principal amount of each MUD Participant's pro rata share of debt service on the Water/Sewer/Drainage Contract Revenue Bonds and Road Contract Revenue Bonds, each MUD Participant's outstanding unlimited tax bonds, if any, and certain annual tax rate calculations. In each case, this information has been computed as follows:

Contract Debt: The principal amount of each MUD Participant's Master District Contract debt for the Water/Sewer/Drainage Contract Revenue Bonds and Road Contract Revenue Bonds has been calculated for purposes of analysis by allocating the principal amount of the Water/Sewer/Drainage Contract Revenue Bonds and Road Contract Revenue Bonds among the MUD Participants in proportion to their assessed valuation. The assessed valuations used for this calculation are based on the January 1, 2018 Certified Value of \$1,366,309,359. The MUD Participants' share of annual debt service requirements on the Water/Sewer/Drainage Contract Revenue Bonds and Road Contract Revenue Bonds will be determined annually by reference to their relative certified assessed valuations established by the Fort Bend Central Appraisal District.

Water/Sewer/Drainage Contract Payments (all of which are derived from the Water/Sewer/Drainage Contract Tax or other legally available funds of a MUD Participant) are not pledged for and are not available to be used to: (i) pay debt service on the Bonds or any Road Contract Revenue Bonds; or (ii) fund or maintain the Road Reserve Fund. Road Contract Payments (all of which are derived from the Road Contract Tax or other legally available funds of a MUD Participant) are not pledged for and are not available to be used to: (i) pay debt service on the Water/Sewer/Drainage Contract Revenue Bonds; or (ii) fund or maintain the Water/Sewer/Drainage Reserve Fund.

Tax Rate Calculations: Tax rate calculations assume that each MUD Participant's assessed valuation does not change from the Certified Value as of January 1, 2018, of \$1,366,309,359 and that each MUD Participant collects ninety-five percent (95%) of the taxes it levies, that it issues no additional bonds, and that the Master District does not issue any additional contract revenue bonds.

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 169

(In its Capacity as a MUD Participant)

Voter Authorized Unlimited Tax Water, Sewer and Drainage Bonds.....	\$48,748,000
Voter Authorized Unlimited Tax Road Bonds	\$10,556,000
Voter Authorized Unlimited Tax Park Bonds	\$23,212,000
Total Principal Amount of Unlimited Tax Bonds Issued to Date	\$ 0
Debt Service Tax Limitation	Unlimited
Maintenance Tax for Water, Sanitary Sewer, Drainage, and Park/Recreational Facilities Limitation.....	\$1.50
Maintenance Tax for Road Facilities Limitation.....	\$0.25
Contract Tax Limitation	Unlimited
Gross Outstanding Direct Debt	\$0
2018 Certified Gross Assessed Valuation	\$7,968,880

2018 Certified Gross Assessed Valuation as a Percentage of
 2018 Certified Gross Assessed Valuation of all MUD Participants..... 0.58%

Average Annual Debt Service:
 Pro Rata Share of the Outstanding Contract Revenue Bonds and the Bonds (2019-2043) \$35,904

Maximum Annual Debt Service:
 Pro Rata Share of the Outstanding Contract Revenue Bonds and the Bonds (2019) \$47,582

Tax Rate Required to Pay Pro Rata Share of the Outstanding
 Contract Revenue Bonds and the Bonds Based on 2018 Certified Gross Assessed Value

Average Annual Debt Service:
 Outstanding Contract Revenue Bonds and the Bonds (2019-2043)..... \$0.48

Maximum Annual Debt Service:
 Outstanding Contract Revenue Bonds and the Bonds (2019) \$0.63

Status of Development as of August 23, 2018

Acreage	321
Total Active Single-Family Connections.....	0
Total Developed Lots	0

Principal Taxpayers:

The following table lists the principal taxpayer(s) and such properties' assessed value. This information is based upon the 2018 Certified Taxable Assessed Valuation.

<u>Taxpayer</u>	<u>Type of Property</u>	2018 Certified Taxable Assessed Valuation	% of 2018 Certified Taxable Assessed Valuation
CCR Texas Holdings LP	Land	\$7,963,880	99.94%
Individual	Land	1,000	0.01%
Individual	Land	1,000	0.01%
Individual	Land	1,000	0.01%
Individual	Land	1,000	0.01%
Individual	Land	1,000	0.01%
Total		\$7,968,880	100.00%

Tax Rate Distribution (a):

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	Anticipated <u>2018</u>
Debt Service	\$0.00000	\$0.00000	\$0.00000	\$0.00000	\$0.00000
Contract	\$0.69500	\$0.69500	\$0.69500	\$0.69500	\$0.68500
Maintenance	<u>\$0.62760</u>	<u>\$0.64426</u>	<u>\$0.64899</u>	<u>\$0.64720</u>	<u>\$0.65338</u>
	\$1.32260	\$1.33926	\$1.34399	\$1.34220	\$1.33838

- (a) None of the MUD Participants have levied a 2018 tax rate, but all have authorized publication of the tax rate shown as “Anticipated 2018.” It is anticipated that the MUD Participants will levy their 2018 tax rates in November, 2018.

Historical Tax Collections:

<u>Tax Year</u>	Net Certified Taxable	Tax	Total	Total Collections as of July 31, 2018 (b)	
	<u>Assessed Valuation (a)</u>	<u>Rate</u>	<u>Tax Levy</u>	<u>Amount</u>	<u>Percent</u>
2013	\$6,322,390	\$1.30380	\$82,431	\$82,431	100.00%
2014	6,322,390	1.32260	83,620	83,620	100.00%
2015	6,323,860	1.33926	84,693	84,693	100.00%
2016	6,323,120	1.34399	84,982	84,982	100.00%
2017	7,968,880	1.34220	106,958	106,958	100.00%

(a) Net valuation represents final gross assessed value as certified by the Appraisal District less any exemptions granted.

(b) Represents actual tax levy, including any adjustments by the Appraisal District, as of July 31, 2018.

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 170

Voter Authorized Unlimited Tax Water, Sewer and Drainage Bonds.....	\$126,140,000
Voter Authorized Unlimited Tax Road Bonds	\$50,400,000
Voter Authorized Unlimited Tax Park Bonds	\$69,860,000
Total Principal Amount of Unlimited Tax Bonds Issued to Date.....	\$10,135,000
Debt Service Tax Limitation	Unlimited
Maintenance Tax for Water, Sanitary Sewer, Drainage, and Park/Recreational Facilities Limitation.....	\$1.50
Maintenance Tax for Road Facilities Limitation.....	\$0.25
Contract Tax Limitation	Unlimited
Gross Outstanding Direct Debt	\$9,685,000

2018 Certified Gross Assessed Valuation	\$170,445,901
Estimated Assessed Value as of August 1, 2018.....	\$190,283,793

2018 Certified Gross Assessed Valuation as a Percentage of	
2018 Certified Gross Assessed Valuation of all MUD Participants.....	12.48%

Average Annual Debt Service:	
Direct Debt (2019-2041)	\$637,018
Pro Rata Share of the Outstanding Contract Revenue Bonds and the Bonds (2019-2043)	\$767,951

Maximum Annual Debt Service:	
Direct Debt (2020)	\$ 701,031
Pro Rata Share of the Outstanding Contract Revenue Bonds and the Bonds (2019)	\$1,017,732

Tax Rates Required to Pay Direct Debt and Pro Rata Share of the
Outstanding Contract Revenue Bonds and the Bonds
Based on 2018 Certified Gross Assessed Value

Average Annual Debt Service:	
Direct Debt (2019- 2041)	\$0.39
Outstanding Contract Revenue Bonds and the Bonds (2019-2043)	<u>\$0.48</u>
Total	\$0.87

Maximum Annual Debt Service:	
Direct Debt (2020)	\$0.43
Outstanding Contract Revenue Bonds and the Bonds (2020).....	<u>\$0.63</u>
Total	\$1.06

<u>Status of Development as of August 23, 2018:</u>	
Acreage	848
Total Active Single-Family Connections Completed and Under Construction.....	511
Total Developed Lots	850

Principal Taxpayers:

The following table lists the principal taxpayer(s) and such properties' assessed value. This information is based upon the 2018 Certified Taxable Assessed Valuation.

<u>Taxpayer</u>	<u>Type of Property</u>	<u>2018 Certified Taxable Assessed Valuation</u>	<u>% of 2018 Certified Taxable Assessed Valuation</u>
CCR Texas Holdings LP	Land	\$12,108,280	7.15%
CCR Loan Subsidiary 1 LP	Land	8,981,530	5.30%
Taylor Morrison of Texas Inc.	Land and improvements	8,859,700	5.23%
Chesmar Homes Ltd.	Land and improvements	1,740,000	1.03%
Individual	Land and improvements	889,930	0.53%
Individual	Land and improvements	837,240	0.49%
Individual	Land and improvements	800,680	0.47%
Individual	Land and improvements	793,940	0.47%
Individual	Land and improvements	775,500	0.46%
Individual	Land and improvements	773,370	0.46%
Total		\$ 36,560,170	21.59%

Tax Rate Distribution (a):

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Anticipated 2018</u>
Debt Service	\$0.00000	\$0.35000	\$0.36000	\$0.40000	\$0.36750
Contract	\$0.69500	\$0.69500	\$0.69500	\$0.69500	\$0.67250
Maintenance	<u>\$0.62760</u>	<u>\$0.29426</u>	<u>\$0.28899</u>	<u>\$0.24720</u>	<u>\$0.29838</u>
	\$1.32260	\$1.33926	\$1.34399	\$1.34220	\$1.33838

(a) None of the MUD Participants have levied a 2018 tax rate, but all have authorized publication of the tax rate shown as "Anticipated 2018." It is anticipated that the MUD Participants will levy their 2018 tax rates in November, 2018.

Historical Tax Collections:

<u>Tax Year</u>	<u>Net Certified Taxable Assessed Valuation (a)</u>	<u>Tax Rate</u>	<u>Total Tax Levy</u>	<u>Total Collections as of July 31, 2018 (b)</u>	
				<u>Amount</u>	<u>Percent</u>
2013	\$26,564,657	\$1.30380	\$346,350	\$346,350	100.00%
2014	50,322,097	1.32260	665,560	665,560	100.00%
2015	78,046,638	1.33926	1,045,247	1,045,247	100.00%
2016	102,263,100	1.34399	1,374,406	1,374,406	100.00%
2017	123,968,741	1.34220	1,663,908	1,637,754	98.43%

(a) Net valuation represents final gross assessed value as certified by the Appraisal District less any exemptions granted.

(b) Represents actual tax levy, including any adjustments by the Appraisal District, as of July 31, 2018.

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 171

Voter Authorized Unlimited Tax Water, Sewer and Drainage Bonds.....	\$68,558,000
Voter Authorized Unlimited Tax Road Bonds	\$17,150,000
Voter Authorized Unlimited Tax Park Bonds	\$37,100,000
Total Principal Amount of Unlimited Tax Bonds Issued to Date	\$16,025,000
Debt Service Tax Limitation	Unlimited
Maintenance Tax for Water, Sanitary Sewer, Drainage, and Park/Recreational Facilities Limitation.....	\$1.50
Maintenance Tax for Road Facilities Limitation.....	\$0.25
Contract Tax Limitation	Unlimited
Gross Outstanding Direct Debt	\$13,870,000

2018 Certified Gross Assessed Valuation \$363,033,645

2018 Certified Gross Assessed Valuation a Percentage of
 2018 Certified Gross Assessed Valuation of all MUD Participants..... 26.56%

Average Annual Debt Service:
 Direct Debt (2019-2038) \$1,039,092
 Pro Rata Share of the Outstanding Contract Revenue Bonds
 and the Bonds (2019-2043) \$1,635,664

Maximum Annual Debt Service:
 Direct Debt (2034) \$1,249,269
 Pro Rata Share of the Outstanding Contract Revenue Bonds
 and the Bonds (2019) \$2,167,674

**Tax Rates Required to Pay Direct Debt and Pro Rata Share of the Outstanding
 Contract Revenue Bonds and the Bonds Based on 2018 Certified Gross Assessed Value**

Average Annual Debt Service:
 Direct Debt (2019-2038) \$0.30
 Outstanding Contract Revenue Bonds and the Bonds (2019-2043) \$0.48
 Total..... \$0.78
 Maximum Annual Debt Service:
 Direct Debt (2034)..... \$0.36
 Outstanding Contract Revenue Bonds and the Bonds (2019)..... \$0.63
 Total..... \$0.99

Status of Development as of August 23, 2018:

Acreage 576
 Total Active Single-Family Connections Completed and Under Construction..... 899
 Total Developed Lots 899
 Total Commercial Development (33 acres)..... 29 ESFCs (a)

(a) All of such Equivalent Single-Family Connections are attributable to a church that is exempt from property taxes.

Principal Taxpayers:

The following table lists the principal taxpayer(s) and such properties' assessed value. This information is based upon the 2018 Certified Taxable Assessed Valuation.

<u>Taxpayer</u>	<u>Type of Property</u>	<u>2018 Certified Taxable Assessed Valuation</u>	<u>% of 2018 Certified Taxable Assessed Valuation</u>
CCR Texas Holdings LP	Land	\$8,592,450	2.37%
CCR Loan Subsidiary 1 LP	Land	2,206,890	0.61%
CALCAM LLP	Personal Property	1,925,820	0.53%
Enterprise Crude Pipeline LP	Personal Property	1,181,440	0.33%
Individual	Land and improvements	746,660	0.21%
Individual	Land and improvements	720,660	0.20%
Individual	Land and improvements	713,530	0.20%
Individual	Land and improvements	705,530	0.19%
Individual	Land and improvements	678,810	0.19%
Individual	Land and improvements	661,600	0.18%
Total		\$ 18,133,390	5.01%

Tax Rate Distribution (a):

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Debt Service	\$0.24000	\$0.24000	\$0.26000	\$0.28250	\$0.27000
Contract	\$0.70000	\$0.69500	\$0.69500	\$0.69500	\$0.69500
Maintenance	<u>\$0.28000</u>	<u>\$0.22500</u>	<u>\$0.16500</u>	<u>\$0.14000</u>	<u>\$0.14150</u>
	\$1.22000	\$1.16000	\$1.12000	\$1.11750	\$1.10650

(a) None of the MUD Participants have levied a 2018 tax rate, but all have authorized publication of the tax rate shown as "Anticipated 2018." It is anticipated that the MUD Participants will levy their 2018 tax rates in November, 2018.

Historical Tax Collections:

<u>Tax Year</u>	<u>Net Certified Taxable Assessed Valuation (a)</u>	<u>Tax Rate</u>	<u>Total Tax Levy</u>	<u>Total Collections as of July 31, 2018 (b)</u>	
				<u>Amount</u>	<u>Percent</u>
2013	\$280,901,843	\$1.26500	\$3,553,408	\$3,553,408	100.00%
2014	328,080,108	1.22000	4,002,577	4,002,577	100.00%
2015	363,235,188	1.16000	4,213,528	4,199,877	99.68%
2016	377,402,795	1.12000	4,226,911	4,213,482	99.68%
2017	361,492,442	1.11750	4,039,678	4,021,982	99.56%

(a) Net valuation represents final gross assessed value as certified by the Appraisal District less any exemptions granted.

(b) Represents actual tax levy, including any adjustments by the Appraisal District, as of July 31, 2018.

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 172

Voter Authorized Unlimited Tax Water, Sewer and Drainage Bonds.....	\$171,878,000
Voter Authorized Unlimited Tax Road Bonds	\$ 31,710,000
Voter Authorized Unlimited Tax Park Bonds	\$ 80,640,000
Total Principal Amount of Unlimited Tax Bonds Issued to Date.....	\$ 28,815,000
Debt Service Tax Limitation	Unlimited
Maintenance Tax for Water, Sanitary Sewer, Drainage, and Park/Recreational Facilities Limitation	\$1.50
Maintenance Tax for Road Facilities Limitation.....	\$0.25
Contract Tax Limitation	Unlimited
Gross Outstanding Direct Debt	\$ 27,235,000

2018 Certified Gross Assessed Value	\$567,490,028
Estimate of Value as of August 1, 2018	\$592,535,862

2018 Certified Gross Assessed Valuation as a Percentage of	
2018 Certified Gross Assessed Valuation of all MUD Participants	41.54%

Average Annual Debt Service:

Direct Debt (2019-2042)	\$ 1,697,712
Pro Rata Share of the Outstanding Contract Revenue Bonds and the Bonds (2019-2043).....	\$ 2,556,851

Maximum Annual Debt Service:

Direct Debt (2033)	\$ 1,947,094
Pro Rata Share of the Outstanding Contract Revenue Bonds and the Bonds (2019).....	\$ 3,388,483

Tax Rates Required to Pay Direct Debt and Pro Rata Share of the Outstanding Contract Revenue Bonds and the Bonds Based on 2018 Certified Gross Assessed Value

Average Annual Debt Service:

Direct Debt (2019-2042)	\$0.31
Outstanding Contract Revenue Bonds and the Bonds (2019-2043).....	\$0.48
Total	\$0.79

Maximum Annual Debt Service:

Direct Debt (2033)	\$0.36
Outstanding Contract Revenue Bonds and the Bonds (2019)	\$0.63
Total	\$0.99

Status of Development as of August 23, 2018

Acreage	910
Total Active Single-Family Connections Completed and Under Construction	1,262
Total Developed Lots.....	1,294
Total Commercial Development (36 acres).....	191 ESFCs (a)

(a) 29 of such Equivalent Single-Family Connections (approximately 14 acres) are attributable to a school that is exempt from property taxes.

Principal Taxpayers:

The following table lists the principal taxpayer(s) and such properties' assessed value. This information is based upon the 2018 Certified Taxable Assessed Valuation.

<u>Taxpayer</u>	<u>Type of Property</u>	<u>2018 Certified Taxable Assessed Valuation</u>	<u>% of 2018 Certified Taxable Assessed Valuation</u>
A-S 132 Sfry Road - FM 1463 LP	Land and improvements	\$7,621,295	1.34%
CCR Texas Holdings LP	Land	3,759,730	0.66%
Cross Creek Comer 2 LLC	Land and improvements	2,987,000	0.53%
Cross Creek Comer 1 LLC	Land and improvements	2,930,158	0.52%
Algonquin Cross Creek LLC	Land and improvements	2,379,550	0.42%
H&V Properties LLC	Land and improvements	2,291,040	0.40%
Darling Homes of Texas LLC	Land and improvements	2,233,250	0.39%
CCR Loan Subsidiary 1 LP	Land	2,101,210	0.37%
Partners in Building LP	Land and improvements	2,056,000	0.36%
Trendmaker Homes Inc.	Land and improvements	1,969,970	0.35%
Total		\$ 30,329,203	5.35%

Tax Rate Distribution (a):

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Anticipated 2018</u>
Debt Service	\$0.30000	\$0.28500	\$0.29000	\$0.29500	\$0.29500
Contract	\$0.69500	\$0.69500	\$0.69500	\$0.69500	\$0.69500
Maintenance	<u>\$0.32760</u>	<u>\$0.30180</u>	<u>\$0.23000</u>	<u>\$0.19500</u>	<u>\$0.17000</u>
	\$1.32260	\$1.28180	\$1.21500	\$1.18500	\$1.16000

(a) None of the MUD Participants have levied a 2018 tax rate, but all have authorized publication of the tax rate shown as "Anticipated 2018." It is anticipated that the MUD Participants will levy their 2018 tax rates in November, 2018.

Historical Tax Collections:

<u>Tax Year</u>	<u>Net Certified Taxable Assessed Valuation (a)</u>	<u>Tax Rate</u>	<u>Total Tax Levy</u>	<u>Total Collections as of July 31, 2018 (b)</u>	
				<u>Amount</u>	<u>Percent</u>
2013	\$72,382,358	\$1.30380	\$943,721	\$943,721	100.00%
2014	217,850,454	1.32260	2,881,290	2,881,290	100.00%
2015	409,781,650	1.28180	5,252,581	5,252,581	100.00%
2016	518,030,562	1.21500	6,294,071	6,289,520	99.93%
2017	542,796,537	1.18500	6,432,139	6,411,708	99.68%

(a) Net valuation represents final gross assessed value as certified by the Appraisal District less any exemptions granted.

(b) Represents actual tax levy, including any adjustments by the Appraisal District, as of July 31, 2018.

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 173

Voter Authorized Unlimited Tax Water, Sewer and Drainage Bonds.....	\$103,376,000
Voter Authorized Unlimited Tax Road Bonds	\$24,430,000
Voter Authorized Unlimited Tax Park Bonds	\$45,920,000
Total Principal Amount of Unlimited Tax Bonds Issued to Date.....	\$11,800,000
Debt Service Tax Limitation	Unlimited
Maintenance Tax for Water, Sanitary Sewer, Drainage, and Park/Recreational Facilities Limitation.....	\$1.50
Maintenance Tax for Road Facilities Limitation.....	\$0.25
Contract Tax Limitation	Unlimited
Gross Outstanding Direct Debt	\$11,700,000

2018 Certified Gross Assessed Valuation	\$257,370,905
Estimate of Value as of August 1, 2018	\$313,082,843

2018 Certified Gross Assessed Valuation as a Percentage of	
2018 Certified Gross Assessed Valuation of all MUD Participants.....	18.83%

Average Annual Debt Service:	
Direct Debt (2019-2043)	\$ 689,248
Pro Rata Share of the Outstanding Contract Revenue Bonds and the Bonds (2019-2043)	\$1,159,596

Maximum Annual Debt Service:	
Direct Debt (2019)	\$ 776,063
Pro Rata Share of the Outstanding Contract Revenue Bonds and the Bonds (2019)	\$1,536,761

Tax Rates Required to Pay Direct Debt and Pro Rata Share of the Outstanding Contract Revenue Bonds and the Bonds Based on 2018 Certified Gross Value

Average Annual Debt Service:	
Direct Debt (2019-2043)	\$0.28
Outstanding Contract Revenue Bonds and the Bonds (2019-2043)	0.48
Total	\$0.76

Maximum Annual Debt Service:	
Direct Debt (2019)	\$0.32
Outstanding Contract Revenue Bonds and the Bonds (2019)	\$0.63
Total	\$0.95

Status of Development as of August 23, 2018

Acreage	638
Total Active Single-Family Connections (completed and under construction).....	742
Total Developed Lots	952
Total Active Multi-Family Connections (under construction)	156
Total Commercial Development (66 acres).....	299 ESFCs (a)

- (a) 29 of such Equivalent Single-Family connections (approximately 14 acres) are attributable to a school that is exempt from property taxes.

Principal Taxpayers:

The following table lists the principal taxpayer(s) and such properties' assessed value. This information is based upon the 2018 Certified Taxable Assessed Valuation.

<u>Taxpayer</u>	<u>Type of Property</u>	<u>2018 Certified Taxable Assessed Valuation</u>	<u>% of 2018 Certified Taxable Assessed Valuation</u>
HEB Grocery Company LP	Land and improvements	\$11,110,190	4.32%
TLM-CCR Phase II LLC	Land and improvements	9,858,110	3.83%
Landmark Industries	Land and improvements	7,794,210	3.03%
CCR 21 LLC	Land and improvements	7,506,260	2.92%
Texas Petroleum Group LLC	Personal Property	4,981,960	1.94%
Shops at Cross Creek II LLC	Land and improvements	4,398,020	1.71%
Trendmaker Homes Inc.	Land and improvements	4,384,970	1.70%
RK CCR Phase I LLC	Land and improvements	4,289,047	1.67%
Yurdy LLC	Land and improvements	4,047,770	1.57%
The Market at CCR Ltd.	Land and improvements	3,966,530	1.54%
Total		\$ 62,337,067	24.23%

Tax Rate Distribution (a):

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Anticipated 2018</u>
Debt Service	\$0.00000	\$0.00000	\$0.00000	\$0.27500	\$0.33000
Contract	\$0.69500	\$0.69500	\$0.69500	\$0.69500	\$0.70500
Maintenance	<u>\$0.62760</u>	<u>\$0.64426</u>	<u>\$0.64899</u>	<u>\$0.37220</u>	<u>\$0.30338</u>
	\$1.32260	\$1.33926	\$1.34399	\$1.34220	\$1.33838

- (a) None of the MUD Participants have levied a 2018 tax rate, but all have authorized publication of the tax rate shown as "Anticipated 2018." It is anticipated that the MUD Participants will levy their 2018 tax rates in November, 2018.

Historical Tax Collections:

<u>Tax Year</u>	<u>Net Certified Taxable Assessed Valuation (a)</u>	<u>Tax Rate</u>	<u>Total Tax Levy</u>	<u>Total Collections as of July 31, 2018 (b)</u>	
				<u>Amount</u>	<u>Percent</u>
2013	\$19,852,950	\$1.30380	\$258,843	\$258,843	100.00%
2014	19,533,950	1.32260	258,356	258,356	100.00%
2015	32,667,773	1.33926	437,506	437,506	100.00%
2016	85,251,581	1.34399	1,145,773	1,144,832	99.92%
2017	171,497,352	1.34220	2,301,837	2,299,101	99.88%

- (a) Net valuation represents final gross assessed value as certified by the Appraisal District less any exemptions granted.
 (b) Represents actual tax levy, including any adjustments by the Appraisal District, as of July 31, 2018.

APPENDIX B

Audited Financial Statements of MUD Participants

Financial Statement of the District for the year ended September 30, 2017
Financial Statement of MUD 170 for the year ended September 30, 2017
Financial Statement of MUD 171 for the year ended September 30, 2017
Financial Statement of MUD 172 for the year ended September 30, 2017
Financial Statement of MUD 173 for the year ended September 30, 2017

EXHIBIT B

**FORT BEND COUNTY MUNICIPAL
UTILITY DISTRICT NO. 169**

FORT BEND COUNTY, TEXAS

FINANCIAL REPORT

September 30, 2017

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Independent Auditors' Report

Board of Directors
Fort Bend County Municipal Utility District No. 169
Fort Bend County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Fort Bend County Municipal Utility District No. 169, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

*Board of Directors
Fort Bend County Municipal Utility District No. 169
Fort Bend County, Texas*

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Fort Bend County Municipal Utility District No. 169, as of September 30, 2017, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other-Matters

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The Texas Supplementary Information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Texas Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied to the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

McGuire & Co, P.C.

Houston, Texas
January 10, 2018

Management's Discussion and Analysis

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***Fort Bend County Municipal Utility District No. 169
Management's Discussion and Analysis
September 30, 2017***

Using this Annual Report

Within this section of the financial report of Fort Bend County Municipal Utility District No. 169 (the "District"), the District's Board of Directors provides a narrative discussion and analysis of the financial activities of the District for the fiscal year ended September 30, 2017. This analysis should be read in conjunction with the independent auditors' report and the basic financial statements that follow this section.

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

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

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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

Fort Bend County Municipal Utility District No. 169
Management's Discussion and Analysis
September 30, 2017

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

Fund Financial Statements

The fund financial statements include the *Governmental Funds Balance Sheet* and the *Governmental Funds Revenues, Expenditures and Changes in Fund Balances*. The focus of fund financial statements is on specific activities of the District rather than the District as a whole, reported using modified accrual accounting. These statements report on the District's use of available financial resources and the balances of available financial resources at the end of the year. Except for the General Fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties, governmental statutes or regulations.

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

Financial Analysis of the District as a Whole

The District's net position at September 30, 2017, was negative \$61,530,302. The District's net position is negative because the District incurs debt to construct water, sewer, storm drainage and road facilities which it conveys to the City of Fulshear. A comparative summary of the District's overall financial position, as of September 30, 2017 and 2016, is as follows:

	2017	2016
Current and other assets	\$ 18,451,828	\$ 15,565,265
Capital assets	55,326,669	41,602,256
Total assets	<u>73,778,497</u>	<u>57,167,521</u>
 Total deferred outflows of resources	 <u>261,211</u>	 <u> </u>
 Current liabilities	 4,512,003	 3,570,102
Long-term liabilities	131,058,007	119,438,231
Total liabilities	<u>135,570,010</u>	<u>123,008,333</u>
 Net position		
Net investment in capital assets	(8,512,532)	(9,525,298)
Restricted	11,000,951	9,926,363
Unrestricted	(64,018,721)	(66,241,877)
Total net position	<u>\$ (61,530,302)</u>	<u>\$ (65,840,812)</u>

Fort Bend County Municipal Utility District No. 169
Management's Discussion and Analysis
September 30, 2017

The total net position of the District increased during the current fiscal year by \$4,310,510. A comparative summary of the District's *Statement of Activities* for the past two years is as follows:

	2017	2016
Revenues		
Property taxes	\$ 84,982	\$ 84,693
Contract taxes from participants	7,115,043	5,790,575
Master District fees	1,551,660	1,117,110
Capacity charges	353,780	236,721
Other	53,410	12,630
Total revenues	<u>9,158,875</u>	<u>7,241,729</u>
Expenses		
Operating and administrative	1,534,186	1,243,861
Interest and fees	5,445,536	4,216,170
Debt issuance costs	1,300,716	1,027,613
Depreciation	1,300,910	1,070,749
Total expenses	<u>9,581,348</u>	<u>7,558,393</u>
Change in net position before other items	(422,473)	(316,664)
Other items		
Change in estimate of due to developers		982,871
Park connection charges	6,169,856	
Transfers to other governments	<u>(1,436,873)</u>	<u>(15,258,425)</u>
Change in net position	4,310,510	(14,592,218)
Net position, beginning of year	<u>(65,840,812)</u>	<u>(51,248,594)</u>
Net position, end of year	<u>\$ (61,530,302)</u>	<u>\$ (65,840,812)</u>

Financial Analysis of the District's Funds

The District's combined fund balances, as of September 30, 2017, were \$18,225,278, which consists of \$4,390 in the General Fund, \$12,181,404 in the Debt Service Fund, \$5,535,251 in the Capital Projects Fund and \$504,233 in the Special Revenue Fund.

General Fund

A comparative summary of the General Fund's financial position as of September 30, 2017 and 2016 is as follows:

	2017	2016
Total assets	<u>\$ 26,255</u>	<u>\$ 5,709</u>
Total liabilities	\$ 21,865	\$ 1,374
Total fund balance	<u>4,390</u>	<u>4,335</u>
Total liabilities and fund balance	<u>\$ 26,255</u>	<u>\$ 5,709</u>

*Fort Bend County Municipal Utility District No. 169
Management's Discussion and Analysis
September 30, 2017*

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

	2017	2016
Total revenues	\$ 41,047	\$ 40,755
Total expenditures	(124,992)	(47,252)
Revenues under expenditures	(83,945)	(6,497)
Other changes in fund balance	84,000	
Net change in fund balance	<u>\$ 55</u>	<u>\$ (6,497)</u>

The District manages its activities with the objectives of ensuring that expenditures will be adequately covered by revenues each year and that an adequate fund balance is maintained. The District's primary financial resources in the General Fund are from a property tax levy and developer advances. Financial resources are influenced by a variety of factors each year:

- Property tax revenues are dependent upon assessed values in the District and the maintenance tax rate set by the District. Property tax revenues in the District have remained fairly consistent from year to year.
- The District's developer advances funds to the District as needed to pay operating costs.

Debt Service Fund

A comparative summary of the Debt Service Fund's financial position as of September 30, 2017 and 2016 is as follows:

	2017	2016
Total assets	<u>\$ 12,181,418</u>	<u>\$ 11,013,264</u>
Total liabilities	\$ 14	\$ 14
Total fund balance	12,181,404	11,013,250
Total liabilities and fund balance	<u>\$ 12,181,418</u>	<u>\$ 11,013,264</u>

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

	2017	2016
Total revenues	\$ 7,200,671	\$ 5,853,900
Total expenditures	(6,709,365)	(3,291,669)
Revenues over expenditures	491,306	2,562,231
Other changes in fund balance	676,848	799,265
Net change in fund balance	<u>\$ 1,168,154</u>	<u>\$ 3,361,496</u>

*Fort Bend County Municipal Utility District No. 169
Management's Discussion and Analysis
September 30, 2017*

The District's financial resources in the Debt Service Fund in both the current year and prior year are from property tax revenues, contract tax revenues from participating districts and capitalized interest from the sale of bonds. The difference between these financial resources and debt service requirements will result in changes in fund balance each year.

It is important to note that the District, in its capacity as a participating district, sets its annual contract tax rate as recommended by its financial advisor, who monitors projected cash flows in the Debt Service Fund to ensure that the District will be able to meet its future contract obligations to the Master District.

During the current year, the District, in its capacity as Master District, issued \$2,455,000 in refunding bonds and used \$977,732 in existing financial resources to refund \$3,045,000 of its outstanding Series 2009 bonds. This refunding will save the District \$1,862,003 in future debt service requirements.

Capital Projects Fund

A comparative summary of the Capital Projects Fund's financial position as of September 30, 2017 and 2016 is as follows:

	2017	2016
Total assets	\$ 5,549,286	\$ 4,117,632
Total liabilities	\$ 14,035	\$ 9,623
Total fund balance	5,535,251	4,108,009
Total liabilities and fund balance	\$ 5,549,286	\$ 4,117,632

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

	2017	2016
Total revenues	\$ 382,054	\$ 240,813
Total expenditures	(19,950,663)	(16,603,650)
Revenues under expenditures	(19,568,609)	(16,362,837)
Other changes in fund balance	20,995,851	18,455,235
Net change in fund balance	\$ 1,427,242	\$ 2,092,398

The Master District has had considerable capital asset activity in the last two years. During the current year, capital asset activity was financed with proceeds from the issuance of its Series 2016 Bond Anticipation Note, Series 2017 Contract Revenue Bonds and park connection charges received from participant districts. In the prior year, capital asset activity was financed with proceeds from the issuance of its Series 2015 Bond Anticipation Note and Series 2015A and Series 2016 Contract Revenue Bonds.

Fort Bend County Municipal Utility District No. 169
Management's Discussion and Analysis
September 30, 2017

Special Revenue Fund

The District uses a Special Revenue Fund to account for revenues received from participating districts that are restricted for the operation and maintenance of regional facilities. A comparative summary of the Special Revenue Fund's financial position as of September 30, 2017 and 2016 is as follows:

	2017	2016
Total assets	\$ 694,869	\$ 428,660
Total liabilities	\$ 190,636	\$ 227,204
Total fund balance	504,233	201,456
Total liabilities and fund balance	\$ 694,869	\$ 428,660

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

	2017	2016
Total revenues	\$ 1,552,546	\$ 1,124,779
Total expenditures	(1,249,769)	(1,071,783)
Revenues over expenditures	\$ 302,777	\$ 52,996

Revenues in the Special Revenue Fund primarily consist of charges to participating districts for the operation and maintenance of regional facilities. The amount the District charges is based upon a unit cost per equivalent single family connection reserved for each participating district. See Note 13 for additional information.

General Fund Budgetary Highlights

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

Since the District's budget is primarily a planning tool, actual results varied from the budgeted amounts. Actual net change in fund balance was \$1,195 less than budgeted. The *Budgetary Comparison Schedule* on page 42 of this report provides variance information per financial statement line item.

Capital Assets

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

Fort Bend County Municipal Utility District No. 169
Management's Discussion and Analysis
September 30, 2017

Capital assets held by the Master District at September 30, 2017 and 2016 are summarized as follows:

	<u>2017</u>	<u>2016</u>
Capital assets not being depreciated		
Land and improvements	\$ 30,157,031	\$ 23,821,823
Capital assets being depreciated		
Infrastructure	12,340,324	9,336,064
Recreational and other facilities	17,652,675	11,966,820
	<u>29,992,999</u>	<u>21,302,884</u>
Less accumulated depreciation		
Infrastructure	(1,118,990)	(844,762)
Recreational and other facilities	(3,704,371)	(2,677,689)
	<u>(4,823,361)</u>	<u>(3,522,451)</u>
Depreciable capital assets, net	<u>25,169,638</u>	<u>17,780,433</u>
Capital assets, net	<u>\$ 55,326,669</u>	<u>\$ 41,602,256</u>

Capital asset additions during the current year include the following:

- Flewellen Creek Improvements from Legacy at Cross Creek Ranch Section 3 to Katy-Fulshear Road
- Cross Creek Ranch Active Adult Detention Basins (F2D-3A, 3B1, 3B2 and F2F-2 Phase I)
- Landscaping to serve Creek Falls Sections 1, Fulshear Bend Boulevard, Cross Creek Bend Lane Extension 1-4, Cross Creek Ranch Creek Cove 7 and 8, Creek Falls Sections 4 and 6, Cross Creek Ranch Bend Section 9, and Bonterra Phases 1 and 2.

The District, in its capacity as a participating district and in its capacity as Master District (the "Master District"), and the City of Fulshear (the "City") have entered into an agreement which obligates the District to construct water, wastewater, and storm drainage facilities to serve the District and Master District service area and, when completed, to convey title to the facilities to the City. The District also constructs major roadways to serve the District and the Master District service area, and the City has accepted such facilities for operation and maintenance. For the year ended September 30, 2017, Master District water, wastewater, drainage and road facilities in the amount of \$1,436,873 have been completed and recorded as transfers to other governments in the government-wide statements. Additional information is presented in Note 12.

Long-Term Debt and Related Liabilities

As of September 30, 2017, the District owes \$36,965,838 to developers for completed projects and operating advances. As discussed in Note 7, the District has an additional commitment in the amount of \$8,520,677 for projects under construction. As previously mentioned, the District will owe its developers for these projects upon completion of construction, at which time the capital assets and related liability will be recorded on the District's financial statements. The District intends to reimburse the developers from proceeds of future bond issues or other lawfully available funds.

*Fort Bend County Municipal Utility District No. 169
Management's Discussion and Analysis
September 30, 2017*

At September 30, 2017 and 2016, the District had total bonded debt outstanding as shown below:

<u>Series</u>	<u>2017</u>	<u>2016</u>
2009	\$ 305,000	\$ 3,435,000
2010	6,150,000	6,300,000
2011	7,435,000	7,615,000
2011A	3,950,000	4,030,000
2012	10,720,000	10,720,000
2013	11,310,000	11,310,000
2014	8,460,000	8,460,000
2015	14,350,000	15,000,000
2015A	7,750,000	8,850,000
2016	11,000,000	11,000,000
2017	15,320,000	
2017A Refunding	2,455,000	
	<u>\$ 99,205,000</u>	<u>\$ 86,720,000</u>

During the year, the Master District issued \$15,320,000 in water, sewer and drainage facility contract revenue bonds and \$2,455,000 in refunding contract revenue bonds. At September 30, 2017, the Master District had contract revenue bonds of \$408,395,000 authorized, but unissued for regional water, sewer and drainage facilities and for refunding said bonds and \$93,420,000 for road facilities and refunding of said bonds.

At September 30, 2017, the District, in its capacity as a participating district, had \$48,748,000 unlimited tax bonds authorized, but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District and the refunding of such bonds; \$23,212,000 for parks and recreational facilities and the refunding of such bonds and \$10,556,000 for road facilities and the refunding of such bonds.

During the year, the Master District issued a \$8,480,000 bond anticipation note (BAN) to provide short term financing for the purpose, among others, of reimbursing its developers for construction of facilities serving the Master District service area. The District retired the BAN with proceeds from the issuance of long-term debt. See Note 6 for additional information.

*Fort Bend County Municipal Utility District No. 169
 Management's Discussion and Analysis
 September 30, 2017*

Next Year's Budget

In establishing the budget for the next fiscal year, the Board considered various economic factors that may affect the District, most notably projected revenues from property taxes and the projected cost of operating the District. A comparison of next year's budget to current year actual amounts for the General Fund is as follows:

	<u>2017 Actual</u>	<u>2018 Budget</u>
Total revenues	\$ 41,047	\$ 50,700
Total expenditures	<u>(124,992)</u>	<u>(58,050)</u>
Revenues under expenditures	(83,945)	(7,350)
Other changes in fund balance	<u>84,000</u>	<u>7,350</u>
Net change in fund balance	55	
Beginning fund balance	<u>4,335</u>	<u>4,390</u>
Ending fund balance	<u><u>\$ 4,390</u></u>	<u><u>\$ 4,390</u></u>

Property Taxes

The District's property tax base increased approximately \$1,645,800 for the 2017 tax year from \$6,323,120 to \$7,968,880. This increase was primarily due to increased property values. For the 2017 tax year, the District has levied a maintenance tax rate of \$0.6472 per \$100 of assessed value and a contract tax rate of \$0.695 per \$100 of assessed value, for a total combined tax rate of \$1.3422 per \$100. Tax rates for the 2016 tax year were \$0.64899 per \$100 for maintenance and operations and \$0.695 per \$100 for contract taxes.

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Basic Financial Statements

*Fort Bend County Municipal Utility District No. 169
Statement of Net Position and Governmental Funds Balance Sheet
September 30, 2017*

	General Fund	Debt Service Fund	Capital Projects Fund	Special Revenue Fund	Total
Assets					
Cash	\$ 5,648	\$ 5,620	\$ -	\$ 437,971	\$ 449,239
Investments		8,408,750	5,549,286		13,958,036
Due from other governments				67,680	67,680
Internal balances	5,607	(727)		(4,880)	
Other receivables	15,000			113,223	128,223
Prepaid items				44,945	44,945
Restricted assets					
Investments		3,767,775		35,930	3,803,705
Capital assets not being depreciated					
Capital assets, net					
Total Assets	<u>\$ 26,255</u>	<u>\$ 12,181,418</u>	<u>\$ 5,549,286</u>	<u>\$ 694,869</u>	<u>\$ 18,451,828</u>
Deferred Outflows of Resources					
Deferred difference on refunding					
Liabilities					
Accounts payable	\$ 21,762	\$ -	\$ 14,035	\$ 190,418	\$ 226,215
Other payables	103	14		218	335
Accrued interest payable					
Due to developers					
Long-term debt					
Due within one year					
Due after one year					
Total Liabilities	<u>21,865</u>	<u>14</u>	<u>14,035</u>	<u>190,636</u>	<u>226,550</u>
Fund Balances/Net Position					
Fund Balances					
Nonspendable				44,945	44,945
Restricted		12,181,404	5,535,251		17,716,655
Committed				459,288	459,288
Unassigned	4,390				4,390
Total Fund Balances	<u>4,390</u>	<u>12,181,404</u>	<u>5,535,251</u>	<u>504,233</u>	<u>18,225,278</u>
Total Liabilities and Fund Balances	<u>\$ 26,255</u>	<u>\$ 12,181,418</u>	<u>\$ 5,549,286</u>	<u>\$ 694,869</u>	<u>\$ 18,451,828</u>
Net Position					
Net investment in capital assets					
Restricted for debt service					
Unrestricted					
Total Net Position					

See notes to basic financial statements.

<u>Adjustments</u>	<u>Statement of Net Position</u>
S -	S 449,239
	13,958,036
	67,680
	128,223
	44,945
	3,803,705
30,157,031	30,157,031
25,169,638	25,169,638
<u>55,326,669</u>	<u>73,778,497</u>
<u>261,211</u>	<u>261,211</u>
	226,215
	335
1,180,453	1,180,453
36,965,838	36,965,838
3,105,000	3,105,000
94,092,169	94,092,169
<u>135,343,460</u>	<u>135,570,010</u>
(44,945)	
(17,716,655)	
(459,288)	
(4,390)	
<u>(18,225,278)</u>	
(8,512,532)	(8,512,532)
11,000,951	11,000,951
(64,018,721)	(64,018,721)
<u>S (61,530,302)</u>	<u>S (61,530,302)</u>

*Fort Bend County Municipal Utility District No. 169
Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances
For the Year Ended September 30, 2017*

	General Fund	Debt Service Fund	Capital Projects Fund	Special Revenue Fund	Total
Revenues					
Property taxes	\$ 41,036	\$ 43,946	\$ -	\$ -	\$ 84,982
Contract tax from participants		7,115,043			7,115,043
Master District fees				1,551,660	1,551,660
Capacity charges			353,780		353,780
Accrued interest on bonds sold		17,443			17,443
Investment earnings	11	24,239	28,274	886	53,410
Total Revenues	41,047	7,200,671	382,054	1,552,546	9,176,318
Expenditures/Expenses					
Operating and administrative					
Professional fees	99,134		144,285	282,285	525,704
Contracted services	14,006			21,775	35,781
Repairs and maintenance				370,809	370,809
Utilities				155,018	155,018
Regional water authority fees				162,985	162,985
Administrative	11,852	6	134	21,697	33,689
Other			15,000		15,000
Lease				235,200	235,200
Capital outlay			16,710,559		16,710,559
Debt service					
Principal		2,245,000			2,245,000
Payment to refunded bond escrow agent		977,732			977,732
Interest and fees		3,313,663	1,952,933		5,266,596
Debt issuance costs		172,964	1,127,752		1,300,716
Depreciation					
Total Expenditures/Expenses	124,992	6,709,365	19,950,663	1,249,769	28,034,789
Revenues Over (Under)					
Expenditures/Expenses	(83,945)	491,306	(19,568,609)	302,777	(18,858,471)
Other Financing Sources/(Uses)					
Proceeds from sale of bonds		494,005	14,825,995		15,320,000
Proceeds from bond anticipation note			8,480,000		8,480,000
Proceeds from sale of refunding bonds		2,455,000			2,455,000
Repayment of bond anticipation note			(8,480,000)		(8,480,000)
Payment to refunded bond escrow agent		(2,272,157)			(2,272,157)
Developer advances	84,000				84,000
Other Items					
Park connection charges			6,169,856		6,169,856
Transfers to other governments					
Net Change in Fund Balances	55	1,168,154	1,427,242	302,777	2,898,228
Change in Net Position					
Fund Balance/Net Position					
Beginning of the year	4,335	11,013,250	4,108,009	201,456	15,327,050
End of the year	\$ 4,390	\$ 12,181,404	\$ 5,535,251	\$ 504,233	\$ 18,225,278

See notes to basic financial statements.

<u>Adjustments</u>	<u>Statement of Activities</u>
S -	S 84,982
	7,115,043
	1,551,660
	353,780
(17,443)	53,410
<u>(17,443)</u>	<u>9,158,875</u>
	525,704
	35,781
	370,809
	155,018
	162,985
	33,689
	15,000
	235,200
(16,710,559)	
(2,245,000)	
(977,732)	
178,940	5,445,536
	1,300,716
<u>1,300,910</u>	<u>1,300,910</u>
<u>(18,453,441)</u>	<u>9,581,348</u>
18,435,998	(422,473)
(15,320,000)	
(8,480,000)	
(2,455,000)	
8,480,000	
2,272,157	
(84,000)	
	6,169,856
<u>(1,436,873)</u>	<u>(1,436,873)</u>
(2,898,228)	
4,310,510	4,310,510
<u>(81,167,862)</u>	<u>(65,840,812)</u>
<u>S (79,755,580)</u>	<u>S (61,530,302)</u>

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Fort Bend County Municipal Utility District No. 169
Notes to Basic Financial Statements
September 30, 2017

Note 1 – Summary of Significant Accounting Policies

The accounting policies of Fort Bend County Municipal Utility District No. 169 (the “District”) conform with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board. The following is a summary of the most significant policies:

Creation

The District was organized, created and established pursuant to an order of the Texas Commission on Environmental Quality dated August 21, 2007, and operates in accordance with the Texas Water Code, Chapters 49 and 54. The Board of Directors held its first meeting on August 30, 2007 and the first bonds were sold on December 17, 2009.

The District’s primary activities include, or will include, the construction of water, sewer, drainage, parks and recreational facilities and road improvements within the boundaries of the District, as well as the construction of similar facilities for the Master District service area (see Note 13 for additional information). As further discussed in Note 12, the District transfers certain facilities to the City of Fulshear upon completion of construction. The District has contracted with various consultants to provide services to operate and administer the affairs of the District. The District has no employees, related payroll or pension costs.

Reporting Entity

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

Government-Wide and Fund Financial Statements

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

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

Fort Bend County Municipal Utility District No. 169
Notes to Basic Financial Statements
September 30, 2017

Note 1 – Summary of Significant Accounting Policies (continued)

Government-Wide and Fund Financial Statements (continued)

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

- The General Fund is used to account for the operations of the District's internal water, sewer and drainage facilities (to the extent such facilities are not conveyed to the City) and all other financial transactions not reported in other funds. The primary financial resources are property taxes and developer advances. Expenditures include costs associated with the daily operations of the District.
- The Debt Service Fund is used to account for the payment of interest and principal on the District's general long-term debt. The primary source of revenue for debt service is contract tax payments from participant districts in the Master District service area. Expenditures include principal and interest on bonds.
- The Capital Projects Fund is used to account for the expenditure of bond proceeds for the construction of the District's regional water, sewer, drainage, road and recreational facilities serving the Master District service area.
- The Special Revenue Fund is used to account for revenues received from participating districts that are restricted for the operation and maintenance of regional water, sewer, drainage, recreational and road facilities.

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

Measurement Focus and Basis of Accounting

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

The fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized in the accounting period in which it becomes both available and measurable to finance expenditures of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Revenues susceptible to accrual include property taxes, contract taxes from participating districts, Master District fees, and interest earned on investments. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for unmatured interest on long-term debt, which is recognized when due.

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

*Fort Bend County Municipal Utility District No. 169
Notes to Basic Financial Statements
September 30, 2017*

Note 1 – Summary of Significant Accounting Policies (continued)

Use of Restricted Resources

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

Prepaid Items

Certain payments made by the District reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Interfund Activity

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

Capital Assets

Capital assets do not provide financial resources at the fund level, and, therefore, are reported only in the government-wide statements. The District defines capital assets as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of one year. Capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at the estimated fair market value at the date of donation. The District has not capitalized interest incurred during the construction of its capital assets. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. As discussed in Note 12, the District conveys certain capital assets to the City of Fulshear.

Depreciable capital assets, which primarily consist of landscaping improvements, detention and drainage ditch facilities, are depreciated using the straight-line method as follows:

Assets	Useful Life
Land and improvements	Non-depreciable
Infrastructure	20-45 years
Recreational and other facilities	10-35 years

The District's detention facilities and drainage channels are considered improvements to land and are non-depreciable.

Note 1 – Summary of Significant Accounting Policies (continued)

Deferred Inflows and Outflows of Financial Resources

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

Deferred outflows of financial resources at the government-wide level are from a refunding bond transaction in which the amount required to repay the old debt exceeded the net carrying amount of the old debt. This amount is being amortized to interest expense.

Fund Balances – Governmental Funds

Governmental accounting standards establish the following fund balance classifications:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The District's nonspendable fund balance consists of prepaid items.

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

Committed - amounts that can be used only for specific purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. The District's committed fund balances in the Special Revenue Fund consist of amounts restricted for the operation and maintenance of the regional water, sewer, drainage, recreational and road facilities.

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

Unassigned - all other spendable amounts in the General Fund.

Fort Bend County Municipal Utility District No. 169
Notes to Basic Financial Statements
September 30, 2017

Note 1 – Summary of Significant Accounting Policies (continued)

Fund Balances – Governmental Funds (continued)

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

Use of Estimates

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

Fort Bend County Municipal Utility District No. 169
Notes to Basic Financial Statements
September 30, 2017

Note 2 – Adjustment from Governmental to Government-wide Basis

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

Total fund balance, governmental funds		\$ 18,225,278
<p>The difference between the face amount of bonds refunded and the amount paid to the escrow agent is recorded as a deferred difference on refunding in the <i>Statement of Net Position</i> and amortized to interest expense. It is not recorded in the fund statements because it is not a financial resource.</p>		
		261,211
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.</p>		
Historical cost	\$ 60,150,030	
Less accumulated depreciation	<u>(4,823,361)</u>	
Change due to capital assets		55,326,669
<p>Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. The difference consists of:</p>		
Bonds payable, net	(97,197,169)	
Interest payable on bonds	<u>(1,180,453)</u>	
Change due to long-term debt		(98,377,622)
<p>Amounts due to the District's developers for prefunded construction and operating advances are recorded as a liability in the <i>Statement of Net Position</i>.</p>		
		(36,965,838)
Total net position - governmental activities		<u><u>\$ (61,530,302)</u></u>

Fort Bend County Municipal Utility District No. 169
Notes to Basic Financial Statements
September 30, 2017

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

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

Net change in fund balances - total governmental funds \$ 2,898,228

Capital outlays for developer reimbursements are recorded as expenditures in the fund, but reduce the liability for due to developers in the *Statement of Net Position*. 16,710,559

In the *Statement of Activities*, the cost of capital assets retained by the District are capitalized and depreciated over their estimated useful lives. Other assets are conveyed to the City of Fulshear.

Depreciation expense	\$ (1,300,910)	
Transfers to other governments	<u>(1,436,873)</u>	(2,737,783)

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

Issuance of long term debt	(17,775,000)	
Proceeds from bond anticipation note	(8,480,000)	
Payment to refunded bond escrow agent	3,249,889	
Principal payments	2,245,000	
Repayment of bond anticipation note	8,480,000	
Interest expense accrual	<u>(196,383)</u>	(12,476,494)

Amounts received from the District's developers from operating advances provide financial resources at the fund level, but are recorded as a liability in the *Statement of Net Position*. (84,000)

Change in net position of governmental activities \$ 4,310,510

Fort Bend County Municipal Utility District No. 169
Notes to Basic Financial Statements
September 30, 2017

Note 3 – Deposits and Investments

Deposit Custodial Credit Risk

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

Investments

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

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

As of September 30, 2017, the District’s investments consist of the following:

Type	Fund	Carrying Value	Percentage of Total	Rating	Weighted Average Maturity
Money Market Mutual Fund	Debt Service	\$ 12,162,968	68.48%	AAAm	35 days
TexPool	Debt Service	13,557			
	Capital Projects	5,549,286			
	Special Revenue	35,930			
		5,598,773	31.52%	AAAm	37 days
Total		\$ 17,761,741	100.00%		

*Fort Bend County Municipal Utility District No. 169
Notes to Basic Financial Statements
September 30, 2017*

Note 3 – Deposits and Investments (continued)

Investments (continued)

Restricted Investments

The District has entered into a financing agreement with Landmark Industries Development, LTD. The amounts received from this agreement were restricted for use in the construction of the water plant, phases 2 and 3 project; and for certain sewer plant lease payments. The District reported restricted investments of \$35,930 pursuant to this agreement.

The District's bond resolutions and indentures of trust require that the District maintain a debt service reserve fund for contract revenue bonds in an amount equal to one-half of the maximum annual debt service requirements on the outstanding bonds. The reserve funds are held by a trustee and are reported as restricted investments. As of September 30, 2017, the District's reserve fund balances are \$2,659,511 for the water, sewer and drainage bonds and \$1,108,264 for the road facility bonds.

TexPool

The District participates in TexPool, the Texas Local Government Investment Pool. The State Comptroller of Public Accounts exercises oversight responsibility of TexPool, which includes (1) the ability to significantly influence operations, (2) designation of management and (3) accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure.

As permitted by GAAP, TexPool uses amortized cost (which excludes unrealized gains and losses) rather than market value to compute share price and seeks to maintain a constant dollar value per share. Accordingly, the fair value of the District's position in TexPool is the same as the value of TexPool shares. Investments in TexPool may be withdrawn on a same day basis, as long as the transaction is executed by 3:30 p.m.

Investment Credit and Interest Rate Risk

Investment credit risk is the risk that the investor may not recover the value of an investment from the issuer, while interest rate risk is the risk that the value of an investment will be adversely affected by changes in interest rates. The District's investment policies do not address investment credit and interest rate risk beyond the rating and maturity restrictions established by state statutes.

Fort Bend County Municipal Utility District No. 169
Notes to Basic Financial Statements
September 30, 2017

Note 4 – Amounts Due to/from Other Funds

Amounts due to/from other funds at September 30, 2017, consist of the following:

	Interfund	
	Receivable	Payable
General Fund	\$ 5,607	\$ -
Debt Service Fund		727
Special Revenue Fund		4,880
	<u>\$ 5,607</u>	<u>\$ 5,607</u>

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

Note 5 – Capital Assets

A summary of changes in capital assets, for the year ended September 30, 2017, is as follows:

	Beginning Balances	Additions/ Adjustments	Ending Balances
Capital assets not being depreciated			
Land and improvements	\$ 23,821,823	\$ 6,335,208	\$ 30,157,031
Capital assets being depreciated			
Infrastructure	9,336,064	3,004,260	12,340,324
Recreational and other facilities	11,966,820	5,685,855	17,652,675
	<u>21,302,884</u>	<u>8,690,115</u>	<u>29,992,999</u>
Less accumulated depreciation			
Infrastructure	(844,762)	(274,228)	(1,118,990)
Recreational and other facilities	(2,677,689)	(1,026,682)	(3,704,371)
	<u>(3,522,451)</u>	<u>(1,300,910)</u>	<u>(4,823,361)</u>
Subtotal depreciable capital assets, net	<u>17,780,433</u>	<u>7,389,205</u>	<u>25,169,638</u>
Capital assets, net	<u>\$ 41,602,256</u>	<u>\$ 13,724,413</u>	<u>\$ 55,326,669</u>

Depreciation expense for the current year was \$1,300,910.

Note 6 – Bond Anticipation Note

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

*Fort Bend County Municipal Utility District No. 169
Notes to Basic Financial Statements
September 30, 2017*

Note 6 – Bond Anticipation Note (continued)

On November 15, 2016, the District issued a \$8,480,000 BAN with an interest rate of 1.50%, which was due on November 14, 2017. The district retired this BAN on July 11, 2017 with proceeds from the issuance of its Series 2017 Contract Revenue Bonds.

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

Beginning balance	\$	-
Amounts borrowed		8,480,000
Amounts repaid		<u>(8,480,000)</u>
Ending balance	\$	<u><u>-</u></u>

Note 7 – Due to Developers

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

The District’s developers have also advanced funds to the District for operating expenses.

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

Due to developers, beginning of year	\$	37,130,201
Developer reimbursements		(16,710,559)
Developer funded construction and adjustments		16,462,196
New operating advances		<u>84,000</u>
Due to developers, end of year	\$	<u><u>36,965,838</u></u>

Fort Bend County Municipal Utility District No. 169
Notes to Basic Financial Statements
September 30, 2017

Note 7 – Due to Developers (continued)

In addition, the Master District will owe the developers approximately \$8,520,677, which is included in the following schedule of contractual commitments. The exact amount is not known until approved by the TCEQ and verified by the District’s auditor. As previously noted, these projects will be reported in the government-wide financial statements upon completion of construction.

	Contract Amount	Amounts Paid	Remaining Commitment
Cross Creek Ranch Legacy 4 drill site landscaping	\$ 243,849	\$ 196,575	\$ 47,274
Cross Creek Ranch Creek Falls 8-9 and extension no. 1 landscaping	665,165	526,593	138,572
Cross Creek Ranch Willows Section 1 and West Cross Creek Bend Lane extension no. 3 softscape	308,890	274,680	34,210
Cross Creek Ranch lift station no. 1 - final upgrade	386,762	250,446	136,316
Fulshear Bend Recreation softscape	316,850	278,415	38,435
Cross Creek Ranch The Brooks landscaping	499,253	441,828	57,425
Flewellen Creek Phase 3 landscaping	1,445,040	1,381,974	63,066
Cross Creek Ranch Creek Cove 10 landscaping	624,974	562,477	62,497
Cross Creek Ranch Cross Creek Bend Lane extension no. 10 landscaping	159,501	136,063	23,438
Non-potable water Pump Station no. 3	1,105,493	903,077	202,416
Cross Creek Bend Lane extension no. 10 - utilities	243,328	125,513	117,815
Non-potable water line extension	237,722	172,484	65,238
Detention and reservoir lake north of Fulshear Bend Drive	1,405,857	1,391,799	14,058
Reinforced concrete paving to serve Fulshear Bend Drive extension no. 2	310,467	261,862	48,605
FM 1463 turn lanes	567,526	466,286	101,240
	<u>\$ 8,520,677</u>	<u>\$ 7,370,072</u>	<u>\$ 1,150,605</u>

Note 8 – Long-Term Debt

Long-term debt is comprised of the following:

Bonds payable	\$ 99,205,000
Unamortized discounts	(2,007,831)
	<u>\$ 97,197,169</u>
Due within one year	<u>\$ 3,105,000</u>

Fort Bend County Municipal Utility District No. 169
Notes to Basic Financial Statements
September 30, 2017

Note 8 – Long-Term Debt (continued)

The District's bonds payable at September 30, 2017, consists of contract revenue bonds as follows:

Series	Amounts Outstanding	Original Issue	Interest Rates	Maturity Date, Serially, Beginning/ Ending	Interest Payment Dates	Call Dates
2009	\$ 305,000	\$ 3,590,000	4.70% - 6.00%	December 1, 2014/2034	December 1, June 1	December 1, 2018
2010	6,150,000	6,570,000	3.90% - 5.375%	December 1, 2014/2035	December 1, June 1	December 1, 2019
2011	7,435,000	7,785,000	3.00% - 5.00%	December 1, 2015/2036	December 1, June 1	December 1, 2020
2011A	3,950,000	4,030,000	5.00% - 5.25%	December 1, 2016/2037	December 1, June 1	December 1, 2020
2012	10,720,000	10,720,000	3.00% - 4.25%	December 1, 2017/2038	December 1, June 1	December 1, 2020
2013	11,310,000	11,310,000	3.00% - 5.00%	December 1, 2017/2038	December 1, June 1	December 1, 2021
2014	8,460,000	8,460,000	3.00% - 4.125%	December 1, 2017/2038	December 1, June 1	December 1, 2022
2015	14,350,000	15,000,000	2.00% - 3.75%	December 1, 2016/2040	December 1, June 1	December 1, 2023
2015A	7,750,000	8,850,000	2.00% - 3.00%	December 1, 2016/2041	December 1, June 1	December 1, 2023
2016	11,000,000	11,000,000	2.00% - 3.11%	December 1, 2016/2041	December 1, June 1	December 1, 2024
2017	15,320,000	15,320,000	2.25% - 3.375%	December 1, 2018/2042	December 1, June 1	December 1, 2024
2017A Refunding	2,455,000	2,455,000	2.00% - 3.25%	December 1, 2020/2034	December 1, June 1	December 1, 2024
	<u>\$ 99,205,000</u>					

Payments of principal and interest on all series of contract revenue bonds are to be provided from the participant districts, including the District in its capacity as a participant district, based on their pro rata share of the total certified assessed valuation of all participant districts. The participant districts are contractually required to levy a contract tax in an amount sufficient to meet their required contribution. See Note 13 for additional information. Investment income realized by the Debt Service Fund from investment of idle funds will be used to pay outstanding bond principal and interest. The District is in compliance with the terms of its bond resolutions.

*Fort Bend County Municipal Utility District No. 169
Notes to Basic Financial Statements
September 30, 2017*

Note 8 – Long-Term Debt (continued)

At September 30, 2017, the District, in its capacity as a participating district, had \$48,748,000 unlimited tax bonds authorized, but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District; \$23,212,000 for parks and recreational facilities and \$10,556,000 for road facilities, and the refunding of such bonds. The District, in its Master District capacity, had contract revenue bonds of \$408,395,000 authorized, but unissued for the purpose of acquiring and constructing regional water, sewer and drainage facilities needed to provide services to all participating districts and \$93,420,000 for road facilities, and the refunding of such bonds.

On July 11, 2017, the District issued its \$15,320,000 Series 2017 Contract Revenue Bonds at a net effective interest rate of 3.369921%. Proceeds of the bonds were used to reimburse the developers for the cost of water, sewer and drainage facilities constructed to serve the Master District service area plus interest at the net effective interest rate of the bonds; to make a deposit into the water, sewer and drainage reserve fund in an amount sufficient to satisfy the reserve requirements of the bonds; and to retire the Series 2016 BAN.

On July 25, 2017, the District issued its \$2,455,000 Series 2017A Contract Revenue Refunding Bonds at a net effective interest rate of 3.084439% to advance refund \$3,045,000 of outstanding Series 2009 bonds. The District advance refunded the bonds to reduce total debt service payments over future years by approximately \$1,862,003 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$398,470. Proceeds of the bonds were placed in an escrow account with an escrow agent and irrevocably pledged to the payment of future debt service payments. As a result, the refunded bonds are considered defeased and the liability has been removed from the government-wide financial statements. As of September 30, 2017, the outstanding principal of defeased bonds is \$3,045,000.

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

Bonds payable, beginning of year	\$ 86,720,000
Bonds issued	17,775,000
Bonds retired	(2,245,000)
Bonds refunded	(3,045,000)
Bonds payable, end of year	<u>\$ 99,205,000</u>

Fort Bend County Municipal Utility District No. 169
Notes to Basic Financial Statements
September 30, 2017

Note 8 – Long-Term Debt (continued)

As of September 30, 2017, annual debt service requirements on bonds outstanding are as follows:

Year	Principal	Interest	Totals
2018	\$ 3,105,000	\$ 3,553,491	\$ 6,658,491
2019	3,530,000	3,485,213	7,015,213
2020	3,675,000	3,364,664	7,039,664
2021	3,760,000	3,241,459	7,001,459
2022	3,845,000	3,115,883	6,960,883
2023	3,945,000	2,988,142	6,933,142
2024	3,630,000	2,865,604	6,495,604
2025	3,735,000	2,746,199	6,481,199
2026	3,845,000	2,622,460	6,467,460
2027	3,965,000	2,492,626	6,457,626
2028	4,110,000	2,354,025	6,464,025
2029	4,245,000	2,205,134	6,450,134
2030	4,385,000	2,046,084	6,431,084
2031	4,530,000	1,876,154	6,406,154
2032	4,690,000	1,695,757	6,385,757
2033	4,870,000	1,506,983	6,376,983
2034	5,055,000	1,307,378	6,362,378
2035	5,225,000	1,096,778	6,321,778
2036	5,195,000	880,241	6,075,241
2037	4,800,000	671,351	5,471,351
2038	4,400,000	482,800	4,882,800
2039	4,175,000	310,282	4,485,282
2040	2,550,000	180,445	2,730,445
2041	1,940,000	100,450	2,040,450
2042	1,300,000	45,500	1,345,500
2043	700,000	12,250	712,250
	<u>\$ 99,205,000</u>	<u>\$ 47,247,353</u>	<u>\$ 146,452,353</u>

Note 9 – Property Taxes

Voters of the District have authorized the District’s Board of Directors to levy taxes annually for use in financing general maintenance and operations limited to \$1.50 per \$100 of assessed value and \$0.25 per \$100 of assessed value for maintenance of road facilities.

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

Fort Bend County Municipal Utility District No. 169
Notes to Basic Financial Statements
September 30, 2017

Note 9 – Property Taxes (continued)

Property taxes are collected based on rates adopted in the year of the levy. The District's 2017 fiscal year was financed through the 2016 tax levy, pursuant to which the District levied property taxes of \$1.34399 per \$100 of assessed value, of which \$0.64899 was allocated to maintenance and operations and \$0.695 was allocated to debt service. The resulting tax levy was \$84,982 on the adjusted taxable value of \$6,323,120.

Note 10 – Transfers to Other Governments

In accordance with the Utility Agreement between the District and the City of Fulshear (the "City"), the District conveys its potable water, sewer, and drainage (excluding detention ponds and drainage channels) facilities to the City (see Note 12) upon completion of construction. The City has also accepted for operation and maintenance major roadways constructed by the District. Accordingly, the District reports these completed projects as "Transfers to other governments" on the Statement of Activities. For the year ended September 30, 2017, the total amount of projects completed and transferred to the City was \$1,436,873.

Note 11 – Lease Agreement

On October 1, 2007, the District entered into a lease agreement for a temporary wastewater treatment plant. As amended, this lease agreement provides that the lease expires May 1, 2022. The District has the option to extend the lease on a month to month basis following expiration of the term. Monthly payments for the lease are \$3,800. The total cost of the lease for the fiscal year ended September 30, 2017 was \$45,600. Pursuant to a Partial Assignment Lease Agreement dated August 19, 2008, the City has assumed the District's obligation for ordinary expenses related to repairing and maintaining the equipment.

On January 24, 2011, the District entered into a 60 month lease agreement for a temporary wastewater treatment plant. As amended, this lease agreement provides that the lease expires May 1, 2022. The District has the option to extend the lease on a month to month basis following expiration of the term. Monthly payments for the lease are \$3,000. The total cost of the lease for the fiscal year ended September 30, 2017 was \$36,000. Pursuant to a Partial Assignment of Lease Agreement dated August 1, 2011, the City has assumed the District's obligation for ordinary expenses related to repairing and maintaining the equipment.

On January 23, 2013, the District entered into a lease agreement for a temporary wastewater treatment plant. As amended, this lease agreement provides that the lease expires May 1, 2022. The District has the option to extend the lease on a month to month basis following expiration of the term. Effective December 31, 2017, monthly payments for the lease are reduced from \$12,800 to \$6,200. The total cost of the lease for the fiscal year ended September 30, 2017 was \$153,600. Pursuant to a Partial Assignment of Lease Agreement dated February 18, 2014, the City has assumed the District's obligation for ordinary expenses related to repairing and maintaining the equipment.

*Fort Bend County Municipal Utility District No. 169
Notes to Basic Financial Statements
September 30, 2017*

Note 11 – Lease Agreement (continued)

Future minimum leases payments as of September 30, 2017 for term leases are as follows:

Year	Amount
2018	\$ 175,800
2019	156,000
2020	156,000
2021	156,000
2022	65,000
	<u>\$ 708,800</u>

Standard lease terms require the District to prepay the last month’s lease payment upon inception of the lease. All such amounts are recorded as a prepaid expense on the statement of net position.

Note 12 – Utility Agreement with the City of Fulshear

On December 18, 2007, the District entered into a utility agreement, as subsequently amended, with the City of Fulshear (the “City”) for construction and extension of water supply and distribution facilities, sanitary sewer collection and treatment facilities and drainage facilities to serve the District and the Master District service area. As the system is acquired or constructed, the District shall transfer the system, except for detention and drainage channel facilities, non-potable water facilities, and a water quality basin, to the City but will reserve a security interest in the system. The District, not the City, is responsible to own and maintain detention and drainage channel facilities, non-potable water facilities, the water quality basin and recreational facilities. In addition, the District will construct major roadways serving the District and the Master District service area, which facilities have been accepted by the City for operation and maintenance. The term of the agreement is 30 years from the year after the year the District issues unlimited tax bonds. The District has not yet issued unlimited tax bonds.

The City will provide water and wastewater services to customers in the District and in the Master District’s service area. Water and wastewater rates charged by the City to customers in the District and in the Master District’s service area may not exceed the same rates charged to similar users within the City. All revenue derived from these charges belongs to the City.

The City levies and collects ad valorem taxes on taxable property within the District as it does with any other property located in the City. Pursuant to the Utility Agreement, the City has agreed to rebate to the District all of the City’s ad valorem tax revenue from the property in the District in excess of \$0.10 per \$100 of assessed value starting with the year after the year the District first issues unlimited tax bonds. The City will continue to pay the tax rebate for 30 years from the year after the year the District first issues unlimited tax bonds. If the City’s tax rate is equal to or less than \$0.10, then no tax rebate is due. The City will pay the rebate portion of the taxes actually collected to the District on February 28th of the year following the year in which the taxes are levied and quarterly thereafter until the tax rebate has been paid in full. The amount of rebate payment will vary with changes in the City’s tax rate and the District’s appraised valuation and growth rate. Consequently, the amounts subject to rebate by the City will vary year to year.

*Fort Bend County Municipal Utility District No. 169
Notes to Basic Financial Statements
September 30, 2017*

Note 13 – Master District

The District, in its capacity as Master District, has entered into contracts, as amended, (the “Contracts”) with Fort Bend County Municipal Utility District No. 169 in its capacity as a participating district, Fort Bend County Municipal Utility District No. 170, Fort Bend County Municipal Utility District No. 171, Fort Bend County Municipal Utility District No. 172 and Fort Bend County Municipal Utility District No. 173 whereby the Master District agrees to provide or cause to be provided the regional water supply and distribution facilities, wastewater collection, treatment and disposal facilities, detention/drainage facilities, road facilities and recreational facilities to serve all districts located within the Master District’s service area. Pursuant to the Contracts with each of the participating districts, and pursuant to the Contract between the District (in its capacity as participating district) and the District (in its capacity as Master District), the District, in addition to its role as Master District, has the same rights and duties as the other participant districts. The Contracts have a term that expires on January 17, 2052. As discussed in Note 12, the potable water, sewer, drainage (excluding detention/drainage channel facilities and the water quality basin) and road facilities are transferred to the City to own, operate and maintain.

As of September 30, 2017, the District, in its Master District capacity, is authorized to issue \$408,395,000 in contract revenue bonds for the purpose of acquiring and constructing water, sewer and drainage facilities needed to provide services to all participating districts in the service area and \$93,420,000 for road facilities; and the refunding of such bonds. The participating districts, including the District in its capacity as a participating district, shall contribute to the payment of debt service requirements based on their pro rata share of the total certified assessed valuation of all participating districts.

The Master District will finance water, sewer, and drainage facilities and road facilities through the issuance of contract revenue bonds. The Master District will finance park and recreational facilities by imposing park construction charges on the participating districts, which park construction charges will be calculated by the Master District from time to time based on each participating district’s pro rata share of total connections and total construction costs, as of the date the park construction charges are imposed. The participating districts will be obligated to issue park bonds, or use available surplus operating funds, to pay the park construction charges, but the participating districts will not be required to issue park bonds in an amount that exceeds any legal limit. Under Chapter 49 of the Texas Water Code, the outstanding principal amount of park bonds may not exceed an amount equal to one percent of the value of the taxable property in a participating district.

During the current year, the District received a total of \$6,169,856 in park construction charges from participating districts; \$1,742,158 from Fort Bend County Municipal Utility District No. 171 and \$4,427,698 from Fort Bend County Municipal Utility District No. 172. These amounts were used to reimburse developers for the construction of park and recreational facilities to serve the Master District service area.

The Master District will charge each participating district a monthly fee for Master District operating and maintenance expenses based on the unit cost per connection, currently \$30, multiplied by the number of equivalent single-family connections reserved to the district. For the year ended September 30, 2017, the Master District has received \$1,551,660 in Master District fees.

Fort Bend County Municipal Utility District No. 169
Notes to Basic Financial Statements
September 30, 2017

Note 13 – Master District (continued)

The contract authorizes the establishment of an operating and maintenance reserve by the Master District equivalent to three months' operating and maintenance expenses, as set forth in the Master District's annual budget. Prior to commencement of services, the Master District shall bill the participating districts an amount calculated by multiplying the monthly fee (as described above) by three in order to provide the initial funding required to establish the reserve. The Master District shall adjust the reserve as needed, not less than annually. As of September 30, 2017, the Master District has not established an operating reserve.

Note 14 – Risk Management

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

Note 15 – Economic Dependency

The District, in its capacity as a participating district, is dependent upon its developers for operating advances. The developers continue to own a substantial portion of the taxable property within the District. The developers' willingness to make future operating advances and/or to pay property taxes will directly affect the District's ability to meet its future obligations.

Note 16 – Subsequent Event

On November 8, 2017, the District issued its \$8,440,000 Series 2017B Contract Revenue Road Bonds at a net effective interest rate of 3.433499%. Proceeds of the bonds were used to reimburse the developers for the cost of road facilities constructed to serve the Master District service area plus interest at the net effective interest rate of the bonds and to make a deposit into the road reserve fund in an amount sufficient to satisfy the reserve requirements of the bonds.

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Required Supplementary Information

*Fort Bend County Municipal Utility District No. 169
 Required Supplementary Information - Budgetary Comparison Schedule - General Fund
 For the Year Ended September 30, 2017*

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues			
Property taxes	\$ 38,700	\$ 41,036	\$ 2,336
Investment earnings		11	11
Total Revenues	<u>38,700</u>	<u>41,047</u>	<u>2,347</u>
Expenditures			
Operating and administrative			
Professional fees	19,000	99,134	(80,134)
Contracted services	5,700	14,006	(8,306)
Administrative	12,750	11,852	898
Total Expenditures	<u>37,450</u>	<u>124,992</u>	<u>(87,542)</u>
Revenues Over (Under) Expenditures	1,250	(83,945)	(85,195)
Other Financing Sources			
Developer advances		84,000	84,000
Revenues Over Expenditures	1,250	55	(1,195)
Fund Balance			
Beginning of the year	4,335	4,335	
End of the year	<u>\$ 5,585</u>	<u>\$ 4,390</u>	<u>\$ (1,195)</u>

*Fort Bend County Municipal Utility District No. 169
 Required Supplementary Information - Budgetary Comparison Schedule - Special Revenue Fund
 For the Year Ended September 30, 2017*

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues				
Master District fees	\$ 1,253,160	\$ 1,253,160	\$ 1,551,660	\$ 298,500
Water supply	7,200			
Investment earnings			886	886
Total Revenues	1,260,360	1,253,160	1,552,546	299,386
Expenditures				
Operating and administrative				
Professional fees	293,000	283,000	282,285	715
Contracted services	36,000	36,000	21,775	14,225
Repairs and maintenance	230,000	280,000	370,809	(90,809)
Utilities	40,000	200,000	155,018	44,982
Regional water authority fees	175,000	175,000	162,985	12,015
Administrative	42,650	42,650	21,697	20,953
Lease	235,200	235,200	235,200	
Total Expenditures	1,051,850	1,251,850	1,249,769	2,081
Revenues Over Expenditures	208,510	1,310	302,777	301,467
Fund Balance				
Beginning of the year	201,456	201,456	201,456	
End of the year	\$ 409,966	\$ 202,766	\$ 504,233	\$ 301,467

*Fort Bend County Municipal Utility District No. 169
Notes to Required Supplementary Information
September 30, 2017*

Budgets and Budgetary Accounting

An annual unappropriated budget is adopted for the General Fund and Special Revenue Fund by the District's Board of Directors. The budgets are prepared using the same method of accounting as for financial reporting. There were no amendments to the General Fund budget during the year. The Special Revenue Fund budget was amended during the year to reflect changes in anticipated revenues and expenditures.

Texas Supplementary Information

Fort Bend County Municipal Utility District No. 169
TSI-1. Services and Rates
September 30, 2017

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

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

2. Retail Service Providers N/A
 (You may omit this information if your district does not provide retail services)

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

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

District employs winter averaging for wastewater usage? Yes No

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

b. Water and Wastewater Retail Connections:

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

See accompanying auditor's report.

Fort Bend County Municipal Utility District No. 169
TSI-1. Services and Rates
September 30, 2017

3. Total Water Consumption during the fiscal year (rounded to the nearest thousand):

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

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

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

(You may omit this information if your district does not levy standby fees)

Does the District have Debt Service standby fees? Yes No

If yes, Date of the most recent commission Order: _____

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

If yes, Date of the most recent commission Order: _____

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

Is the District located entirely within one county? Yes No

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

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

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

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

ETJs in which the District is located: _____

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

If Yes, by whom? _____

See accompanying auditors' report.

*Fort Bend County Municipal Utility District No. 169
 TSI-2 General Fund Expenditures
 For the Year Ended September 30, 2017*

Professional fees		
Legal	\$	97,634
Audit		1,500
		<u>99,134</u>
Contracted services		
Bookkeeping		5,685
Tax collection fees		8,321
		<u>14,006</u>
Administrative		
Directors fees		3,450
Printing and office supplies		422
Insurance		7,009
Other		971
		<u>11,852</u>
Total expenditures	\$	<u><u>124,992</u></u>

Reporting of Utility Services in Accordance with HB 3693:

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

See accompanying auditors' report.

Fort Bend County Municipal Utility District No. 169
TSI-3. Investments
September 30, 2017

Fund	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year
Debt Service				
Money Market Treasury				
Portfolio - Class III	CUSIP: X9USD0002	0.01%	N/A	\$ 12,162,968
TexPool	7942000001	Variable	N/A	13,557
				<u>12,176,525</u>
Capital Projects				
TexPool	7942000005	Variable	N/A	4,498,088
TexPool	7942000006	Variable	N/A	1,051,198
				<u>5,549,286</u>
Special Revenue				
TexPool	7942000004	Variable	N/A	24,683
TexPool	7942000003	Variable	N/A	11,247
				<u>35,930</u>
Total - All Funds				<u><u>\$ 17,761,741</u></u>

See accompanying auditors' report.

*Fort Bend County Municipal Utility District No. 169
TSI-4. Taxes Levied and Receivable
September 30, 2017*

	Maintenance Taxes	Contract Revenue Taxes	Totals
Taxes Receivable, Beginning of Year	\$ -	\$ -	\$ -
2016 Original Tax Levy	41,036	43,946	84,982
Tax collections:			
Current year	41,036	43,946	84,982
Taxes Receivable, End of Year	\$ -	\$ -	\$ -
	2016	2015	2014
Property Valuations:			
Land	\$ 6,364,520	\$ 6,364,520	\$ 6,364,520
Improvements	14,720	15,460	13,990
Exemptions	(56,120)	(56,120)	(56,120)
Total Property Valuations	<u>\$ 6,323,120</u>	<u>\$ 6,323,860</u>	<u>\$ 6,322,390</u>
Tax Rates per \$100 Valuation:			
Maintenance tax rates	\$ 0.64899	\$ 0.64426	\$ 0.6276
Contract tax rates	0.69500	0.69500	0.6950
Total Tax Rates per \$100 Valuation	<u>\$ 1.34399</u>	<u>\$ 1.33926</u>	<u>\$ 1.3226</u>
Adjusted Tax Levy:	<u>\$ 84,982</u>	<u>\$ 84,693</u>	<u>\$ 83,620</u>
Percentage of Taxes Collected to Taxes Levied **	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

* Maximum Maintenance Tax Rate Approved by Voters for water, wastewater, drainage and recreational facilities:

\$1.50 on 11/6/2007

* Maximum Maintenance Tax Rate Approved by Voters for road facilities:

\$0.25 on 11/4/2008

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

See accompanying auditors' report.

*Fort Bend County Municipal Utility District No. 169
 TSI-5. Long-Term Debt Service Requirements
 Series 2009--by Years
 September 30, 2017*

<u>Due During Fiscal Years Ending</u>	<u>Principal Due December 1</u>	<u>Interest Due December 1, June 1</u>	<u>Total</u>
2018	\$ 95,000	\$ 14,020	\$ 109,020
2019	100,000	8,170	108,170
2020	110,000	2,585	112,585
	<u>\$ 305,000</u>	<u>\$ 24,775</u>	<u>\$ 329,775</u>

See accompanying auditors' report.

*Fort Bend County Municipal Utility District No. 169
 TSI-5. Long-Term Debt Service Requirements
 Series 2010--by Years
 September 30, 2017*

Due During Fiscal Years Ending	Principal Due December 1	Interest Due December 1, June 1	Total
2018	\$ 160,000	\$ 306,359	\$ 466,359
2019	170,000	299,839	469,839
2020	185,000	292,554	477,554
2021	200,000	284,319	484,319
2022	215,000	275,131	490,131
2023	230,000	264,946	494,946
2024	245,000	253,841	498,841
2025	260,000	241,909	501,909
2026	280,000	229,014	509,014
2027	300,000	214,794	514,794
2028	325,000	198,966	523,966
2029	345,000	181,797	526,797
2030	370,000	163,475	533,475
2031	400,000	143,244	543,244
2032	425,000	121,072	546,072
2033	460,000	97,288	557,288
2034	490,000	71,756	561,756
2035	525,000	44,478	569,478
2036	565,000	15,184	580,184
	<u>\$ 6,150,000</u>	<u>\$ 3,699,966</u>	<u>\$ 9,849,966</u>

See accompanying auditors' report.

*Fort Bend County Municipal Utility District No. 169
 TSI-5. Long-Term Debt Service Requirements
 Series 2011--by Years
 September 30, 2017*

Due During Fiscal Years Ending	Principal Due December 1	Interest Due December 1, June 1	Total
2018	\$ 190,000	\$ 337,926	\$ 527,926
2019	205,000	331,591	536,591
2020	220,000	323,981	543,981
2021	230,000	315,371	545,371
2022	245,000	305,986	550,986
2023	260,000	295,756	555,756
2024	280,000	284,651	564,651
2025	300,000	272,501	572,501
2026	315,000	259,354	574,354
2027	335,000	245,211	580,211
2028	360,000	229,741	589,741
2029	385,000	212,786	597,786
2030	410,000	194,194	604,194
2031	435,000	173,853	608,853
2032	460,000	151,750	611,750
2033	490,000	128,000	618,000
2034	525,000	102,625	627,625
2035	560,000	75,500	635,500
2036	595,000	46,625	641,625
2037	635,000	15,875	650,875
	<u>\$ 7,435,000</u>	<u>\$ 4,303,277</u>	<u>\$ 11,738,277</u>

See accompanying auditors' report.

Fort Bend County Municipal Utility District No. 169
TSI-5. Long-Term Debt Service Requirements
Series 2011A--by Years
September 30, 2017

Due During Fiscal Years Ending	Principal Due December 1	Interest Due December 1, June 1	Total
2018	\$ 90,000	\$ 195,600	\$ 285,600
2019	95,000	190,744	285,744
2020	100,000	185,750	285,750
2021	110,000	180,500	290,500
2022	115,000	174,875	289,875
2023	125,000	168,875	293,875
2024	130,000	162,500	292,500
2025	140,000	155,750	295,750
2026	150,000	148,500	298,500
2027	160,000	140,750	300,750
2028	175,000	132,375	307,375
2029	185,000	123,375	308,375
2030	200,000	113,750	313,750
2031	210,000	103,500	313,500
2032	225,000	92,625	317,625
2033	245,000	80,875	325,875
2034	260,000	68,250	328,250
2035	280,000	54,750	334,750
2036	295,000	40,375	335,375
2037	320,000	25,000	345,000
2038	340,000	8,500	348,500
	<u>\$ 3,950,000</u>	<u>\$ 2,547,219</u>	<u>\$ 6,497,219</u>

See accompanying auditors' report.

Fort Bend County Municipal Utility District No. 169
TSI-5. Long-Term Debt Service Requirements
Series 2012--by Years
September 30, 2017

Due During Fiscal Years Ending	Principal Due December 1	Interest Due December 1, June 1	Total
2018	\$ 260,000	\$ 409,794	\$ 669,794
2019	275,000	401,768	676,768
2020	290,000	393,294	683,294
2021	310,000	384,293	694,293
2022	325,000	374,566	699,566
2023	345,000	363,881	708,881
2024	360,000	351,975	711,975
2025	380,000	339,025	719,025
2026	400,000	325,125	725,125
2027	425,000	309,906	734,906
2028	450,000	293,500	743,500
2029	475,000	275,563	750,563
2030	500,000	256,063	756,063
2031	525,000	235,563	760,563
2032	555,000	213,963	768,963
2033	585,000	191,163	776,163
2034	620,000	166,675	786,675
2035	650,000	140,481	790,481
2036	690,000	112,413	802,413
2037	725,000	82,344	807,344
2038	765,000	50,681	815,681
2039	810,000	17,213	827,213
	<u>\$ 10,720,000</u>	<u>\$ 5,689,249</u>	<u>\$ 16,409,249</u>

See accompanying auditors' report.

*Fort Bend County Municipal Utility District No. 169
 TSI-5. Long-Term Debt Service Requirements
 Series 2013--by Years
 September 30, 2017*

Due During Fiscal Years Ending	Principal Due December 1	Interest Due December 1, June 1	Total
2018	\$ 275,000	\$ 477,325	\$ 752,325
2019	290,000	468,850	758,850
2020	310,000	459,850	769,850
2021	325,000	450,325	775,325
2022	345,000	440,275	785,275
2023	360,000	429,250	789,250
2024	380,000	416,750	796,750
2025	400,000	403,100	803,100
2026	425,000	387,600	812,600
2027	450,000	370,100	820,100
2028	475,000	351,600	826,600
2029	500,000	331,475	831,475
2030	525,000	309,694	834,694
2031	555,000	286,050	841,050
2032	585,000	260,400	845,400
2033	620,000	233,288	853,288
2034	650,000	203,900	853,900
2035	690,000	172,075	862,075
2036	725,000	138,469	863,469
2037	765,000	102,125	867,125
2038	810,000	62,750	872,750
2039	850,000	21,250	871,250
	<u>\$ 11,310,000</u>	<u>\$ 6,776,501</u>	<u>\$ 18,086,501</u>

See accompanying auditors' report.

Fort Bend County Municipal Utility District No. 169
TSI-5. Long-Term Debt Service Requirements
Series 2014--by Years
September 30, 2017

Due During Fiscal Years Ending	Principal Due December 1	Interest Due December 1, June 1	Total
2018	\$ 185,000	\$ 320,075	\$ 505,075
2019	195,000	312,475	507,475
2020	210,000	304,375	514,375
2021	220,000	295,775	515,775
2022	230,000	286,775	516,775
2023	245,000	278,500	523,500
2024	260,000	270,925	530,925
2025	275,000	262,900	537,900
2026	290,000	254,062	544,062
2027	305,000	244,203	549,203
2028	325,000	233,369	558,369
2029	345,000	221,428	566,428
2030	365,000	208,559	573,559
2031	385,000	194,244	579,244
2032	405,000	178,444	583,444
2033	430,000	161,744	591,744
2034	455,000	144,044	599,044
2035	480,000	125,344	605,344
2036	510,000	105,544	615,544
2037	540,000	84,544	624,544
2038	570,000	62,344	632,344
2039	600,000	38,569	638,569
2040	635,000	13,097	648,097
	<u>\$ 8,460,000</u>	<u>\$ 4,601,339</u>	<u>\$ 13,061,339</u>

See accompanying auditors' report.

*Fort Bend County Municipal Utility District No. 169
 TSI-5. Long-Term Debt Service Requirements
 Series 2015--by Years
 September 30, 2017*

Due During Fiscal Years Ending	Principal Due December 1	Interest Due December 1, June 1	Total
2018	\$ 600,000	\$ 453,375	\$ 1,053,375
2019	600,000	441,375	1,041,375
2020	600,000	429,375	1,029,375
2021	600,000	417,375	1,017,375
2022	600,000	405,375	1,005,375
2023	600,000	390,377	990,377
2024	600,000	372,375	972,375
2025	600,000	354,376	954,376
2026	600,000	336,374	936,374
2027	600,000	318,375	918,375
2028	600,000	299,625	899,625
2029	600,000	280,124	880,124
2030	600,000	260,250	860,250
2031	600,000	239,626	839,626
2032	600,000	218,253	818,253
2033	600,000	196,500	796,500
2034	600,000	174,372	774,372
2035	575,000	152,344	727,344
2036	575,000	130,781	705,781
2037	575,000	108,500	683,500
2038	575,000	85,500	660,500
2039	575,000	62,500	637,500
2040	575,000	39,498	614,498
2041	700,000	14,000	714,000
	<u>\$ 14,350,000</u>	<u>\$ 6,180,625</u>	<u>\$ 20,530,625</u>

See accompanying auditors' report.

*Fort Bend County Municipal Utility District No. 169
 TSI-5. Long-Term Debt Service Requirements
 Series 2015A--by Years
 September 30, 2017*

Due During Fiscal Years Ending	Principal Due December 1	Interest Due December 1, June 1	Total
2018	\$ 500,000	\$ 270,188	\$ 770,188
2019	350,000	246,813	596,813
2020	350,000	227,563	577,563
2021	350,000	208,313	558,313
2022	350,000	189,063	539,063
2023	350,000	172,219	522,219
2024	300,000	160,500	460,500
2025	300,000	151,500	451,500
2026	300,000	142,500	442,500
2027	300,000	133,500	433,500
2028	300,000	124,500	424,500
2029	300,000	115,500	415,500
2030	300,000	106,500	406,500
2031	300,000	97,500	397,500
2032	300,000	88,500	388,500
2033	300,000	79,500	379,500
2034	300,000	70,500	370,500
2035	300,000	61,500	361,500
2036	300,000	52,500	352,500
2037	300,000	43,500	343,500
2038	300,000	34,500	334,500
2039	300,000	25,500	325,500
2040	300,000	16,500	316,500
2041	200,000	9,000	209,000
2042	200,000	3,000	203,000
	<u>\$ 7,750,000</u>	<u>\$ 2,830,659</u>	<u>\$ 10,580,659</u>

See accompanying auditors' report.

Fort Bend County Municipal Utility District No. 169
TSI-5. Long-Term Debt Service Requirements
Series 2016--by Years
September 30, 2017

Due During Fiscal Years Ending	Principal Due December 1	Interest Due December 1, June 1	Total
2018	\$ 750,000	\$ 276,500	\$ 1,026,500
2019	550,000	257,000	807,000
2020	400,000	242,750	642,750
2021	400,000	230,750	630,750
2022	400,000	218,750	618,750
2023	400,000	208,750	608,750
2024	400,000	200,750	600,750
2025	400,000	192,750	592,750
2026	400,000	184,750	584,750
2027	400,000	176,750	576,750
2028	400,000	168,500	568,500
2029	400,000	159,750	559,750
2030	400,000	150,750	550,750
2031	400,000	141,250	541,250
2032	400,000	131,250	531,250
2033	400,000	121,250	521,250
2034	400,000	111,250	511,250
2035	400,000	101,000	501,000
2036	400,000	90,250	490,250
2037	400,000	79,250	479,250
2038	500,000	66,875	566,875
2039	500,000	52,500	552,500
2040	500,000	37,500	537,500
2041	500,000	22,500	522,500
2042	500,000	7,500	507,500
	<u>\$ 11,000,000</u>	<u>\$ 3,630,875</u>	<u>\$ 14,630,875</u>

See accompanying auditors' report.

*Fort Bend County Municipal Utility District No. 169
 TSI-5. Long-Term Debt Service Requirements
 Series 2017--by Years
 September 30, 2017*

Due During Fiscal Years Ending	Principal Due December 1	Interest Due December 1, June 1	Total
2018	\$ -	\$ 432,827	\$ 432,827
2019	700,000	461,675	1,161,675
2020	900,000	437,675	1,337,675
2021	900,000	410,675	1,310,675
2022	900,000	383,675	1,283,675
2023	900,000	356,675	1,256,675
2024	540,000	335,075	875,075
2025	540,000	318,875	858,875
2026	540,000	304,700	844,700
2027	540,000	291,875	831,875
2028	540,000	278,375	818,375
2029	540,000	264,200	804,200
2030	540,000	248,675	788,675
2031	540,000	232,475	772,475
2032	540,000	216,275	756,275
2033	540,000	200,075	740,075
2034	540,000	183,200	723,200
2035	540,000	165,650	705,650
2036	540,000	148,100	688,100
2037	540,000	130,213	670,213
2038	540,000	111,650	651,650
2039	540,000	92,750	632,750
2040	540,000	73,850	613,850
2041	540,000	54,950	594,950
2042	600,000	35,000	635,000
2043	700,000	12,250	712,250
	<u>\$ 15,320,000</u>	<u>\$ 6,181,415</u>	<u>\$ 21,501,415</u>

See accompanying auditors' report.

*Fort Bend County Municipal Utility District No. 169
 TSI-5. Long-Term Debt Service Requirements
 Series 2017A Refunding--by Years
 September 30, 2017*

Due During Fiscal Years Ending	Principal Due December 1	Interest Due December 1, June 1	Total
2018	\$ -	\$ 59,503	\$ 59,503
2019		64,913	64,913
2020		64,913	64,913
2021	115,000	63,763	178,763
2022	120,000	61,412	181,412
2023	130,000	58,913	188,913
2024	135,000	56,262	191,262
2025	140,000	53,513	193,513
2026	145,000	50,481	195,481
2027	150,000	47,162	197,162
2028	160,000	43,475	203,475
2029	170,000	39,137	209,137
2030	175,000	34,175	209,175
2031	180,000	28,850	208,850
2032	195,000	23,225	218,225
2033	200,000	17,300	217,300
2034	215,000	10,806	225,806
2035	225,000	3,656	228,656
	<u>\$ 2,455,000</u>	<u>\$ 781,459</u>	<u>\$ 3,236,459</u>

See accompanying auditors' report.

*Fort Bend County Municipal Utility District No. 169
 TSI-5. Long-Term Debt Service Requirements
 All Bonded Debt Series--by Years
 September 30, 2017*

Due During Fiscal Years Ending	Principal Due December 1	Interest Due December 1, June 1	Total
2018	\$ 3,105,000	\$ 3,553,491	\$ 6,658,491
2019	3,530,000	3,485,213	7,015,213
2020	3,675,000	3,364,664	7,039,664
2021	3,760,000	3,241,459	7,001,459
2022	3,845,000	3,115,883	6,960,883
2023	3,945,000	2,988,142	6,933,142
2024	3,630,000	2,865,604	6,495,604
2025	3,735,000	2,746,199	6,481,199
2026	3,845,000	2,622,460	6,467,460
2027	3,965,000	2,492,626	6,457,626
2028	4,110,000	2,354,025	6,464,025
2029	4,245,000	2,205,134	6,450,134
2030	4,385,000	2,046,084	6,431,084
2031	4,530,000	1,876,154	6,406,154
2032	4,690,000	1,695,757	6,385,757
2033	4,870,000	1,506,983	6,376,983
2034	5,055,000	1,307,378	6,362,378
2035	5,225,000	1,096,778	6,321,778
2036	5,195,000	880,241	6,075,241
2037	4,800,000	671,351	5,471,351
2038	4,400,000	482,800	4,882,800
2039	4,175,000	310,282	4,485,282
2040	2,550,000	180,445	2,730,445
2041	1,940,000	100,450	2,040,450
2042	1,300,000	45,500	1,345,500
2043	700,000	12,250	712,250
	<u>\$ 99,205,000</u>	<u>\$ 47,247,353</u>	<u>\$ 146,452,353</u>

See accompanying auditors' report.

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	Bond Issue				
	Series 2009	Series 2010	Series 2011	Series 2011A	Series 2012
Interest rate	4.70% - 6.00%	3.90% - 5.375%	3.00% - 5.00%	5.00% - 5.25%	3.00% - 4.25%
Dates interest payable	12/1; 6/1	12/1; 6/1	12/1; 6/1	12/1; 6/1	12/1; 6/1
Maturity dates	12/1/14 to 12/1/34	12/1/14 to 12/1/35	12/1/15 to 12/1/36	12/1/16 to 12/1/37	12/1/17 to 12/1/38
Beginning bonds outstanding	\$ 3,435,000	\$ 6,300,000	\$ 7,615,000	\$ 4,030,000	\$ 10,720,000
Bonds issued					
Bonds refunded	(3,045,000)				
Bonds retired	(85,000)	(150,000)	(180,000)	(80,000)	
Ending bonds outstanding	\$ 305,000	\$ 6,150,000	\$ 7,435,000	\$ 3,950,000	\$ 10,720,000
Interest paid during fiscal year	\$ 190,504	\$ 312,666	\$ 343,476	\$ 200,063	\$ 413,694
Paying agent's name and city	The Bank of New York Mellon Trust Company, N.A.				

Master District Contract Revenue Bond Authority:	Water, Sewer and Drainage	
	Bonds	Road Bonds
Amount Authorized by Voters	\$ 483,000,000	\$ 121,450,000
Amount Issued	(74,605,000)	(28,030,000)
Remaining To Be Issued	\$ 408,395,000	\$ 93,420,000

All contract revenue bonds are secured with contract tax revenues from participating districts.

Internal District Unlimited Tax Bond Authority:	Water, Sewer and Drainage		
	Bonds	Park Bonds	Road Bonds
Amount Authorized by Voters	\$ 48,748,000	\$ 23,212,000	\$ 10,556,000
Amount Issued			
Remaining To Be Issued	\$ 48,748,000	\$ 23,212,000	\$ 10,556,000

All unlimited tax bonds are secured with tax revenues imposed and collected by the District.

Debt Service Fund cash and investments balances as of September 30, 2017: \$ 12,182,145

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 5,632,783

See accompanying auditors' report.

	Bond Issue				
	Series 2013	Series 2014	Series 2015	Series 2015A	Series 2016
Interest rate	3.00% - 5.00%	3.00% - 4.125%	2.00% - 3.75%	2.00% - 3.00%	2.00% - 3.00%
Dates interest payable	12/1; 6/1	12/1; 6/1	12/1; 6/1	12/1; 6/1	12/1; 6/1
Maturity dates	12/1/17 to 12/1/38	12/1/17 to 12/1/38	12/1/16 to 12/1/40	12/1/16 to 12/1/41	12/1/16 to 12/1/41
Beginning bonds outstanding	\$ 11,310,000	\$ 8,460,000	\$ 15,000,000	\$ 8,850,000	\$ 11,000,000
Bonds issued					
Bonds refunded					
Bonds retired			(650,000)	(1,100,000)	
Ending bonds outstanding	<u>\$ 11,310,000</u>	<u>\$ 8,460,000</u>	<u>\$ 14,350,000</u>	<u>\$ 7,750,000</u>	<u>\$ 11,000,000</u>
Interest paid during fiscal year	<u>\$ 481,450</u>	<u>\$ 323,775</u>	<u>\$ 465,875</u>	<u>\$ 314,188</u>	<u>\$ 239,792</u>

See accompanying auditors' report.

Bond Issue		
Series 2017	Series 2017A Refunding	Totals
2.25% - 3.375%	3.00% - 5.00%	
12/1; 6/1	12/1; 6/1	
12/1/18 to	12/1/17 to	
12/1/42	12/1/38	
\$ -	\$ -	\$ 86,720,000
15,320,000	2,455,000	17,775,000
		(3,045,000)
		(2,245,000)
<u>\$ 15,320,000</u>	<u>\$ 2,455,000</u>	<u>\$ 99,205,000</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,285,483</u>

Fort Bend County Municipal Utility District No. 169
TSI-7a. Comparative Schedule of Revenues and Expenditures - General Fund
For the Last Five Fiscal Years

	Amounts				
	2017	2016	2015	2014	2013
Revenues					
Property taxes	\$ 41,036	\$ 39,679	\$ 38,258	\$ 20,328	\$ 22,975
Penalties and interest			129		
Investment earnings	11	17	5		
Total Revenues	<u>41,047</u>	<u>39,696</u>	<u>38,392</u>	<u>20,328</u>	<u>22,975</u>
Expenditures					
Operating and administrative					
Professional fees	99,134	13,548	23,034	13,783	6,737
Contracted services	14,006	7,938	10,862	11,005	9,828
Administrative	11,852	11,072	13,720	8,949	182
Other			149	500	1,209
Total Expenditures	<u>124,992</u>	<u>32,558</u>	<u>47,765</u>	<u>34,237</u>	<u>17,956</u>
Revenues Over (Under) Expenditures	<u>\$ (83,945)</u>	<u>\$ 7,138</u>	<u>\$ (9,373)</u>	<u>\$ (13,909)</u>	<u>\$ 5,019</u>

*Percentage is negligible

See accompanying auditors' report.

Percent of Fund Total Revenues

2017	2016	2015	2014	2013
100%	100%	100%	100%	100%
*	*	*	*	
100%	100%	100%	100%	100%
242%	42%	34%	60%	68%
34%	43%	20%	25%	54%
29%	31%	28%	36%	44%
			*	2%
305%	116%	82%	121%	168%
(205%)	(16%)	18%	(21%)	(68%)

Fort Bend County Municipal Utility District No. 169

TSI-7b. Comparative Schedule of Revenues and Expenditures - Debt Service Fund

For the Last Five Fiscal Years

	Amounts				
	2017	2016	2015	2014	2013
Revenues					
Property taxes	\$ 43,946	\$ 43,941	\$ 44,355	\$ 23,826	\$ 21,103
Contract tax from participants	7,115,043	4,108,534	2,529,258	1,853,624	1,149,798
Accrued interest on bonds sold	17,443	3,936	6,272		5,913
Investment earnings	24,239	530	376	277	157
Total Revenues	<u>7,200,671</u>	<u>4,156,941</u>	<u>2,580,261</u>	<u>1,877,727</u>	<u>1,176,971</u>
Expenditures					
Tax collection services	6	210	279	213	
Debt service					
Principal	2,245,000	205,000			
Payment to refunded bond escrow agent	977,732				
Interest and fees	3,313,663	2,262,499	1,755,440	1,442,661	849,409
Debt issuance costs	172,964				
Total Expenditures	<u>6,709,365</u>	<u>2,467,709</u>	<u>1,755,719</u>	<u>1,442,874</u>	<u>849,409</u>
Revenues Over Expenditures	<u>\$ 491,306</u>	<u>\$ 1,689,232</u>	<u>\$ 824,542</u>	<u>\$ 434,853</u>	<u>\$ 327,562</u>

*Percentage is negligible

See accompanying auditors' report.

Percent of Fund Total Revenues

2017	2016	2015	2014	2013
1%	1%	1%	2%	1%
99%	99%	99%	98%	99%
*	*	*	*	
*	*	*	*	*
100%	100%	100%	100%	100%
*	*	*	*	
31%	5%			
46%	54%	68%	77%	72%
2%				
77%	59%	68%	77%	72%
23%	41%	32%	23%	28%

Fort Bend County Municipal Utility District No. 169
TSI-8. Board Members, Key Personnel and Consultants
For the Year Ended September 30, 2017

Complete District Mailing Address: 3200 Southwest Freeway, Suite 2600, Houston, TX 77027
District Business Telephone Number: (713) 860-6400
Submission Date of the most recent District Registration Form
(TWC Sections 36.054 and 49.054): June 6, 2016
Limit on Fees of Office that a Director may receive during a fiscal year: \$ 7,200
(Set by Board Resolution -- TWC Section 49.0600)

Names:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid *	Expense Reimburse- ments	Title at Year End
Board Members				
Arden J. Morley	06/16 - 05/20	\$ 1,800	\$ 509	President
William H. Yost	05/14 - 05/18	1,800	232	Vice President
Gary Swafford	05/14 - 05/18	1,650	260	Secretary
David W. D'Andrea	05/14 - 05/18	1,950	293	Assistant Secretary
John J. Preston	06/16 - 05/20	1,950	377	Assistant Vice President
Consultants				
Allen Boone Humphries Robinson LLP	08/30/07	<u>Amounts Paid</u>		Attorney
<i>General legal fees</i>		\$ 345,605		
<i>Bond counsel</i>		431,967		
Andrews Kurth	10/01/16	31,309		Litigation Attorney
F. Matuska, Inc.	02/01/10	19,599		Bookkeeper
Assessments of the Southwest Inc.	10/01/07	7,100		Tax Collector
Fort Bend Central Appraisal District	Legislation	738		Property Valuation
Perdue, Brandon, Fielder, Collins & Mott, LP	03/03/08			Delinquent Tax Attorney
Brown & Gay Engineers Inc.	10/01/07	107,878		Engineer
McGrath & Co, PLLC	Annual	42,050		Auditor
FirstSouthwest, a Division of Hilltop Securities	10/01/07	311,151		Financial Advisor

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

**FORT BEND COUNTY MUNICIPAL
UTILITY DISTRICT NO. 170**

FORT BEND COUNTY, TEXAS

FINANCIAL REPORT

September 30, 2017

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McGrath & Co., PLLC
Certified Public Accountants
P.O. Box 270148
Houston, Texas 77277

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Colette M. Garcia CPA
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Independent Auditors' Report

Board of Directors
Fort Bend County Municipal Utility District No. 170
Fort Bend County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Fort Bend County Municipal Utility District No. 170, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

*Board of Directors
Fort Bend County Municipal Utility District No. 170
Fort Bend County, Texas*

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Fort Bend County Municipal Utility District No. 170, as of September 30, 2017, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other-Matters

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The Texas Supplementary Information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Texas Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied to the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

W.C. Gattner & Co., P.C.

Houston, Texas
January 10, 2018

Management's Discussion and Analysis

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*Fort Bend County Municipal Utility District No. 170
Management's Discussion and Analysis
September 30, 2017*

Using this Annual Report

Within this section of the financial report of Fort Bend County Municipal Utility District No. 170 (the "District"), the District's Board of Directors provides a narrative discussion and analysis of the financial activities of the District for the fiscal year ended September 30, 2017. This analysis should be read in conjunction with the independent auditors' report and the basic financial statements that follow this section.

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

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

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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

**Fort Bend County Municipal Utility District No. 170
Management's Discussion and Analysis
September 30, 2017**

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

Fund Financial Statements

The fund financial statements include the *Governmental Funds Balance Sheet* and the *Governmental Funds Revenues, Expenditures and Changes in Fund Balances*. The focus of fund financial statements is on specific activities of the District rather than the District as a whole, reported using modified accrual accounting. These statements report on the District's use of available financial resources and the balances of available financial resources at the end of the year. Except for the General Fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties, governmental statutes or regulations.

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

Financial Analysis of the District as a Whole

The District's net position at September 30, 2017, was negative \$7,804,188. The District's net position is negative because the District incurs debt to construct water, sewer and drainage facilities which it conveys to the City of Fulshear. A comparative summary of the District's overall financial position, as of September 30, 2017 and 2016, is as follows:

	2017	2016
Current and other assets	<u>\$ 1,265,386</u>	<u>\$ 1,341,315</u>
Current liabilities	287,562	2,804,278
Long-term liabilities	<u>8,782,012</u>	<u>5,406,002</u>
Total liabilities	<u>9,069,574</u>	<u>8,210,280</u>
Net position		
Restricted	497,906	336,828
Unrestricted	<u>(8,302,094)</u>	<u>(7,205,793)</u>
Total net position	<u>\$ (7,804,188)</u>	<u>\$ (6,868,965)</u>

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September 30, 2017

The total net position of the District decreased during the current fiscal year by \$935,223. A comparative summary of the District's *Statement of Activities* for the past two years is as follows:

	<u>2017</u>	<u>2016</u>
Revenues		
Property taxes, penalties and interest	\$ 1,382,356	\$ 1,052,782
City of Fulshear tax rebate	43,866	37,142
Other	11,187	2,409
Total revenues	<u>1,437,409</u>	<u>1,092,333</u>
Expenses		
Operating and administrative	415,111	248,051
Interest and fees	296,367	178,387
Developer interest	116,299	
Debt issuance costs	346,757	55,760
Contractual obligation	667,842	513,757
Total expenses	<u>1,842,376</u>	<u>995,955</u>
Change in net position before other item	(404,967)	96,378
Other item		
Transfers to other governments	<u>(530,256)</u>	<u>(3,550,049)</u>
Change in net position	(935,223)	(3,453,671)
Net position, beginning of year	<u>(6,868,965)</u>	<u>(3,415,294)</u>
Net position, end of year	<u>\$ (7,804,188)</u>	<u>\$ (6,868,965)</u>

Financial Analysis of the District's Funds

The District's combined fund balances, as of September 30, 2017, were \$1,258,289, which consists of \$156,432 in the General Fund, \$515,441 in the Debt Service Fund and \$586,416 in the Capital Projects Fund.

General Fund

A comparative summary of the General Fund's financial position as of September 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Total assets	<u>\$ 163,488</u>	<u>\$ 259,232</u>
Total liabilities	\$ 7,056	\$ 3,226
Total fund balance	<u>156,432</u>	<u>256,006</u>
Total liabilities and fund balance	<u>\$ 163,488</u>	<u>\$ 259,232</u>

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Management's Discussion and Analysis
September 30, 2017*

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

	<u>2017</u>	<u>2016</u>
Total revenues	\$ 286,479	\$ 229,917
Total expenditures	<u>(386,053)</u>	<u>(227,457)</u>
Revenues over (under) expenditures	<u>\$ (99,574)</u>	<u>\$ 2,460</u>

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

Debt Service Fund

A comparative summary of the Debt Service Fund's financial position as of September 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Total assets	<u>\$ 515,441</u>	<u>\$ 349,950</u>
Total fund balance	<u>\$ 515,441</u>	<u>\$ 349,950</u>

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

	<u>2017</u>	<u>2016</u>
Total revenues	\$ 1,155,346	\$ 861,362
Total expenditures	<u>(1,068,215)</u>	<u>(785,629)</u>
Revenues over expenditures	87,131	75,733
Other changes in fund balance	<u>78,360</u>	<u> </u>
Net change in fund balance	<u>\$ 165,491</u>	<u>\$ 75,733</u>

The District's financial resources in the Debt Service Fund in both the current year and prior year are from property tax revenues and City of Fulshear tax rebates. During the current year, financial resources also included capitalized interest from the sale of bonds. The difference between these financial resources and debt service requirements resulted in an increase in fund balance each year. It is important to note that the District sets its annual debt service tax rate as recommended by its financial advisor, who monitors projected cash flows in the Debt Service Fund to ensure that the District will be able to meet its future debt service requirements and contractual obligations to Fort Bend County Municipal Utility District No. 169.

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Management's Discussion and Analysis
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Capital Projects Fund

A comparative summary of the Capital Projects Fund's financial position as of September 30, 2017 and 2016 is as follows:

	2017	2016
Total assets	<u>\$ 586,457</u>	<u>\$ 732,133</u>
Total liabilities	\$ 41	\$ -
Total fund balance	<u>586,416</u>	<u>732,133</u>
Total liabilities and fund balance	<u>\$ 586,457</u>	<u>\$ 732,133</u>

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

	2017	2016
Total revenues	\$ 4,207	\$ 1,054
Total expenditures	<u>(1,591,564)</u>	<u>(2,497,700)</u>
Revenues under expenditures	(1,587,357)	(2,496,646)
Other changes in fund balance	<u>1,441,640</u>	<u>2,680,000</u>
Net change in fund balance	<u>\$ (145,717)</u>	<u>\$ 183,354</u>

The District has had considerable capital asset activity in the last two years, which was financed with proceeds from the issuance of its Series 2016 Unlimited Tax Bonds in the current year and issuance of its Series 2016 Bond Anticipation Note in the prior year.

General Fund Budgetary Highlights

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

Since the District's budget is primarily a planning tool, actual results varied from the budgeted amounts. Actual net change in fund balance was \$10,194 less than budgeted. The *Budgetary Comparison Schedule* on page 32 of this report provides variance information per financial statement line item.

Capital Assets

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

The District and the City of Fulshear (the "City") have entered into an agreement which obligates the District to construct water, wastewater, and certain storm drainage facilities to serve the District and, when completed, to convey title to the facilities to the City. For the year ended September 30, 2017,

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Management's Discussion and Analysis
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capital assets in the amount of \$530,256 have been completed and recorded as transfers to other governments in the government-wide statements. Additional information is presented in Note 10.

Long-Term Debt and Related Liabilities

As of September 30, 2017, the District owes \$543,332 to developers for completed projects. As discussed in Note 6, the District has an additional commitment in the amount of \$1,197,806 for projects under construction by the developers. As previously mentioned, the District will owe its developers for these projects upon completion of construction, at which time the capital assets and related liability will be recorded on the District's financial statements. The District intends to reimburse the developers from proceeds of future bond issues or other lawfully available funds.

At September 30, 2017 and 2016, the District had total bonded debt outstanding as shown below:

Series	2017	2016
2014	\$ 4,405,000	\$ 4,505,000
2016	4,200,000	
	<u>\$ 8,605,000</u>	<u>\$ 4,505,000</u>

During the year, the District issued \$4,200,000 in unlimited tax bonds. At September 30, 2017, the District had \$117,340,000 unlimited tax bonds authorized, but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District and related refunding purposes; \$69,860,000 for parks and recreational facilities and related refunding purposes; and \$50,400,000 for road improvements and related refunding purposes.

Next Year's Budget

In establishing the budget for the next fiscal year, the Board considered various economic factors that may affect the District, most notably projected revenues from property taxes and the projected cost of operating the District. A comparison of next year's budget to current year actual amounts for the General Fund is as follows:

	2017 Actual	2018 Budget
Total revenues	\$ 286,479	\$ 223,925
Total expenditures	<u>(386,053)</u>	<u>(441,030)</u>
Revenues under expenditures	(99,574)	(217,105)
Other changes in fund balance		110,000
Net change in fund balance	(99,574)	(107,105)
Beginning fund balance	256,006	156,432
Ending fund balance	<u>\$ 156,432</u>	<u>\$ 49,327</u>

*Fort Bend County Municipal Utility District No. 170
Management's Discussion and Analysis
September 30, 2017*

Property Taxes

The District's property tax base increased approximately \$18,313,000 for the 2017 tax year from \$102,348,600 to \$120,661,793. This increase was primarily due to new construction in the District. For the 2017 tax year, the District has levied a maintenance tax rate of \$0.2472 per \$100 of assessed value, a debt service tax rate of \$0.40 per \$100 of assessed value and a contract tax rate of \$0.695 per \$100 of assessed value, for a total combined tax rate of \$1.3422 per \$100. Tax rates for the 2016 tax year were \$0.28899 per \$100 for maintenance and operations, \$0.36 per \$100 for debt service and \$0.695 per \$100 for contract tax.

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Basic Financial Statements

*Fort Bend County Municipal Utility District No. 170
Statement of Net Position and Governmental Funds Balance Sheet
September 30, 2017*

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
Assets						
Cash	\$ 88,036	\$ 24,465	\$ -	\$ 112,501	\$ -	\$ 112,501
Investments	48,446	517,772	586,667	1,152,885		1,152,885
Internal balances	27,006	(26,796)	(210)			
Total Assets	<u>\$ 163,488</u>	<u>\$ 515,441</u>	<u>\$ 586,457</u>	<u>\$ 1,265,386</u>		<u>1,265,386</u>
Liabilities						
Accounts payable	\$ 6,630	\$ -	\$ 41	\$ 6,671		6,671
Other payables	426			426		426
Accrued interest payable					25,465	25,465
Due to developers					543,332	543,332
Long-term debt						
Due within one year					255,000	255,000
Due after one year					8,238,680	8,238,680
Total Liabilities	<u>7,056</u>		<u>41</u>	<u>7,097</u>	<u>9,062,477</u>	<u>9,069,574</u>
Fund Balances/Net Position						
Fund Balances						
Restricted		515,441	586,416	1,101,857	(1,101,857)	
Unassigned	156,432			156,432	(156,432)	
Total Fund Balances	<u>156,432</u>	<u>515,441</u>	<u>586,416</u>	<u>1,258,289</u>	<u>(1,258,289)</u>	
Total Liabilities and Fund Balances	<u>\$ 163,488</u>	<u>\$ 515,441</u>	<u>\$ 586,457</u>	<u>\$ 1,265,386</u>		
Net Position						
Restricted for debt service					497,906	497,906
Unrestricted					(8,302,094)	(8,302,094)
Total Net Position					<u>\$ (7,804,188)</u>	<u>\$ (7,804,188)</u>

See notes to basic financial statements.

*Fort Bend County Municipal Utility District No. 170
Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances
For the Year Ended September 30, 2017*

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
Revenues						
Property taxes	\$ 285,929	\$ 1,089,642	\$ -	\$ 1,375,571	\$ -	\$ 1,375,571
Penalties and interest		6,785		6,785		6,785
City of Fulshear tax rebate		43,866		43,866		43,866
Accrued interest on bonds sold		8,623		8,623	(8,623)	
Miscellaneous		250		250		250
Investment earnings	550	6,180	4,207	10,937		10,937
Total Revenues	286,479	1,155,346	4,207	1,446,032	(8,623)	1,437,409
Expenditures/Expenses						
Operating and administrative						
Professional fees	143,124		10,251	153,375		153,375
Contracted services	10,640	17,593		28,233		28,233
Master District fees	215,550			215,550		215,550
Administrative	16,739	1,214		17,953		17,953
Capital outlay			1,104,306	1,104,306	(1,104,306)	
Debt service						
Principal		100,000		100,000	(100,000)	
Interest and fees		281,566	13,951	295,517	850	296,367
Developer interest			116,299	116,299		116,299
Debt issuance costs			346,757	346,757		346,757
Contractual obligation		667,842		667,842		667,842
Total Expenditures/Expenses	386,053	1,068,215	1,591,564	3,045,832	(1,203,456)	1,842,376
Revenues Over (Under)						
Expenditures/Expenses	(99,574)	87,131	(1,587,357)	(1,599,800)	1,194,833	(404,967)
Other Financing Sources/Uses						
Proceeds from sale of bonds		78,360	4,121,640	4,200,000	(4,200,000)	
Repayment of bond anticipation note			(2,680,000)	(2,680,000)	2,680,000	
Other Items						
Transfers to other governments					(530,256)	(530,256)
Net Change in Fund Balances	(99,574)	165,491	(145,717)	(79,800)	79,800	
Change in Net Position					(935,223)	(935,223)
Fund Balance/Net Position						
Beginning of the year	256,006	349,950	732,133	1,338,089	(8,207,054)	(6,868,965)
End of the year	\$ 156,432	\$ 515,441	\$ 586,416	\$ 1,258,289	\$ (9,062,477)	\$ (7,804,188)

See notes to basic financial statements.

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Fort Bend County Municipal Utility District No. 170
Notes to Basic Financial Statements
September 30, 2017

Note 1 – Summary of Significant Accounting Policies

The accounting policies of Fort Bend County Municipal Utility District No. 170 (the “District”) conform with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board. The following is a summary of the most significant policies:

Creation

The District was organized, created and established pursuant to an order of the Texas Commission on Environmental Quality dated August 22, 2007, and operates in accordance with the Texas Water Code, Chapters 49 and 54. The Board of Directors held its first meeting on August 7, 2008, and the first bonds were sold on December 4, 2014.

The District’s primary activities include the provision of water, sewer and drainage, recreational, and road facilities. As further discussed in Note 10, the District transfers certain of these facilities to the City of Fulshear upon completion of construction. The District has contracted with various consultants to provide services to operate and administer the affairs of the District. The District has no employees, related payroll or pension costs.

Reporting Entity

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

Government-Wide and Fund Financial Statements

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

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

*Fort Bend County Municipal Utility District No. 170
Notes to Basic Financial Statements
September 30, 2017*

Note 1 – Summary of Significant Accounting Policies (continued)

Government-Wide and Fund Financial Statements (continued)

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

- The General Fund is used to account for the operations of the District and all other financial transactions not reported in other funds. The principal source of revenue is property taxes. Expenditures include costs associated with the daily operations of the District.
- The Debt Service Fund is used to account for the payment of interest and principal on the District's general long-term debt and the District's contractual obligation to Fort Bend County Municipal Utility District No. 169 (the "Master District"). The primary sources of revenue for debt service are property taxes and City of Fulshear tax rebates. Expenditures include costs incurred in assessing and collecting these taxes.
- The Capital Projects Fund is used to account for the expenditures of bond proceeds for the construction of the District's water, sewer and drainage facilities.

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

Measurement Focus and Basis of Accounting

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

The fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized in the accounting period in which it becomes both available and measurable to finance expenditures of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Revenues susceptible to accrual include property taxes, City of Fulshear tax rebates and interest earned on investments. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for unmatured interest on long-term debt, which is recognized when due.

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

Use of Restricted Resources

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

Fort Bend County Municipal Utility District No. 170
Notes to Basic Financial Statements
September 30, 2017

Note 1 – Summary of Significant Accounting Policies (continued)

Interfund Activity

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

Fund Balances – Governmental Funds

Governmental accounting standards establish the following fund balance classifications:

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

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

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

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

Unassigned - all other spendable amounts in the General Fund.

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

Fort Bend County Municipal Utility District No. 170
Notes to Basic Financial Statements
September 30, 2017

Note 1 – Summary of Significant Accounting Policies (continued)

Use of Estimates

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

Note 2 – Adjustment from Governmental to Government-wide Basis

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

Total fund balance, governmental funds	\$	1,258,289
<p>Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. The difference consists of:</p>		
Bonds payable, net	\$	(8,493,680)
Interest payable on bonds		<u>(25,465)</u>
Change due to long-term debt		(8,519,145)
Amounts due to the District's developers for prefunded construction is recorded as a liability in the <i>Statement of Net Position</i> .		(543,332)
Total net position - governmental activities	<u>\$</u>	<u>(7,804,188)</u>

Fort Bend County Municipal Utility District No. 170
Notes to Basic Financial Statements
September 30, 2017

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

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

Net change in fund balances - total governmental funds	\$	(79,800)
Capital outlays for developer reimbursements are recorded as expenditures in the fund, but reduce the liability for due to developers in the <i>Statement of Net Position</i> .		1,104,306
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal uses current financial resources. However, neither transaction has any effect on net assets. Other elements of debt financing are reported differently between the fund and government wide statements.		
Issuance of long term debt	\$	(4,200,000)
Principal payments		100,000
Repayment of bond anticipation note		2,680,000
Interest expense accrual		(9,473)
		<u>(1,429,473)</u>
The District conveys its infrastructure to the City of Fulshear upon completion of construction. Since these improvements are funded by the developers, financial resources are not expended in the fund financial statements. However, in the <i>Statement of Activities</i> , these amounts are reported as transfers to other governments.		(530,256)
Change in net position of governmental activities	<u>\$</u>	<u>(935,223)</u>

Note 3 – Deposits and Investments

Deposit Custodial Credit Risk

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

Fort Bend County Municipal Utility District No. 170
Notes to Basic Financial Statements
September 30, 2017

Note 3 – Deposits and Investments (continued)

Investments

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

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

As of September 30, 2017, the District’s investments consist of the following:

<u>Type</u>	<u>Fund</u>	<u>Carrying Value</u>	<u>Rating</u>	<u>Weighted Average Maturity</u>
TexPool	General	\$ 48,446	AAA	37 days
	Debt Service	517,772		
	Capital Projects	586,667		
		<u>\$ 1,152,885</u>		

TexPool

The District participates in TexPool, the Texas Local Government Investment Pool. The State Comptroller of Public Accounts exercises oversight responsibility of TexPool, which includes (1) the ability to significantly influence operations, (2) designation of management and (3) accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure.

Fort Bend County Municipal Utility District No. 170
Notes to Basic Financial Statements
September 30, 2017

Note 3 – Deposits and Investments (continued)

TexPool (continued)

As permitted by GAAP, TexPool uses amortized cost (which excludes unrealized gains and losses) rather than market value to compute share price and seeks to maintain a constant dollar value per share. Accordingly, the fair value of the District’s position in TexPool is the same as the value of TexPool shares. Investments in TexPool may be withdrawn on a same day basis, as long as the transaction is executed by 3:30 p.m.

Investment Credit and Interest Rate Risk

Investment credit risk is the risk that the investor may not recover the value of an investment from the issuer, while interest rate risk is the risk that the value of an investment will be adversely affected by changes in interest rates. The District’s investment policies do not address investment credit and interest rate risk beyond the rating and maturity restrictions established by state statutes.

Note 4 – Amounts Due to/from Other Funds

Amounts due to/from other funds at September 30, 2017, consist of the following:

	Interfund	
	Receivable	Payable
General Fund	\$ 27,006	\$ -
Debt Service Fund		26,796
Capital Projects Fund		210
	<u>\$ 27,006</u>	<u>\$ 27,006</u>

Note 5 – Bond Anticipation Note

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

At the beginning of the fiscal year, the District had a BAN outstanding in the amount of \$2,680,000. This BAN was repaid on December 21, 2016 with proceeds from the issuance of the District’s Series 2016 Unlimited Tax Bonds.

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

Beginning balance	\$ 2,680,000
Amounts repaid	<u>(2,680,000)</u>
Ending balance	<u>\$ -</u>

Fort Bend County Municipal Utility District No. 170
Notes to Basic Financial Statements
September 30, 2017

Note 6 – Due to Developers

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

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

Due to developers, beginning of year	\$ 1,117,382
Developer funded construction	530,256
Developer reimbursements	<u>(1,104,306)</u>
Due to developers, end of year	<u>\$ 543,332</u>

In addition, the District will owe the developers approximately \$1,197,806, which is included in the following schedule of contractual commitments. The exact amount is not known until approved by the TCEQ and verified by the District's auditor. As previously noted, these projects will be reported in the government-wide financial statements upon completion of construction.

	<u>Contract Amount</u>	<u>Amounts Paid</u>	<u>Remaining Commitment</u>
Water, sewer, and drainage facilities to serve:			
The Brooks at Cross Creek Ranch, Section 2	\$ 347,367	\$ 273,882	\$ 73,485
Bonterra at Cross Creek Ranch Section 2	506,006	373,554	132,452
Bonterra at Cross Creek Ranch Section 6	344,433	212,292	132,141
	<u>\$ 1,197,806</u>	<u>\$ 859,728</u>	<u>\$ 338,078</u>

Note 7 – Long-Term Debt

Long-term debt is comprised of the following:

Bonds payable	\$ 8,605,000
Unamortized discounts	<u>(111,320)</u>
	<u>\$ 8,493,680</u>
 Due within one year	 <u>\$ 255,000</u>

Fort Bend County Municipal Utility District No. 170
Notes to Basic Financial Statements
September 30, 2017

Note 7 – Long-Term Debt (continued)

The District's bonds payable at September 30, 2017, consists of unlimited tax bonds as follows:

Series	Amounts Outstanding	Original Issue	Interest Rates	Maturity Date, Serially, Beginning/ Ending	Interest Payment Dates	Call Dates
2014	\$ 4,405,000	\$ 4,600,000	2.00% - 4.20%	September 1, 2016/2039	March 1, September 1	September 1, 2022
2016	4,200,000	4,200,000	2.00% - 4.30%	September 1, 2018/2041	March 1, September 1	September 1, 2024
	<u>\$ 8,605,000</u>					

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

At September 30, 2017, the District had authorized but unissued bonds in the amount of \$117,340,000 for water, sewer and drainage facilities and related refunding purposes; \$69,860,000 for park and recreational facilities and related refunding purposes; and \$50,400,000 for road improvements and related refunding purposes.

On December 21, 2016, the District issued its \$4,200,000 Series 2016 Unlimited Tax Bonds at a net effective interest rate of 4.241207%. Proceeds of the bonds were used to (1) reimburse developers for the cost of capital assets constructed within the District plus interest expense at the net effective interest rate of the bonds; (2) to repay a \$2,680,000 BAN issued in the previous fiscal year; and (3) to pay capitalized interest into the Debt Service Fund.

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

Bonds payable, beginning of year	\$ 4,505,000
Bonds issued	4,200,000
Bonds retired	(100,000)
Bonds payable, end of year	<u>\$ 8,605,000</u>

Fort Bend County Municipal Utility District No. 170
Notes to Basic Financial Statements
September 30, 2017

Note 7 – Long-Term Debt (continued)

As of September 30, 2017, annual debt service requirements on bonds outstanding are as follows:

Year	Principal	Interest	Totals
2018	\$ 255,000	\$ 316,121	\$ 571,121
2019	260,000	311,021	571,021
2020	275,000	305,821	580,821
2021	285,000	299,634	584,634
2022	290,000	292,509	582,509
2023	300,000	284,534	584,534
2024	305,000	275,534	580,534
2025	315,000	266,064	581,064
2026	325,000	255,586	580,586
2027	335,000	244,051	579,051
2028	345,000	231,926	576,926
2029	355,000	218,820	573,820
2030	365,000	205,108	570,108
2031	375,000	191,020	566,020
2032	390,000	176,020	566,020
2033	400,000	160,100	560,100
2034	415,000	143,780	558,780
2035	430,000	126,860	556,860
2036	445,000	109,340	554,340
2037	460,000	91,060	551,060
2038	480,000	71,580	551,580
2039	500,000	51,260	551,260
2040	350,000	30,100	380,100
2041	350,000	15,050	365,050
	\$ 8,605,000	\$ 4,672,899	\$ 13,277,899

Note 8 – Property Taxes

On November 3, 2009, the voters of the District authorized the District’s Board of Directors to levy taxes annually for use in financing general operations limited to \$1.50 per \$100 of assessed value; and \$0.25 per \$100 of assessed value for maintenance of road facilities. The District’s bond resolutions require that property taxes be levied for use in paying interest and principal on long-term debt and for use in paying the cost of assessing and collecting taxes. Taxes levied to finance debt service requirements on long-term debt are without limitation as to rate or amount.

Fort Bend County Municipal Utility District No. 170
Notes to Basic Financial Statements
September 30, 2017

Note 8 – Property Taxes (continued)

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

Property taxes are collected based on rates adopted in the year of the levy. The District's 2017 fiscal year was financed through the 2016 tax levy, pursuant to which the District levied property taxes of \$1.34399 per \$100 of assessed value, of which \$0.28899 was allocated to maintenance and operations, \$0.36 was allocated to debt service and \$0.695 was allocated to contract tax. The resulting tax levy was \$1,375,555 on the adjusted taxable value of \$102,348,600.

Note 9 – Transfers to Other Governments

In accordance with an agreement between the District and the City of Fulshear (the "City"), the District transfers certain facilities to the City (see Note 10). Accordingly, the District does not record these capital assets in the *Statement of Net Position*, but instead reports the completed projects as transfers to other governments on the *Statement of Activities*. For the year ended September 30, 2017, the total amount of projects completed and transferred to the City was \$530,256.

Note 10 – Utility Agreement

On November 11, 2009, the District entered into a Utility Agreement, as subsequently amended, (the "Utility Agreement") with the City of Fulshear (the "City"), for construction and extension of water distribution lines, sanitary sewer collection systems and drainage facilities (the "System") to serve the District. As the System is acquired or constructed, the District will transfer the System (except for detention ponds and drainage ditches) to the City, but will reserve a security interest in the System. The Utility Agreement expires on November 11, 2045, which is 30 years from the year after the year the District first issued unlimited tax bonds.

The City will establish water and sewer rates and charges to all users in the District. All revenue derived from these charges belongs to the City.

The City levies and collects ad valorem taxes on taxable property within the District as it does with any other property located in the City. Pursuant to the Utility Agreement, the City has agreed to rebate to the District all of the City's ad valorem tax revenue from the property in the District in excess of \$0.10 per \$100 of assessed value. The City will continue to pay the tax rebate for 30 years from the year after the year the District first issued unlimited tax bonds. If the City's tax rate is equal to or less than \$0.10 then no tax rebate is due. The City will pay the rebate portion of the taxes actually collected to the District on February 28th of the year following the year in which the taxes are levied and quarterly thereafter until the tax rebate has been paid in full. The amount of rebate payment will vary with changes in the City's tax rate and the District's appraised valuation and growth rate. Consequently the amounts subject to rebate by the City will vary year to year. During the current year, the District recorded revenues of \$43,866 in rebates from the City.

Fort Bend County Municipal Utility District No. 170
Notes to Basic Financial Statements
September 30, 2017

Note 11 – Master District

On November 11, 2009, the District entered into a Contract for Financing, Operation and Maintenance of Regional Facilities (the “Contract”) with Fort Bend County Municipal Utility District No. 169 (the “Master District”), as subsequently amended, whereby the Master District agrees to provide or cause to be provided the regional water, wastewater, drainage, park and recreational and road facilities necessary to serve all districts located within the Master District’s service area, which is approximately 3,294 acres (which includes the District). Facilities (other than parks, detention ponds, drainage ditches and non-potable water facilities) are conveyed to, or accepted by, the City of Fulshear (the “City”) pursuant to a Utility Agreement between the City and the Master District and City ordinance.

The Master District will charge each participating district a monthly fee for Master District operating and maintenance expenses based on the unit cost per connection, currently \$30, multiplied by the number of equivalent single-family connections reserved to the district. During the current year, the District recorded \$215,550 for the District’s share of Master District operating and maintenance expenses pursuant to the Contract.

The Master District will finance park and recreational facilities by imposing park construction charges on all participating districts. These park construction charges will be calculated by the Master District from time to time based on each participating district’s pro-rata share of total connections and total construction costs, as of the date the park construction charges are imposed. The District will be obligated to issue park bonds, or use available surplus operating funds, to pay the park construction charges, but the District is not required to issue park bonds in an amount that exceeds any legal limit. Under Chapter 49 of the Texas Water Code, the outstanding principal amount of park bonds may not exceed an amount equal to one percent of the value of the taxable property in the District.

The Master District is authorized to issue contract revenue bonds for the purpose of acquiring and constructing regional water, wastewater, drainage and road facilities needed to provide services to all participating districts. The District shall contribute annually to the payment of debt service requirements based on its annual pro rata share of the total certified assessed valuation of all participating districts. As of September 30, 2017, the District’s pro rata share is 9.37%. The District levied a contract tax rate of \$0.695 per \$100 of assessed valuation and paid \$667,842 to the Master District for contract tax collections.

Fort Bend County Municipal Utility District No. 170
Notes to Basic Financial Statements
September 30, 2017

Note 11 – Master District (continued)

As of September 30, 2017, the Master District has \$99,205,000 contract revenue bonds outstanding. The Master District's debt service requirements on contract revenue bonds outstanding are as follows:

Year	Principal	Interest	Total
2018	\$ 3,105,000	\$ 3,553,491	\$ 6,658,491
2019	3,530,000	3,485,213	7,015,213
2020	3,675,000	3,364,664	7,039,664
2021	3,760,000	3,241,459	7,001,459
2022	3,845,000	3,115,883	6,960,883
2023 - 2027	19,120,000	13,715,031	32,835,031
2028 - 2032	21,960,000	10,177,153	32,137,153
2033 - 2037	25,145,000	5,462,731	30,607,731
2038 - 2042	14,365,000	1,119,478	15,484,478
2043	700,000	12,250	712,250
	<u>\$ 99,205,000</u>	<u>\$ 47,247,353</u>	<u>\$ 146,452,353</u>

The Contract also authorizes the establishment of an operating and maintenance reserve by the Master District equivalent to three months' operating and maintenance expenses, as set forth in the Master District's annual budget. The Master District shall bill the District an amount calculated by multiplying the monthly fee (as described above) by three in order to provide the initial funding required to establish the reserve. The Master District shall adjust the reserve as needed, not less than annually. The Master District has not yet established the operating and maintenance reserve.

Note 12 – Risk Management

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

Note 13 – Economic Dependency

The District is dependent upon its developers for operating advances. The developers continue to own a substantial portion of the taxable property within the District. The developers' willingness to make future operating advances and/or to pay property taxes will directly affect the District's ability to meet its future obligations.

Fort Bend County Municipal Utility District No. 170
Notes to Basic Financial Statements
September 30, 2017

Note 14 – Subsequent Events

On November 8, 2017, the Master District issued its \$8,440,000 Series 2017B Contract Revenue Bonds at a net effective rate of 3.433499%. Proceeds from the bonds were used to reimburse developers for the construction of road facilities to serve the Master District service area.

On December 6, 2017, the District issued its \$1,335,000 Series 2017 Unlimited Tax Park Bonds at a net effective rate of 3.899251%. Proceeds from the bonds were used to pay park construction charges to the Master District for the District's share of regional park and recreational facilities.

Required Supplementary Information

*Fort Bend County Municipal Utility District No. 170
 Required Supplementary Information - Budgetary Comparison Schedule - General Fund
 For the Year Ended September 30, 2017*

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues			
Property taxes	\$ 243,160	\$ 285,929	\$ 42,769
Investment earnings		550	550
Total Revenues	<u>243,160</u>	<u>286,479</u>	<u>43,319</u>
Expenditures			
Operating and administrative			
Professional fees	74,000	143,124	(69,124)
Contracted services	11,000	10,640	360
Master District fees	228,450	215,550	12,900
Administrative	19,090	16,739	2,351
Total Expenditures	<u>332,540</u>	<u>386,053</u>	<u>(53,513)</u>
Revenues Under Expenditures	(89,380)	(99,574)	(10,194)
Fund Balance			
Beginning of the year	256,006	256,006	
End of the year	<u>\$ 166,626</u>	<u>\$ 156,432</u>	<u>\$ (10,194)</u>

Fort Bend County Municipal Utility District No. 170
Notes to Required Supplementary Information
September 30, 2017

Budgets and Budgetary Accounting

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

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Texas Supplementary Information

Fort Bend County Municipal Utility District No. 170
 TSI-1. Services and Rates
 September 30, 2017

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

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

2. Retail Service Providers N/A

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

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

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

District employs winter averaging for wastewater usage? Yes No

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

b. Water and Wastewater Retail Connections:

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

See accompanying auditor's report.

*Fort Bend County Municipal Utility District No. 170
 TSI-2 General Fund Expenditures
 For the Year Ended September 30, 2017*

Professional fees		
Legal	\$	132,877
Audit		9,000
Engineering		1,247
		<u>143,124</u>
Contracted services		
Bookkeeping		<u>10,640</u>
Master District fees		<u>215,550</u>
Administrative		
Directors fees		8,850
Printing and office supplies		1,127
Insurance		4,642
Other		2,120
		<u>16,739</u>
Total expenditures	\$	<u><u>386,053</u></u>

Reporting of Utility Services in Accordance with HB 3693:

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

See accompanying auditors' report.

*Fort Bend County Municipal Utility District No. 170
 TSI-3. Investments
 September 30, 2017*

Fund	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year
General				
TexPool	7946300001	Variable	N/A	\$ 48,446
Debt Service				
TexPool	7946300003	Variable	N/A	400,490
TexPool	7946300004	Variable	N/A	117,282
				<u>517,772</u>
Capital Projects				
TexPool	7946300002	Variable	N/A	<u>586,667</u>
Total - All Funds				<u>\$ 1,152,885</u>

See accompanying auditors' report.

Fort Bend County Municipal Utility District No. 170
TSI-4. Taxes Levied and Receivable
September 30, 2017

	Maintenance Taxes	Contract Taxes	Debt Service Taxes	Totals
Taxes Receivable, Beginning of Year	\$ -	\$ -	\$ -	\$ -
2016 Original Tax Levy	289,632	696,545	360,800	1,346,977
Adjustments	6,145	14,778	7,655	28,578
Adjusted Tax Levy	295,777	711,323	368,455	1,375,555
Tax collections				
Current year	295,777	711,323	368,455	1,375,555
Taxes Receivable, End of Year	\$ -	\$ -	\$ -	\$ -
	2016	2015	2014	2013
Property Valuations				
Land	\$ 43,510,470	\$ 34,406,690	\$ 30,722,050	\$ 22,614,110
Improvements	59,772,860	45,195,010	20,350,600	4,774,480
Personal Property	903,810	171,780	122,570	45,860
Exemptions	(1,838,540)	(1,726,832)	(873,123)	(818,143)
Total Property Valuations	\$ 102,348,600	\$ 78,046,648	\$ 50,322,097	\$ 26,616,307
Tax Rates per \$100 Valuation				
Maintenance tax rates	\$ 0.28899	\$ 0.29426	\$ 0.6276	\$ 0.6038
Contract tax rates	0.69500	0.69500	0.6950	0.7000
Debt service tax rates	0.36000	0.35000		
Total Tax Rates per \$100 Valuation	\$ 1.34399	\$ 1.33926	\$ 1.3226	\$ 1.3038
Adjusted Tax Levy	\$ 1,375,555	\$ 1,045,248	\$ 665,560	\$ 347,023
Percentage of Taxes Collected to Taxes Levied **	100.00%	100.00%	100.00%	100.00%

* Maximum maintenance tax rate approved by voters for water, wastewater, drainage and recreational facilities: \$1.50 on November 3, 2009

** Maximum maintenance tax rate approved by voters for road facilities: \$0.25 on November 3, 2009

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

See accompanying auditors' report.

*Fort Bend County Municipal Utility District No. 170
 TSI-5. Long-Term Debt Service Requirements
 Series 2014--by Years
 September 30, 2017*

Due During Fiscal Years Ending	Principal Due September 1	Interest Due March 1, September 1	Total
2018	\$ 105,000	\$ 160,901	\$ 265,901
2019	110,000	158,801	268,801
2020	115,000	156,601	271,601
2021	125,000	154,014	279,014
2022	130,000	150,889	280,889
2023	140,000	147,314	287,314
2024	145,000	143,114	288,114
2025	155,000	138,764	293,764
2026	165,000	133,726	298,726
2027	175,000	127,951	302,951
2028	185,000	121,826	306,826
2029	195,000	115,120	310,120
2030	205,000	107,808	312,808
2031	215,000	100,120	315,120
2032	230,000	91,520	321,520
2033	240,000	82,320	322,320
2034	255,000	72,720	327,720
2035	270,000	62,520	332,520
2036	285,000	51,720	336,720
2037	300,000	40,320	340,320
2038	320,000	27,720	347,720
2039	340,000	14,280	354,280
	<u>\$ 4,405,000</u>	<u>\$ 2,360,069</u>	<u>\$ 6,765,069</u>

See accompanying auditors' report.

*Fort Bend County Municipal Utility District No. 170
 TSI-5. Long-Term Debt Service Requirements
 Series 2016--by Years
 September 30, 2017*

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2018	\$ 150,000	\$ 155,220	\$ 305,220
2019	150,000	152,220	302,220
2020	160,000	149,220	309,220
2021	160,000	145,620	305,620
2022	160,000	141,620	301,620
2023	160,000	137,220	297,220
2024	160,000	132,420	292,420
2025	160,000	127,300	287,300
2026	160,000	121,860	281,860
2027	160,000	116,100	276,100
2028	160,000	110,100	270,100
2029	160,000	103,700	263,700
2030	160,000	97,300	257,300
2031	160,000	90,900	250,900
2032	160,000	84,500	244,500
2033	160,000	77,780	237,780
2034	160,000	71,060	231,060
2035	160,000	64,340	224,340
2036	160,000	57,620	217,620
2037	160,000	50,740	210,740
2038	160,000	43,860	203,860
2039	160,000	36,980	196,980
2040	350,000	30,100	380,100
2041	350,000	15,050	365,050
	<u>\$ 4,200,000</u>	<u>\$ 2,312,830</u>	<u>\$ 6,512,830</u>

See accompanying auditors' report.

Fort Bend County Municipal Utility District No. 170
TSI-5. Long-Term Debt Service Requirements
All Bonded Debt Series--by Years
September 30, 2017

Due During Fiscal Years Ending	Principal Due September 1	Interest Due March 1, September 1	Total
2018	\$ 255,000	\$ 316,121	\$ 571,121
2019	260,000	311,021	571,021
2020	275,000	305,821	580,821
2021	285,000	299,634	584,634
2022	290,000	292,509	582,509
2023	300,000	284,534	584,534
2024	305,000	275,534	580,534
2025	315,000	266,064	581,064
2026	325,000	255,586	580,586
2027	335,000	244,051	579,051
2028	345,000	231,926	576,926
2029	355,000	218,820	573,820
2030	365,000	205,108	570,108
2031	375,000	191,020	566,020
2032	390,000	176,020	566,020
2033	400,000	160,100	560,100
2034	415,000	143,780	558,780
2035	430,000	126,860	556,860
2036	445,000	109,340	554,340
2037	460,000	91,060	551,060
2038	480,000	71,580	551,580
2039	500,000	51,260	551,260
2040	350,000	30,100	380,100
2041	350,000	15,050	365,050
	<u>\$ 8,605,000</u>	<u>\$ 4,672,899</u>	<u>\$ 13,277,899</u>

See accompanying auditors' report.

*Fort Bend County Municipal Utility District No. 170
TSI-6. Change in Long-Term Bonded Debt
September 30, 2017*

	Bond Issue		Totals
	Series 2014	Series 2016	
Interest rate	2.00% - 4.20%	2.00% - 4.30%	
Dates interest payable	3/1; 9/1	3/1; 9/1	
Maturity dates	9/1/16 - 9/1/39	9/1/18 - 9/1/41	
Beginning bonds outstanding	\$ 4,505,000	\$ -	\$ 4,505,000
Bonds issued		4,200,000	4,200,000
Bonds retired	(100,000)		(100,000)
Ending bonds outstanding	<u>\$ 4,405,000</u>	<u>\$ 4,200,000</u>	<u>\$ 8,605,000</u>
Interest paid during fiscal year	<u>\$ 162,901</u>	<u>\$ 116,415</u>	<u>\$ 279,316</u>
Paying agent's name and city All Series	<u>The Bank Of New York Mellon Trust Company, N.A., Dallas, Texas</u>		

Bond Authority:	Water, Sewer and Drainage Bonds	Park Bonds	Road Bonds
Amount Authorized by Voters	\$ 126,140,000	\$ 69,860,000	\$ 50,400,000
Amount Issued	(8,800,000)		
Remaining To Be Issued	<u>\$ 117,340,000</u>	<u>\$ 69,860,000</u>	<u>\$ 50,400,000</u>

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

Debt Service Fund cash and investments balances as of September 30, 2017:	<u>\$ 542,237</u>
Average annual debt service payment (principal and interest) for remaining term of all debt:	<u>\$ 553,246</u>

See accompanying auditors' report.

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Fort Bend County Municipal Utility District No. 170
TSI-7a. Comparative Schedule of Revenues and Expenditures - General Fund
For the Last Five Fiscal Years

	Amounts				
	2017	2016	2015	2014	2013
Revenues					
Property taxes	\$ 285,929	\$ 229,660	\$ 315,822	\$ 160,975	\$ 95,041
Investment earnings	550	257	174	35	
Total Revenues	<u>286,479</u>	<u>229,917</u>	<u>315,996</u>	<u>161,010</u>	<u>95,041</u>
Expenditures					
Operating and administrative					
Professional fees	143,124	45,415	36,228	40,082	37,634
Contracted services	10,640	13,375	18,596	14,247	12,602
Master District fees	215,550	154,440	81,960	74,160	35,640
Administrative	16,739	14,227	12,551	14,138	12,865
Other					820
Total Expenditures	<u>386,053</u>	<u>227,457</u>	<u>149,335</u>	<u>142,627</u>	<u>99,561</u>
Revenues Over (Under) Expenditures	<u>\$ (99,574)</u>	<u>\$ 2,460</u>	<u>\$ 166,661</u>	<u>\$ 18,383</u>	<u>\$ (4,520)</u>

*Percentage is negligible

See accompanying auditors' report.

Percent of Fund Total Revenues

2017	2016	2015	2014	2013
100%	100%	100%	100%	100%
*	*	*	*	
100%	100%	100%	100%	100%
50%	20%	11%	25%	40%
4%	6%	6%	9%	13%
75%	67%	26%	46%	37%
6%	6%	4%	9%	14%
				1%
135%	99%	47%	89%	105%
(35%)	1%	53%	11%	(5%)

Fort Bend County Municipal Utility District No. 170
TSI-7b. Comparative Schedule of Revenues and Expenditures - Debt Service Fund
For the Last Five Fiscal Years

	Amounts				
	2017	2016	2015	2014	2013
Revenues					
Property taxes	\$ 1,089,642	\$ 816,346	\$ 349,798	\$ 186,142	\$ 108,114
Penalties and interest	6,785	6,776	2,205	1,462	3
City of Fulshear tax rebate	43,866	37,142	24,574		
Accrued interest on bonds sold	8,623		1,373		
Miscellaneous	250	130	200		240
Investment earnings	6,180	968	607	126	88
Total Revenues	<u>1,155,346</u>	<u>861,362</u>	<u>378,757</u>	<u>187,730</u>	<u>108,445</u>
Expenditures					
Tax collection services	18,807	11,321			
Administrative			2,644	1,805	322
Debt service					
Principal	100,000	95,000			
Interest and fees	281,566	165,551	328,103	176,732	106,650
Contractual obligation	667,842	513,757	124,351		
Total Expenditures	<u>1,068,215</u>	<u>785,629</u>	<u>455,098</u>	<u>178,537</u>	<u>106,972</u>
Revenues Over (Under) Expenditures	<u>\$ 87,131</u>	<u>\$ 75,733</u>	<u>\$ (76,341)</u>	<u>\$ 9,193</u>	<u>\$ 1,473</u>
Total Active Retail Water Connections	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Total Active Retail Wastewater Connections	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

*Percentage is negligible

See accompanying auditors' report.

Percent of Fund Total Revenues

2017	2016	2015	2014	2013
93%	95%	92%	99%	100%
1%	1%	1%	1%	*
4%	4%	7%		
1%		*		
*	*	*		*
1%	*	*	*	*
100%	100%	100%	100%	100%
2%	1%			
		1%	1%	*
9%	11%			
24%	19%	87%	94%	98%
58%	60%	33%		
93%	91%	121%	95%	98%
7%	9%	(21%)	5%	2%

Fort Bend County Municipal Utility District No. 170
TSI-8. Board Members, Key Personnel and Consultants
For the Year Ended September 30, 2017

Complete District Mailing Address: 3200 Southwest Freeway, Suite 2600, Houston, TX 77027
 District Business Telephone Number: (713) 860-6400
 Submission Date of the most recent District Registration Form
 (TWC Sections 36.054 and 49.054): July 11, 2017
 Limit on Fees of Office that a Director may receive during a fiscal year: \$ 7,200
 (Set by Board Resolution -- TWC Section 49.0600)

Names:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid *	Expense Reimburse- ments	Title at Year End
Board Members				
CJ McDaniel	7/17 - 5/18	\$ 600	\$ 132	President
Lisa Johns	6/16 - 5/20	2,100	138	Vice President
Kela Sumrall	6/16 - 5/20	900	148	Secretary
Cathy Verret	5/14 - 5/18	2,250	376	Assistant Vice President
Cindy Morrow	6/16 - 5/20	2,100	240	Assistant Secretary
Karen J. Useary	5/14 - 7/17	900		Former Director
Consultants				
Allen Boone Humphries Robinson LLP	8/08	<u>Amounts Paid</u>		Attorney
<i>General legal fees</i>		\$ 107,200		
<i>Bond counsel</i>		120,000		
Andrews Kurth Kenyon LLP	10/16	31,309		Litigation Attorney
F. Matuska, Inc.	2/10	11,961		Bookkeeper
Assessments of the Southwest, Inc.	11/08	8,620		Tax Collector
Fort Bend Central Appraisal District	Legislation	8,272		Property Valuation
Perdue, Brandon, Fielder, Collins & Mott, L.L.P.	11/08	1,879		Delinquent Tax Attorney
Brown & Gay Engineers	11/08	1,247		Engineer
McGrath & Co, PLLC	Annual	14,000		Auditor
FirstSouthwest, a Division of Hilltop Securities	11/08	83,172		Financial Advisor

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

See accompanying auditors' report.

**FORT BEND COUNTY MUNICIPAL
UTILITY DISTRICT NO. 171**

FORT BEND COUNTY, TEXAS

FINANCIAL REPORT

September 30, 2017

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McGrath & Co., PLLC

Certified Public Accountants

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Houston, Texas 77277

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Colette M. Garcia CPA
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Independent Auditors' Report

Board of Directors
Fort Bend County Municipal Utility District No. 171
Fort Bend County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Fort Bend County Municipal Utility District No. 171, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

*Board of Directors
Fort Bend County Municipal Utility District No. 171
Fort Bend County, Texas*

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Fort Bend County Municipal Utility District No. 171, as of September 30, 2017, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other-Matters

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The Texas Supplementary Information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Texas Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied to the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

McGuire & Co, P.C.

Houston, Texas
January 8, 2018

Management's Discussion and Analysis

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***Fort Bend County Municipal Utility District No. 171
Management's Discussion and Analysis
September 30, 2017***

Using this Annual Report

Within this section of the financial report of Fort Bend County Municipal Utility District No. 171 (the "District"), the District's Board of Directors provides a narrative discussion and analysis of the financial activities of the District for the fiscal year ended September 30, 2017. This analysis should be read in conjunction with the independent auditors' report and the basic financial statements that follow this section.

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

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

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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

Fort Bend County Municipal Utility District No. 171
Management's Discussion and Analysis
September 30, 2017

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

Fund Financial Statements

The fund financial statements include the *Governmental Funds Balance Sheet* and the *Governmental Funds Revenues, Expenditures and Changes in Fund Balances*. The focus of fund financial statements is on specific activities of the District rather than the District as a whole, reported using modified accrual accounting. These statements report on the District's use of available financial resources and the balances of available financial resources at the end of the year. Except for the General Fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties, governmental statutes or regulations.

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

Financial Analysis of the District as a Whole

The District's net position at September 30, 2017, was negative \$8,802,302. The District's net position is negative because the District incurs debt to construct water, sewer and drainage facilities which it conveys to the City of Fulshear. A comparative summary of the District's overall financial position, as of September 30, 2017 and 2016, is as follows:

	2017	2016
Current and other assets	\$ 2,439,005	\$ 3,937,525
Capital assets	3,077,876	1,427,842
Total assets	<u>5,516,881</u>	<u>5,365,367</u>
Current liabilities	510,526	483,926
Long-term liabilities	13,808,657	14,234,971
Total liabilities	<u>14,319,183</u>	<u>14,718,897</u>
Net position		
Net investment in capital assets	(425,388)	(476,622)
Restricted	1,572,853	1,444,024
Unrestricted	(9,949,767)	(10,320,932)
Total net position	<u>\$ (8,802,302)</u>	<u>\$ (9,353,530)</u>

**Fort Bend County Municipal Utility District No. 171
Management's Discussion and Analysis
September 30, 2017**

The total net position of the District increased during the current fiscal year by \$551,228. A comparative summary of the District's *Statement of Activities* for the past two years is as follows:

	2017	2016
Revenues		
Property taxes, penalties and interest	\$ 4,243,819	\$ 4,245,774
City of Fulshear tax rebate	177,871	192,927
Capacity charges		97,193
Other	7,813	7,613
Total revenues	<u>4,429,503</u>	<u>4,543,507</u>
Expenses		
Operating and administrative	562,915	474,812
Interest and fees	749,222	770,166
Contractual obligation	2,474,014	2,382,953
Amortization	92,124	37,682
Total expenses	<u>3,878,275</u>	<u>3,665,613</u>
Change in net position before other item	551,228	877,894
Other item		
Transfers to other governments		<u>(377,400)</u>
Change in net position	551,228	500,494
Net position, beginning of year	<u>(9,353,530)</u>	<u>(9,854,024)</u>
Net position, end of year	<u>\$ (8,802,302)</u>	<u>\$ (9,353,530)</u>

Financial Analysis of the District's Funds

The District's combined fund balances, as of September 30, 2017, were \$2,396,378, which consists of \$471,871 in the General Fund, \$1,600,379 in the Debt Service Fund and \$324,128 in the Capital Projects Fund.

General Fund

A comparative summary of the General Fund's financial position as of September 30, 2017 and 2016 is as follows:

	2017	2016
Total assets	<u>\$ 483,777</u>	<u>\$ 2,062,836</u>
Total liabilities	\$ 7,279	\$ 5,109
Total deferred inflows	4,627	6,655
Total fund balance	<u>471,871</u>	<u>2,051,072</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 483,777</u>	<u>\$ 2,062,836</u>

*Fort Bend County Municipal Utility District No. 171
Management's Discussion and Analysis
September 30, 2017*

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

	2017	2016
Total revenues	\$ 626,302	\$ 819,167
Total expenditures	(2,205,503)	(423,827)
Revenues over/(under) expenditures	<u>\$ (1,579,201)</u>	<u>\$ 395,340</u>

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

The District's expenditures increased during the current year due to the payment of \$1,742,158 in Master District park construction charges from surplus operating funds. Additional information is presented in Note 10.

Debt Service Fund

A comparative summary of the Debt Service Fund's financial position as of September 30, 2017 and 2016 is as follows:

	2017	2016
Total assets	<u>\$ 1,631,100</u>	<u>\$ 1,502,841</u>
Total liabilities	\$ 1,209	\$ 116
Total deferred inflows	29,512	35,566
Total fund balance	1,600,379	1,467,159
Total liabilities, deferred inflows and fund balance	<u>\$ 1,631,100</u>	<u>\$ 1,502,841</u>

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

	2017	2016
Total revenues	\$ 3,810,682	\$ 3,599,487
Total expenditures	(3,677,462)	(3,576,386)
Revenues over expenditures	<u>\$ 133,220</u>	<u>\$ 23,101</u>

Fort Bend County Municipal Utility District No. 171
Management's Discussion and Analysis
September 30, 2017

The District's financial resources in the Debt Service Fund in both the current year and prior year are from property tax revenues and City of Fulshear tax rebates. The difference between these financial resources and debt service requirements/contractual obligations resulted in an increase in fund balance each year. It is important to note that the District sets its annual debt service tax rate as recommended by its financial advisor, who monitors projected cash flows in the Debt Service Fund to ensure that the District will be able to meet its future debt service requirements and its contract obligation to Fort Bend County Municipal Utility District No. 169.

Capital Projects Fund

A comparative summary of the Capital Projects Fund's financial position as of September 30, 2017 and 2016 is as follows:

	2017	2016
Total assets	<u>\$ 324,128</u>	<u>\$ 371,848</u>
Total fund balance	<u>\$ 324,128</u>	<u>\$ 371,848</u>

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

	2017	2016
Total revenues	\$ 602	\$ 97,703
Total expenditures	(48,322)	(5,590)
Revenues over/(under) expenditures	<u>\$ (47,720)</u>	<u>\$ 92,113</u>

The District has not had any significant capital asset activity in the last two years.

General Fund Budgetary Highlights

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

Since the District's budget is primarily a planning tool, actual results varied from the budgeted amounts. Actual net change in fund balance was \$1,844,771 less than budgeted. The *Budgetary Comparison Schedule* on page 32 of this report provides variance information per financial statement line item.

Capital Assets

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

Fort Bend County Municipal Utility District No. 171
Management's Discussion and Analysis
September 30, 2017

Capital assets held by the District at September 30, 2017 and 2016 are summarized as follows:

	<u>2017</u>	<u>2016</u>
Capital assets not being depreciated		
Land and improvements	\$ 222,028	\$ 222,028
Capital assets being amortized		
Interest in regional park facilities	3,098,700	1,356,542
Less accumulated amortization	(242,852)	(150,728)
Depreciable capital assets, net	<u>2,855,848</u>	<u>1,205,814</u>
Capital assets, net	<u>\$ 3,077,876</u>	<u>\$ 1,427,842</u>

The District and the City of Fulshear (the "City") have entered into an agreement which obligates the District to construct water, wastewater and storm drainage facilities to serve the District and, when completed, to convey these facilities to the City. Additional information is presented in Note 9.

Long-Term Debt and Related Liabilities

As of September 30, 2017, the District owes \$377,400 to developer for completed projects. The District intends to reimburse the developer from proceeds of future bond issues or other lawfully available funds.

At September 30, 2017 and 2016, the District had total bonded debt outstanding as shown below:

<u>Series</u>	<u>2017</u>	<u>2016</u>
2009	\$ 2,785,000	\$ 2,865,000
2010	4,495,000	4,615,000
2011	3,820,000	3,920,000
2011A	1,600,000	1,680,000
2012 Park	1,525,000	1,565,000
	<u>\$ 14,225,000</u>	<u>\$ 14,645,000</u>

At September 30, 2017, the District had \$54,188,000 unlimited tax bonds authorized, but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District and related refunding purposes; \$35,500,000 for parks and recreational facilities and related refunding purposes; and \$17,150,000 for road improvements and related refunding purposes.

*Fort Bend County Municipal Utility District No. 171
Management's Discussion and Analysis
September 30, 2017*

Next Year's Budget

In establishing the budget for the next fiscal year, the Board considered various economic factors that may affect the District, most notably projected revenues from property taxes and the projected cost of operating the District. A comparison of next year's budget to current year actual amounts for the General Fund is as follows:

	<u>2017 Actual</u>	<u>2018 Budget</u>
Total revenues	\$ 626,302	\$ 497,600
Total expenditures	<u>(2,205,503)</u>	<u>(475,430)</u>
Revenues over/(under) expenditures	(1,579,201)	22,170
Beginning fund balance	<u>2,051,072</u>	<u>471,871</u>
Ending fund balance	<u><u>\$ 471,871</u></u>	<u><u>\$ 494,041</u></u>

Property Taxes

The District's property tax base decreased approximately \$15,397,000 for the 2017 tax year from \$377,484,945 to \$362,087,455. For the 2017 tax year, the District has levied a maintenance tax rate of \$0.14 per \$100 of assessed value, a debt service tax rate of \$0.2825 per \$100 of assessed value, and a contract tax rate of \$0.695 per \$100 of assessed value, for a total combined tax rate of \$1.1175 per \$100. Tax rates for the 2016 tax year were \$0.165 per \$100 for maintenance and operations, \$0.26 per \$100 for debt service, and \$0.695 for contract tax.

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Basic Financial Statements

*Fort Bend County Municipal Utility District No. 171
Statement of Net Position and Governmental Funds Balance Sheet
September 30, 2017*

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
Assets						
Cash	\$ 479,186	\$ 1,601,552	\$ 324,128	\$ 2,404,866	\$ -	\$ 2,404,866
Taxes receivable	4,627	29,512		34,139		34,139
Internal balances	(36)	36				
Capital assets not being depreciated					222,028	222,028
Capital assets, net					2,855,848	2,855,848
Total Assets	<u>\$ 483,777</u>	<u>\$ 1,631,100</u>	<u>\$ 324,128</u>	<u>\$ 2,439,005</u>	<u>3,077,876</u>	<u>5,516,881</u>
Liabilities						
Accounts payable	\$ 7,122	\$ -	\$ -	\$ 7,122		7,122
Other payables	157	1,209		1,366		1,366
Accrued interest payable					57,038	57,038
Due to developer					377,400	377,400
Long-term debt						
Due within one year					445,000	445,000
Due after one year					13,431,257	13,431,257
Total Liabilities	<u>7,279</u>	<u>1,209</u>		<u>8,488</u>	<u>14,310,695</u>	<u>14,319,183</u>
Deferred Inflows of Resources						
Deferred property taxes	<u>4,627</u>	<u>29,512</u>		<u>34,139</u>	<u>(34,139)</u>	
Fund Balances/Net Position						
Fund Balances						
Restricted		1,600,379	324,128	1,924,507	(1,924,507)	
Unassigned	471,871			471,871	(471,871)	
Total Fund Balances	<u>471,871</u>	<u>1,600,379</u>	<u>324,128</u>	<u>2,396,378</u>	<u>(2,396,378)</u>	
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 483,777</u>	<u>\$ 1,631,100</u>	<u>\$ 324,128</u>	<u>\$ 2,439,005</u>		
Net Position						
Net investment in capital assets					(425,388)	(425,388)
Restricted for debt service					1,572,853	1,572,853
Unrestricted					(9,949,767)	(9,949,767)
Total Net Position					<u>\$ (8,802,302)</u>	<u>\$ (8,802,302)</u>

See notes to basic financial statements.

*Fort Bend County Municipal Utility District No. 171
Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances
For the Year Ended September 30, 2017*

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
Revenues						
Property taxes	\$ 624,530	\$ 3,606,642	\$ -	\$ 4,231,172	\$ (6,846)	\$ 4,224,326
Penalties and interest		20,730		20,730	(1,237)	19,493
City of Fulshear tax rebate		177,871		177,871		177,871
Investment earnings	1,772	5,439	602	7,813		7,813
Total Revenues	<u>626,302</u>	<u>3,810,682</u>	<u>602</u>	<u>4,437,586</u>	<u>(8,083)</u>	<u>4,429,503</u>
Expenditures/Expenses						
Operating and administrative						
Professional fees	149,698			149,698		149,698
Contracted services	11,190	49,134		60,324		60,324
Master District fees	323,640			323,640		323,640
Administrative	19,387	2,114	252	21,753		21,753
Other			7,500	7,500		7,500
Capital outlay	1,701,588		40,570	1,742,158	(1,742,158)	
Debt service						
Principal		420,000		420,000	(420,000)	
Interest and fees		732,200		732,200	17,022	749,222
Contractual obligation		2,474,014		2,474,014		2,474,014
Amortization					92,124	92,124
Total Expenditures/Expenses	<u>2,205,503</u>	<u>3,677,462</u>	<u>48,322</u>	<u>5,931,287</u>	<u>(2,053,012)</u>	<u>3,878,275</u>
Revenues Over (Under)						
Expenditures	(1,579,201)	133,220	(47,720)	(1,493,701)	1,493,701	
Change in Net Position						
Fund Balance/Net Position					551,228	551,228
Beginning of the year	2,051,072	1,467,159	371,848	3,890,079	(13,243,609)	(9,353,530)
End of the year	<u>\$ 471,871</u>	<u>\$ 1,600,379</u>	<u>\$ 324,128</u>	<u>\$ 2,396,378</u>	<u>\$ (11,198,680)</u>	<u>\$ (8,802,302)</u>

See notes to basic financial statements.

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Fort Bend County Municipal Utility District No. 171
Notes to Basic Financial Statements
September 30, 2017

Note 1 – Summary of Significant Accounting Policies

The accounting policies of Fort Bend County Municipal Utility District No. 171 (the “District”) conform with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board. The following is a summary of the most significant policies:

Creation

The District was organized, created and established pursuant to an order of the Texas Commission on Environmental Quality dated August 21, 2007, and operates in accordance with the Texas Water Code, Chapters 49 and 54. The Board of Directors held its first meeting on August 30, 2007, and the first bonds were sold on November 16, 2009.

The District’s primary activities include construction of water, sewer, drainage, recreational and road facilities. As further discussed in Note 9, the District transfers certain facilities to the City of Fulshear (the “City”) for operation and maintenance upon completion of construction. The District has contracted with various consultants to provide services to operate and administer the affairs of the District. The District has no employees, related payroll or pension costs.

Reporting Entity

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

Government-Wide and Fund Financial Statements

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

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

*Fort Bend County Municipal Utility District No. 171
Notes to Basic Financial Statements
September 30, 2017*

Note 1 – Summary of Significant Accounting Policies (continued)

Government-Wide and Fund Financial Statements (continued)

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

- The General Fund is used to account for the operations of the District and all other financial transactions not reported in other funds. The principal source of revenue is property taxes. Expenditures include costs associated with the daily operations of the District.
- The Debt Service Fund is used to account for the payment of interest and principal on the District's general long-term debt and contractual obligations to Fort Bend County Municipal Utility District No. 169 (the "Master District"). The primary sources of revenue for debt service are property taxes and City of Fulshear tax rebates. Expenditures include costs incurred in assessing and collecting these taxes.
- The Capital Projects Fund is used to account for the expenditures of bond proceeds for the construction of the District's water, sewer and drainage facilities and the Master District's regional park facilities.

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

Measurement Focus and Basis of Accounting

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

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

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

*Fort Bend County Municipal Utility District No. 171
Notes to Basic Financial Statements
September 30, 2017*

Note 1 – Summary of Significant Accounting Policies (continued)

Use of Restricted Resources

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

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Receivables from and payables to external parties are reported separately and are not offset, unless a legal right of offset exists. At September 30, 2017, an allowance for uncollectible accounts was not considered necessary.

Interfund Activity

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

Capital Assets

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

The District's interest in regional park facilities is amortized using the straight-line method over the remaining life of the District's contract with Fort Bend County Municipal Utility District No. 169.

Deferred Inflows and Outflows of Financial Resources

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

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

Fort Bend County Municipal Utility District No. 171
Notes to Basic Financial Statements
September 30, 2017

Note 1 – Summary of Significant Accounting Policies (continued)

Fund Balances – Governmental Funds

Governmental accounting standards establish the following fund balance classifications:

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

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

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

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

Unassigned - all other spendable amounts in the General Fund.

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

Use of Estimates

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

Fort Bend County Municipal Utility District No. 171
Notes to Basic Financial Statements
September 30, 2017

Note 2 – Adjustment from Governmental to Government-wide Basis

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

Total fund balance, governmental funds		\$ 2,396,378
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.</p>		
Historical cost	\$ 3,320,728	
Less accumulated amortization	<u>(242,852)</u>	
Change due to capital assets		3,077,876
<p>Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. The difference consists of:</p>		
Bonds payable, net	(13,876,257)	
Interest payable on bonds	<u>(57,038)</u>	
Change due to long-term debt		(13,933,295)
<p>Amounts due to the District's developer for prefunded construction are recorded as a liability in the <i>Statement of Net Position</i>.</p>		
		(377,400)
<p>Property taxes receivable and related penalties and interest have been levied and are due, but are not available soon enough to pay current period expenditures and, therefore, are deferred in the funds.</p>		
Property taxes receivable	27,084	
Penalty and interest receivable	<u>7,055</u>	
Change due to property taxes		34,139
Total net position - governmental activities		<u><u>\$ (8,802,302)</u></u>

Fort Bend County Municipal Utility District No. 171
Notes to Basic Financial Statements
September 30, 2017

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

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

Net change in fund balances - total governmental funds	\$	(1,493,701)
--	----	-------------

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

	(8,083)
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Governmental funds report capital outlays as expenditures in the funds; however, in the *Statement of Activities*, the cost of capital assets is charged to expense over the estimated useful life of the asset.

Capital outlays	1,742,158
-----------------	-----------

The repayment of bond principal uses current financial resources. However, this transaction does not have any effect on net assets. Other elements of debt financing are reported differently between the fund and government wide statements.

Principal payments	\$ 420,000	
Interest expense accrual	(17,022)	
	402,978	

In the *Statement of Activities*, the cost of capital assets is charged to amortization expense over the estimated useful life of the asset.

	(92,124)
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Change in net position of governmental activities	\$ 551,228
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Note 3 – Deposits and Investments

Deposit Custodial Credit Risk

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

Fort Bend County Municipal Utility District No. 171
Notes to Basic Financial Statements
September 30, 2017

Note 3 – Deposits and Investments (continued)

Investments

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

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

Note 4 – Amounts Due to/from Other Funds

Amounts due to/from other funds at September 30, 2017, consist of the following:

	Interfund	
	Receivable	Payable
General Fund	\$ -	\$ 36
Debt Service Fund	36	
	<u>\$ 36</u>	<u>\$ 36</u>

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

Fort Bend County Municipal Utility District No. 171
Notes to Basic Financial Statements
September 30, 2017

Note 5 – Capital Assets

A summary of changes in capital assets, for the year ended September 30, 2017, is as follows:

	Beginning Balances	Additions	Ending Balances
Capital assets not being depreciated			
Land and improvements	\$ 222,028	\$ -	\$ 222,028
Capital assets being amortized			
Interest in regional park facilities	1,356,542	1,742,158	3,098,700
Less accumulated amortization	(150,728)	(92,124)	(242,852)
Subtotal depreciable capital assets, net	<u>1,205,814</u>	<u>1,650,034</u>	<u>2,855,848</u>
Capital assets, net	<u>\$ 1,427,842</u>	<u>\$ 1,650,034</u>	<u>\$ 3,077,876</u>

Amortization expense for the current year was \$92,124.

Note 6 – Due to Developer

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

The amount due to developer at September 30, 2017 is \$377,400. There was no change in this liability from the prior year.

Note 7 – Long-Term Debt

Long-term debt is comprised of the following:

Bonds payable	\$ 14,225,000
Unamortized discounts	(348,743)
	<u>\$ 13,876,257</u>
Due within one year	<u>\$ 445,000</u>

*Fort Bend County Municipal Utility District No. 171
Notes to Basic Financial Statements
September 30, 2017*

Note 7 – Long-Term Debt (continued)

The District's bonds payable at September 30, 2017, consists of unlimited tax bonds as follows:

Series	Amounts Outstanding	Original Issue	Interest Rates	Maturity Date, Serially, Beginning/ Ending	Interest Payment Dates	Call Dates
2009	\$ 2,785,000	\$ 3,240,000	4.30% - 5.875%	September 1, 2011/2034	March 1, September 1	September 1, 2018
2010	4,495,000	5,100,000	4.00% - 6.00%	September 1, 2012/2035	March 1, September 1	September 1, 2019
2011	3,820,000	4,270,000	4.00% - 5.00%	September 1, 2013/2036	March 1, September 1	September 1, 2019
2011A	1,600,000	1,760,000	4.00% - 6.00%	September 1, 2016/2038	March 1, September 1	September 1, 2020
2012 Park	1,525,000	1,600,000	3.25% - 5.75%	September 1, 2016/2038	March 1, September 1	September 1, 2021
	<u>\$ 14,225,000</u>					

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

At September 30, 2017, the District had authorized but unissued bonds in the amount of \$54,188,000 for water, sewer and drainage facilities and related refunding purposes; \$35,500,000 for park and recreational facilities and related refunding purposes; and \$17,150,000 for road improvements and refunding purposes.

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

Bonds payable, beginning of year	\$ 14,645,000
Bonds retired	(420,000)
Bonds payable, end of year	<u>\$ 14,225,000</u>

Fort Bend County Municipal Utility District No. 171
Notes to Basic Financial Statements
September 30, 2017

Note 7 – Long-Term Debt (continued)

As of September 30, 2017, annual debt service requirements on bonds outstanding are as follows:

Year	Principal	Interest	Totals
2018	\$ 445,000	\$ 708,061	\$ 1,153,061
2019	475,000	685,916	1,160,916
2020	495,000	662,038	1,157,038
2021	520,000	637,999	1,157,999
2022	555,000	613,922	1,168,922
2023	585,000	588,337	1,173,337
2024	615,000	561,072	1,176,072
2025	655,000	532,129	1,187,129
2026	695,000	500,882	1,195,882
2027	735,000	467,645	1,202,645
2028	785,000	430,692	1,215,692
2029	835,000	390,727	1,225,727
2030	885,000	348,201	1,233,201
2031	940,000	302,829	1,242,829
2032	1,000,000	254,594	1,254,594
2033	1,060,000	201,738	1,261,738
2034	1,135,000	145,424	1,280,424
2035	915,000	85,038	1,000,038
2036	515,000	37,906	552,906
2037	185,000	15,175	200,175
2038	195,000	7,761	202,761
	\$ 14,225,000	\$ 8,178,086	\$ 22,403,086

Note 8 – Property Taxes

On November 6, 2007, the voters of the District authorized the District’s Board of Directors to levy taxes annually for use in financing general maintenance and operations limited to \$1.50 per \$100 of assessed value. On November 4, 2008, the voters of the District authorized the District’s Board of Directors to levy taxes annually for maintenance of road facilities limited to \$0.25 per \$100 of assessed value. The District’s bond resolutions require that property taxes be levied for use in paying interest and principal on long-term debt and for use in paying the cost of assessing and collecting taxes. Taxes levied to finance debt service requirements on long-term debt are without limitation as to rate or amount.

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

*Fort Bend County Municipal Utility District No. 171
Notes to Basic Financial Statements
September 30, 2017*

Note 8 – Property Taxes (continued)

Property taxes are collected based on rates adopted in the year of the levy. The District’s 2017 fiscal year was financed through the 2016 tax levy, pursuant to which the District levied property taxes of \$1.12 per \$100 of assessed value, of which \$0.165 was allocated to maintenance and operations, \$0.26 was allocated to debt service and \$0.695 was allocated to contract taxes. The resulting tax levy was \$4,227,831 on the adjusted taxable value of \$377,484,945.

Property taxes receivable, at September 30, 2017, consisted of the following:

Current year taxes receivable	\$ 13,432
Prior years taxes receivable	13,652
	<u>27,084</u>
Penalty and interest receivable	7,055
Property taxes receivable	<u><u>\$ 34,139</u></u>

Note 9 – Utility Agreement

On December 18, 2007, the District entered into a Utility Agreement, as subsequently amended, (the “Utility Agreement”) with the City of Fulshear (the “City”), for construction and extension of water distribution lines, sanitary sewer collection systems and drainage facilities (the “System”) to serve the District. As the System is acquired or constructed, the District will transfer the System (except for detention ponds and drainage ditches) to the City, but will reserve a security interest in the System. The Utility Agreement expires on December 18, 2040, which is 30 years from the year after the year the District first issued unlimited tax bonds.

The City will establish water and sewer rates and charges to all users in the District. All revenue derived from these charges belongs to the City.

The City levies and collects ad valorem taxes on taxable property within the District as it does with any other property located in the City. Pursuant to the Utility Agreement, the City has agreed to rebate to the District all of the City’s ad valorem tax revenue from the property in the District in excess of \$0.10 per \$100 of assessed value. If the City’s tax rate is equal to or less than \$0.10 then no tax rebate is due. The City will pay the rebate portion of the taxes actually collected to the District on February 28th of the year following the year in which the taxes are levied and quarterly thereafter until the tax rebate has been paid in full. The amount of rebate payment will vary with changes in the City’s tax rate and the District’s appraised valuation and growth rate. Consequently, the amounts subject to rebate by the City will vary year to year. During the current year, the District recorded revenues of \$177,871 in rebates from the City.

Fort Bend County Municipal Utility District No. 171
Notes to Basic Financial Statements
September 30, 2017

Note 10 – Master District

On November 17, 2008, the District entered into a Contract for Financing, Operation and Maintenance of Regional Facilities (the “Contract”) with Fort Bend County Municipal Utility District No. 169 (the “Master District”), as subsequently amended, whereby the Master District agrees to provide or cause to be provided the regional water, wastewater, drainage, park and recreational and road facilities necessary to serve all districts located within the Master District’s service area, which is approximately 3,294 acres (which includes the District). Facilities (other than parks, detention ponds, drainage ditches and non-potable water facilities) are conveyed to or accepted by the City pursuant to a Utility Agreement between the City and the Master District and City ordinance.

The Master District will charge each participating district a monthly fee for Master District operating and maintenance expenses based on the unit cost per connection, currently \$30, multiplied by the number of equivalent single-family connections reserved to the district. During the current year, the District recorded \$323,640 for the District’s share of Master District operating and maintenance expenses pursuant to the Contract.

The Master District will finance park and recreational facilities by imposing park construction charges on all participating districts. These park construction charges will be calculated by the Master District from time to time based on each participating district’s pro-rata share of total connections and total construction costs, as of the date the park construction charges are imposed. The District will be obligated to issue bonds, or use other lawfully available funds, to pay the park construction charges, but the District is not required to issue park bonds in an amount that exceeds any legal limit. Under Chapter 49 of the Texas water Code, the outstanding principal amount of park bonds may not exceed an amount equal to one percent of the value of the taxable property in the District. During the current fiscal year, the District paid, from surplus bond proceeds and surplus operation and maintenance tax revenue, \$1,742,158 in park construction charges to the Master District.

The Master District is authorized to issue contract revenue bonds for the purpose of acquiring and constructing regional water, wastewater, drainage and road facilities needed to provide services to all participating districts. The District shall contribute annually to the payment of debt service requirements based on its annual pro rata share of the total certified assessed valuation of all participating districts. As of September 30, 2017, the District’s pro rata share is 34.61%. The District levied a contract tax rate of \$0.695 per \$100 of assessed valuation and paid \$2,474,014 to the Master District for contract tax collections.

Fort Bend County Municipal Utility District No. 171
Notes to Basic Financial Statements
September 30, 2017

Note 10 – Master District (continued)

As of September 30, 2017, the Master District had \$99,205,000 bonded debt outstanding. The Master District's debt service requirements on contract revenue bonds outstanding are as follows:

Year	Principal	Interest	Total
2018	\$ 3,105,000	\$ 3,553,491	\$ 6,658,491
2019	3,530,000	3,485,213	7,015,213
2020	3,675,000	3,364,664	7,039,664
2021	3,760,000	3,241,459	7,001,459
2022	3,845,000	3,115,883	6,960,883
2023 - 2027	19,120,000	13,715,031	32,835,031
2028 - 2032	21,960,000	10,177,153	32,137,153
2033 - 2037	25,145,000	5,462,731	30,607,731
2038 - 2042	14,365,000	1,119,478	15,484,478
2043	700,000	12,250	712,250
	\$ 99,205,000	\$ 47,247,353	\$ 146,452,353

Note 11 – Risk Management

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

Note 12 – Subsequent Event

On November 8, 2017, the Master District issued its \$8,440,000 Series 2017B Contract Revenue Bonds at a net effective rate of 3.433499%. Proceeds from the bonds were used to reimburse the District's developers for the construction of road facilities to serve the Master District service area.

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Required Supplementary Information

*Fort Bend County Municipal Utility District No. 171
 Required Supplementary Information - Budgetary Comparison Schedule - General Fund
 For the Year Ended September 30, 2017*

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues			
Property taxes	\$ 707,600	\$ 624,530	\$ (83,070)
Investment earnings	2,400	1,772	(628)
Total Revenues	<u>710,000</u>	<u>626,302</u>	<u>(83,698)</u>
Expenditures			
Operating and administrative			
Professional fees	75,000	149,698	(74,698)
Contracted services	12,000	11,190	810
Master District fees	323,640	323,640	
Administrative	33,790	19,387	14,403
Capital outlay		1,701,588	(1,701,588)
Total Expenditures	<u>444,430</u>	<u>2,205,503</u>	<u>(1,761,073)</u>
Revenues Over (Under) Expenditures	265,570	(1,579,201)	(1,844,771)
Fund Balance			
Beginning of the year	2,051,072	2,051,072	
End of the year	<u>\$ 2,316,642</u>	<u>\$ 471,871</u>	<u>\$ (1,844,771)</u>

*Fort Bend County Municipal Utility District No. 171
Notes to Required Supplementary Information
September 30, 2017*

Budgets and Budgetary Accounting

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

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Texas Supplementary Information

Fort Bend County Municipal Utility District No. 171
TSI-1. Services and Rates
September 30, 2017

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

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

2. Retail Service Providers N/A
 (You may omit this information if your district does not provide retail services)

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

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

District employs winter averaging for wastewater usage? Yes No

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

b. Water and Wastewater Retail Connections:

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

See accompanying auditor's report.

Fort Bend County Municipal Utility District No. 171
TSI-1. Services and Rates
September 30, 2017

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

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

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

Does the District have Debt Service standby fees? Yes No

If yes, Date of the most recent commission Order: _____

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

If yes, Date of the most recent commission Order: _____

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

Is the District located entirely within one county? Yes No

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

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

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

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

ETJs in which the District is located: _____

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

If Yes, by whom? _____

See accompanying auditors' report.

*Fort Bend County Municipal Utility District No. 171
 TSI-2 General Fund Expenditures
 For the Year Ended September 30, 2017*

Professional fees		
Legal	\$	138,083
Audit		10,000
Engineering		1,615
		<u>149,698</u>
Contracted services		
Bookkeeping		<u>11,190</u>
Master District fees		<u>323,640</u>
Administrative		
Directors fees		10,950
Printing and office supplies		2,446
Insurance		2,992
Other		2,999
		<u>19,387</u>
Capital outlay		<u>1,701,588</u>
Total expenditures	\$	<u><u>2,205,503</u></u>

Reporting of Utility Services in Accordance with HB 3693:

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

See accompanying auditors' report.

*Fort Bend County Municipal Utility District No. 171
TSI-4. Taxes Levied and Receivable
September 30, 2017*

	Maintenance Taxes	Debt Service Taxes	Contract Taxes	Totals
Taxes Receivable, Beginning of Year	\$ 6,655	\$ 7,144	\$ 20,130	\$ 33,929
Adjustments	173	(43)	(99)	31
Adjusted Receivable	6,828	7,101	20,031	33,960
2016 Original Tax Levy	588,809	927,820	2,480,134	3,996,763
Adjustments	34,041	53,642	143,385	231,068
Adjusted Tax Levy	622,850	981,462	2,623,519	4,227,831
Total to be accounted for	629,678	988,563	2,643,550	4,261,791
Tax collections:				
Current year	620,872	978,343	2,615,187	4,214,402
Prior years	4,179	4,277	11,849	20,305
Total Collections	625,051	982,620	2,627,036	4,234,707
Taxes Receivable, End of Year	\$ 4,627	\$ 5,943	\$ 16,514	\$ 27,084
Taxes Receivable, By Years				
2016	\$ 1,978	\$ 3,119	\$ 8,335	\$ 13,432
2015	2,649	2,824	8,179	13,652
Taxes Receivable, End of Year	\$ 4,627	\$ 5,943	\$ 16,514	\$ 27,084
Property Valuations:	2016	2015	2014	2013
Land	\$ 77,026,388	\$ 77,066,958	\$ 77,021,604	\$ 75,001,067
Improvements	302,738,260	302,969,980	257,650,890	206,977,570
Personal Property	3,882,790	2,528,311	4,479,370	3,058,022
Exemptions	(6,162,493)	(19,032,141)	(10,790,316)	(3,774,766)
Total Property Valuations	\$ 377,484,945	\$ 363,533,108	\$ 328,361,548	\$ 281,261,893
Tax Rates per \$100 Valuation:				
Maintenance tax rates	\$ 0.165	\$ 0.225	\$ 0.280	\$ 0.270
Debt service tax rates	0.260	0.240	0.240	0.300
Contract tax rates	0.695	0.695	0.700	0.695
Total Tax Rates per \$100 Valuation	\$ 1.120	\$ 1.160	\$ 1.220	\$ 1.265
Adjusted Tax Levy:	\$ 4,227,831	\$ 4,216,984	\$ 4,006,011	\$ 3,557,963
Percentage of Taxes Collected to Taxes Levied **	99.68%	99.89%	100.00%	100.00%

* Maximum maintenance tax rate approved by voters for water, wastewater, drainage and recreational facilities:

\$1.50 on November 6, 2007

* Maximum maintenance tax rate approved by voters for road facilities:

\$0.25 on November 4, 2008

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

See accompanying auditors' report.

*Fort Bend County Municipal Utility District No. 171
 TSI-5. Long-Term Debt Service Requirements
 Series 2009--by Years
 September 30, 2017*

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2018	\$ 85,000	\$ 156,230	\$ 241,230
2019	95,000	152,405	247,405
2020	100,000	148,035	248,035
2021	105,000	143,235	248,235
2022	115,000	137,985	252,985
2023	125,000	132,005	257,005
2024	135,000	125,318	260,318
2025	145,000	117,892	262,892
2026	155,000	109,700	264,700
2027	165,000	100,942	265,942
2028	180,000	91,372	271,372
2029	190,000	80,932	270,932
2030	205,000	69,913	274,913
2031	220,000	57,869	277,869
2032	235,000	44,944	279,944
2033	255,000	31,138	286,138
2034	275,000	16,156	291,156
	<u>\$ 2,785,000</u>	<u>\$ 1,716,071</u>	<u>\$ 4,501,071</u>

See accompanying auditors' report.

*Fort Bend County Municipal Utility District No. 171
 TSI-5. Long-Term Debt Service Requirements
 Series 2010--by Years
 September 30, 2017*

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2018	\$ 130,000	\$ 254,220	\$ 384,220
2019	140,000	248,500	388,500
2020	150,000	242,130	392,130
2021	160,000	235,080	395,080
2022	170,000	227,240	397,240
2023	185,000	218,060	403,060
2024	195,000	208,070	403,070
2025	210,000	197,540	407,540
2026	225,000	186,200	411,200
2027	240,000	174,050	414,050
2028	260,000	159,950	419,950
2029	280,000	144,675	424,675
2030	300,000	128,225	428,225
2031	320,000	110,600	430,600
2032	345,000	91,800	436,800
2033	365,000	71,100	436,100
2034	395,000	49,200	444,200
2035	425,000	25,500	450,500
	<u>\$ 4,495,000</u>	<u>\$ 2,972,140</u>	<u>\$ 7,467,140</u>

See accompanying auditors' report.

*Fort Bend County Municipal Utility District No. 171
 TSI-5. Long-Term Debt Service Requirements
 Series 2011--by Years
 September 30, 2017*

Due During Fiscal Years Ending	Principal Due September 1	Interest Due March 1, September 1	Total
2018	\$ 110,000	\$ 167,885	\$ 277,885
2019	115,000	162,385	277,385
2020	120,000	156,635	276,635
2021	130,000	151,835	281,835
2022	140,000	146,635	286,635
2023	145,000	141,035	286,035
2024	155,000	135,235	290,235
2025	165,000	129,035	294,035
2026	180,000	122,270	302,270
2027	190,000	114,890	304,890
2028	200,000	106,720	306,720
2029	215,000	98,120	313,120
2030	230,000	88,875	318,875
2031	245,000	78,985	323,985
2032	260,000	68,450	328,450
2033	275,000	56,425	331,425
2034	295,000	43,706	338,706
2035	315,000	30,063	345,063
2036	335,000	15,494	350,494
	<u>\$ 3,820,000</u>	<u>\$ 2,014,678</u>	<u>\$ 5,834,678</u>

See accompanying auditors' report.

*Fort Bend County Municipal Utility District No. 171
 TSI-5. Long-Term Debt Service Requirements
 Series 2011A--by Years
 September 30, 2017*

Due During Fiscal Years Ending	Principal Due September 1	Interest Due March 1, September 1	Total
2018	\$ 80,000	\$ 74,238	\$ 154,238
2019	80,000	69,438	149,438
2020	80,000	64,638	144,638
2021	80,000	59,837	139,837
2022	80,000	56,637	136,637
2023	75,000	53,437	128,437
2024	75,000	50,437	125,437
2025	75,000	47,437	122,437
2026	75,000	44,437	119,437
2027	75,000	41,438	116,438
2028	75,000	38,438	113,438
2029	75,000	35,062	110,062
2030	75,000	31,688	106,688
2031	75,000	28,313	103,313
2032	75,000	24,938	99,938
2033	75,000	21,375	96,375
2034	75,000	17,812	92,812
2035	75,000	14,250	89,250
2036	75,000	10,687	85,687
2037	75,000	7,125	82,125
2038	75,000	3,561	78,561
	<u>\$ 1,600,000</u>	<u>\$ 795,223</u>	<u>\$ 2,395,223</u>

See accompanying auditors' report.

*Fort Bend County Municipal Utility District No. 171
 TSI-5. Long-Term Debt Service Requirements
 Series 2012 Park--by Years
 September 30, 2017*

Due During Fiscal Years Ending	Principal Due September 1	Interest Due March 1, September 1	Total
2018	\$ 40,000	\$ 55,488	\$ 95,488
2019	45,000	53,188	98,188
2020	45,000	50,600	95,600
2021	45,000	48,012	93,012
2022	50,000	45,425	95,425
2023	55,000	43,800	98,800
2024	55,000	42,012	97,012
2025	60,000	40,225	100,225
2026	60,000	38,275	98,275
2027	65,000	36,325	101,325
2028	70,000	34,212	104,212
2029	75,000	31,938	106,938
2030	75,000	29,500	104,500
2031	80,000	27,062	107,062
2032	85,000	24,462	109,462
2033	90,000	21,700	111,700
2034	95,000	18,550	113,550
2035	100,000	15,225	115,225
2036	105,000	11,725	116,725
2037	110,000	8,050	118,050
2038	120,000	4,200	124,200
	<u>\$ 1,525,000</u>	<u>\$ 679,974</u>	<u>\$ 2,204,974</u>

See accompanying auditors' report.

*Fort Bend County Municipal Utility District No. 171
 TSI-5. Long-Term Debt Service Requirements
 All Bonded Debt Series--by Years
 September 30, 2017*

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2018	\$ 445,000	\$ 708,061	\$ 1,153,061
2019	475,000	685,916	1,160,916
2020	495,000	662,038	1,157,038
2021	520,000	637,999	1,157,999
2022	555,000	613,922	1,168,922
2023	585,000	588,337	1,173,337
2024	615,000	561,072	1,176,072
2025	655,000	532,129	1,187,129
2026	695,000	500,882	1,195,882
2027	735,000	467,645	1,202,645
2028	785,000	430,692	1,215,692
2029	835,000	390,727	1,225,727
2030	885,000	348,201	1,233,201
2031	940,000	302,829	1,242,829
2032	1,000,000	254,594	1,254,594
2033	1,060,000	201,738	1,261,738
2034	1,135,000	145,424	1,280,424
2035	915,000	85,038	1,000,038
2036	515,000	37,906	552,906
2037	185,000	15,175	200,175
2038	195,000	7,761	202,761
	<u>\$ 14,225,000</u>	<u>\$ 8,178,086</u>	<u>\$ 22,403,086</u>

See accompanying auditors' report.

*Fort Bend County Municipal Utility District No. 171
TSI-6. Change in Long-Term Bonded Debt
September 30, 2017*

	Bond Issue		
	Series 2009	Series 2010	Series 2011
Interest rate	4.30% - 5.875%	4.00% - 6.00%	4.00% - 5.00%
Dates interest payable	3/1; 9/1	3/1; 9/1	3/1; 9/1
Maturity dates	9/1/11 to 9/1/34	9/1/12 to 9/1/35	9/1/13 to 9/1/36
Beginning bonds outstanding	\$ 2,865,000	\$ 4,615,000	\$ 3,920,000
Bonds retired	(80,000)	(120,000)	(100,000)
Ending bonds outstanding	<u>\$ 2,785,000</u>	<u>\$ 4,495,000</u>	<u>\$ 3,820,000</u>
Interest paid during fiscal year	<u>\$ 159,670</u>	<u>\$ 259,320</u>	<u>\$ 172,885</u>

Paying agent's name and city
All Series The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

Bond Authority:	Water, Sewer and Drainage Bonds	Park Bonds	Road Bonds
Amount Authorized by Voters	\$ 68,558,000	\$ 37,100,000	\$ 17,150,000
Amount Issued	(14,370,000)	(1,600,000)	
Remaining To Be Issued	<u>\$ 54,188,000</u>	<u>\$ 35,500,000</u>	<u>\$ 17,150,000</u>

All bonds are secured with tax revenues.

Bonds may also be secured with other revenues in combination with taxes.

Debt Service Fund cash balances as of September 30, 2017: \$ 1,601,552

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 1,066,814

See accompanying auditors' report.

Bond Issue		Totals
Series 2011A	Series 2012 Park	
4.00% - 6.00%	3.25% - 5.75%	
3/1; 9/1	3/1; 9/1	
9/1/16 to 9/1/38	9/1/16 to 9/1/38	
\$ 1,680,000	\$ 1,565,000	\$ 14,645,000
(80,000)	(40,000)	(420,000)
<u>\$ 1,600,000</u>	<u>\$ 1,525,000</u>	<u>\$ 14,225,000</u>
<u>\$ 79,037</u>	<u>\$ 57,788</u>	<u>\$ 728,700</u>

Fort Bend County Municipal Utility District No. 171
TSI-7a. Comparative Schedule of Revenues and Expenditures - General Fund
For the Last Five Fiscal Years

	Amounts				
	2017	2016	2015	2014	2013
Revenues					
Property taxes	\$ 624,530	\$ 816,173	\$ 922,048	\$ 758,380	\$ 460,104
Investment earnings	1,772	2,994	2,276	2,043	1,970
Total Revenues	626,302	819,167	924,324	760,423	462,074
Expenditures					
Operating and administrative					
Professional fees	149,698	65,587	45,205	47,734	44,615
Contracted services	11,190	11,325	11,520	11,460	11,520
Master District fees	323,640	323,640	323,640	323,640	323,640
Administrative	19,387	23,275	12,729	14,462	16,358
Other					500
Capital outlay	1,701,588				
Total Expenditures	2,205,503	423,827	393,094	397,296	396,633
Revenues Over/(Under) Expenditures	\$ (1,579,201)	\$ 395,340	\$ 531,230	\$ 363,127	\$ 65,441

*Percentage is negligible

See accompanying auditors' report.

Percent of Fund Total Revenues

2017	2016	2015	2014	2013
100% *	100% *	100% *	100% *	100% *
100%	100%	100%	100%	100%
24%	8%	5%	6%	10%
2%	1%	1%	2%	2%
52%	40%	35%	43%	70%
3%	3%	1%	2%	4% *
272%				
353%	52%	42%	53%	86%
-253%	48%	58%	47%	14%

*Fort Bend County Municipal Utility District No. 171
 TSI-7b. Comparative Schedule of Revenues and Expenditures - Debt Service Fund
 For the Last Five Fiscal Years*

	Amounts				
	2017	2016	2015	2014	2013
Revenues					
Property taxes	\$ 3,606,642	\$ 3,389,602	\$ 3,096,890	\$ 2,788,874	\$ 2,491,000
Penalties and interest	20,730	12,849	29,301	10,652	6,002
City of Fulshear tax rebate	177,871	192,927	205,280	237,408	206,157
Accrued interest on bonds sold					2,824
Miscellaneous		30	10	130	310
Investment earnings	5,439	4,079	3,756	4,492	5,118
Total Revenues	<u>3,810,682</u>	<u>3,599,487</u>	<u>3,335,237</u>	<u>3,041,556</u>	<u>2,711,411</u>
Expenditures					
Tax collection services	51,248	45,395	59,050	38,621	32,844
Debt service					
Principal	420,000	395,000	265,000	245,000	230,000
Interest and fees	732,200	753,038	763,388	772,863	768,213
Contractual obligation	2,474,014	2,382,953	2,195,580	1,760,686	1,566,401
Total Expenditures	<u>3,677,462</u>	<u>3,576,386</u>	<u>3,283,018</u>	<u>2,817,170</u>	<u>2,597,458</u>
Revenues Over Expenditures	<u>\$ 133,220</u>	<u>\$ 23,101</u>	<u>\$ 52,219</u>	<u>\$ 224,386</u>	<u>\$ 113,953</u>

*Percentage is negligible

See accompanying auditors' report.

Percent of Fund Total Revenues

2017	2016	2015	2014	2013
94%	95%	93%	92%	92%
1%	*	1%	*	*
5%	5%	6%	8%	8%
	*	*	*	*
*	*	*	*	*
100%	100%	100%	100%	100%
1%	1%	2%	1%	1%
11%	11%	8%	8%	8%
19%	21%	23%	25%	28%
65%	66%	66%	58%	58%
96%	99%	99%	92%	95%
4%	1%	1%	8%	5%

Fort Bend County Municipal Utility District No. 171
TSI-8. Board Members, Key Personnel and Consultants
For the Year Ended September 30, 2017

Complete District Mailing Address: c/o Allen Boone Humphries Robinson LLP
 3200 Southwest Freeway, Suite 2600, Houston, TX 77027

District Business Telephone Number: (713) 860-6400

Submission Date of the most recent District Registration Form
 (TWC Sections 36.054 and 49.054): May 16, 2016

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

(Set by Board Resolution -- TWC Section 49.0600)

Names:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid *	Expense Reimburse- ments	Title at Year End
Board Members				
Jocelyn Ryan	5/16 - 5/20	\$ 4,650	\$ 343	President
Stacey Stone	5/16 - 5/20	2,550	396	Vice President
Richard Collier	5/14 - 5/18	1,950	113	Secretary
Valarie Cowden	5/14 - 5/18	900	122	Assistant Secretary
Janelle Williams	5/14 - 5/18	900	237	Assistant Vice President
Consultants				
		<u>Amounts Paid</u>		
Allen Boone Humphries Robinson LLP <i>General legal fees</i>	2007	\$ 108,887		Attorney
Andrews Kurth	2016	31,309		Litigation Attorney
F. Matuska, Inc.	2010	12,435		Bookkeeper
Assessments of the Southwest, Inc.	2007	14,157		Tax Collector
Fort Bend Central Appraisal District	Legislation	27,417		Property Valuation
Perdue Brandon Fielder Collins & Mott, LLP	2011	7,560		Delinquent Tax Attorney
Brown & Gay Engineers, Inc.	2007	1,744		Engineer
McGrath & Co, PLLC	2010	10,000		Auditor
FirstSouthwest, a Division of Hilltop Securities	2007			Financial Advisor

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

See accompanying auditors' report.

**FORT BEND COUNTY MUNICIPAL
UTILITY DISTRICT NO. 172**

FORT BEND COUNTY, TEXAS

FINANCIAL REPORT

September 30, 2017

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Independent Auditors' Report

Board of Directors
Fort Bend County Municipal Utility District No. 172
Fort Bend County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Fort Bend County Municipal Utility District No. 172, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

*Board of Directors
Fort Bend County Municipal Utility District No. 172
Fort Bend County, Texas*

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Fort Bend County Municipal Utility District No. 172, as of September 30, 2017, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other-Matters

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The Texas Supplementary Information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Texas Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied to the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

McGuire & Co, P.C.

Houston, Texas
January 8, 2018

Management's Discussion and Analysis

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***Fort Bend County Municipal Utility District No. 172
Management's Discussion and Analysis
September 30, 2017***

Using this Annual Report

Within this section of the financial report of Fort Bend County Municipal Utility District No. 172 (the "District"), the District's Board of Directors provides a narrative discussion and analysis of the financial activities of the District for the fiscal year ended September 30, 2017. This analysis should be read in conjunction with the independent auditors' report and the basic financial statements that follow this section.

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

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

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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

***Fort Bend County Municipal Utility District No. 172
Management's Discussion and Analysis
September 30, 2017***

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

Fund Financial Statements

The fund financial statements include the *Governmental Funds Balance Sheet* and the *Governmental Funds Revenues, Expenditures and Changes in Fund Balances*. The focus of fund financial statements is on specific activities of the District rather than the District as a whole, reported using modified accrual accounting. These statements report on the District's use of available financial resources and the balances of available financial resources at the end of the year. Except for the General Fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties, governmental statutes or regulations.

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

Financial Analysis of the District as a Whole

The District's net position at September 30, 2017, was negative \$18,027,550. The District's net position is negative because the District incurs debt to construct water, sewer and drainage facilities which it conveys to the City of Fulshear. A comparative summary of the District's overall financial position, as of September 30, 2017 and 2016, is as follows:

	2017	2016
Current and other assets	\$ 4,613,204	\$ 3,425,036
Capital assets	4,293,525	
Total assets	<u>8,906,729</u>	<u>3,425,036</u>
Current liabilities	1,676,805	530,173
Long-term liabilities	25,257,474	21,491,983
Total liabilities	<u>26,934,279</u>	<u>22,022,156</u>
Net position		
Net investment in capital assets	(885,150)	
Restricted	2,184,519	1,603,249
Unrestricted	(19,326,919)	(20,200,369)
Total net position	<u>\$ (18,027,550)</u>	<u>\$ (18,597,120)</u>

***Fort Bend County Municipal Utility District No. 172
Management's Discussion and Analysis
September 30, 2017***

The total net position of the District increased during the current fiscal year by \$569,570. A comparative summary of the District's *Statement of Activities* for the past two years is as follows:

	2017	2016
Revenues		
Property taxes, penalties and interest	\$ 6,346,970	\$ 5,281,280
City of Fulshear tax rebates	251,658	221,102
Other	37,177	6,111
Total revenues	<u>6,635,805</u>	<u>5,508,493</u>
Expenses		
Operating and administrative	886,824	734,594
Interest and fees	927,592	1,123,069
Debt issuance costs	406,319	385,845
Contractual obligation	3,412,723	2,677,799
Amortization	134,173	
Total expenses	<u>5,767,631</u>	<u>4,921,307</u>
Change in net position before other item	868,174	587,186
Other item		
Transfers to other governments	<u>(298,604)</u>	<u>(957,978)</u>
Change in net position	569,570	(370,792)
Net position, beginning of year	<u>(18,597,120)</u>	<u>(18,226,328)</u>
Net position, end of year	<u>\$ (18,027,550)</u>	<u>\$ (18,597,120)</u>

Financial Analysis of the District's Funds

The District's combined fund balances, as of September 30, 2017, were \$4,551,220, which consists of \$1,385,680 in the General Fund, \$2,236,911 in the Debt Service Fund and \$928,629 in the Capital Projects Fund.

General Fund

A comparative summary of the General Fund's financial position as of September 30, 2017 and 2016 is as follows:

	2017	2016
Total assets	<u>\$ 1,434,728</u>	<u>\$ 992,045</u>
Total liabilities	\$ 47,122	\$ 11,126
Total deferred inflows	1,926	5,491
Total fund balance	1,385,680	975,428
Total liabilities, deferred inflows and fund balance	<u>\$ 1,434,728</u>	<u>\$ 992,045</u>

*Fort Bend County Municipal Utility District No. 172
Management's Discussion and Analysis
September 30, 2017*

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

	2017	2016
Total revenues	\$ 1,205,581	\$ 1,232,161
Total expenditures	(795,329)	(586,380)
Revenues over expenditures	<u>\$ 410,252</u>	<u>\$ 645,781</u>

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

Debt Service Fund

A comparative summary of the Debt Service Fund's financial position as of September 30, 2017 and 2016 is as follows:

	2017	2016
Total assets	<u>\$ 2,249,847</u>	<u>\$ 1,651,973</u>
Total liabilities	\$ 2,651	\$ 2,638
Total deferred inflows	10,285	22,489
Total fund balance	2,236,911	1,626,846
Total liabilities, deferred inflows and fund balance	<u>\$ 2,249,847</u>	<u>\$ 1,651,973</u>

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

	2017	2016
Total revenues	\$ 5,445,991	\$ 4,257,781
Total expenditures	(4,835,926)	(3,755,378)
Revenues over expenditures	610,065	502,403
Other changes in fund balance		129,997
Net change in fund balance	<u>\$ 610,065</u>	<u>\$ 632,400</u>

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

***Fort Bend County Municipal Utility District No. 172
Management's Discussion and Analysis
September 30, 2017***

its future debt service requirements and contract obligations to Fort Bend County Municipal Utility District No. 169.

Capital Projects Fund

A comparative summary of the Capital Projects Fund's financial position as of September 30, 2017 and 2016 is as follows:

	2017	2016
Total assets	<u>\$ 928,629</u>	<u>\$ 781,018</u>
Total liabilities	\$ -	\$ 3,743
Total fund balance	<u>928,629</u>	<u>777,275</u>
Total liabilities and fund balance	<u>\$ 928,629</u>	<u>\$ 781,018</u>

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

	2017	2016
Total revenues	\$ 5,528	\$ 1,210
Total expenditures	<u>(5,580,674)</u>	<u>(2,736,770)</u>
Revenues under expenditures	(5,575,146)	(2,735,560)
Other changes in fund balance	<u>5,726,500</u>	<u>2,719,937</u>
Net change in fund balance	<u>\$ 151,354</u>	<u>\$ (15,623)</u>

The District has had considerable capital asset activity in the last two years, which was financed with proceeds from the issuance of its \$4,900,000 Series 2016 Unlimited Tax Park Bonds and \$870,000 bond anticipation note in the current year and issuance of its \$7,730,000 Series 2015 Unlimited Tax Bonds in the prior year.

General Fund Budgetary Highlights

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

Since the District's budget is primarily a planning tool, actual results varied from the budgeted amounts. Actual net change in fund balance was \$437,108 less than budgeted. The *Budgetary Comparison Schedule* on page 34 of this report provides variance information per financial statement line item.

Fort Bend County Municipal Utility District No. 172
Management's Discussion and Analysis
September 30, 2017

Capital Assets

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

Capital assets held by the District at September 30, 2017 are summarized as follows:

Capital assets being amortized		
Interest in regional park facilities	\$	4,427,698
Less accumulated amortization		<u>(134,173)</u>
Capital assets, net	\$	<u><u>4,293,525</u></u>

The District did not have any capital assets to report as of September 30, 2016.

The District and the City of Fulshear (the "City") have entered into an agreement which obligates the District to construct water, wastewater, and storm drainage facilities to serve the District and, when completed, to convey title to the facilities to the City. For the year ended September 30, 2017, capital assets in the amount of \$298,604 have been completed and recorded as transfers to other governments in the government-wide statements. Additional information is presented in Note 11.

Long-Term Debt and Related Liabilities

As of September 30, 2017, the District owes \$1,067,853 to developers for completed projects and operating advances. As discussed in Note 7, the District has an additional commitment in the amount of \$557,410 for a project under construction by the developers. As previously mentioned, the District will owe its developers for this project upon completion of construction, at which time the capital assets and related liability will be recorded on the District's financial statements. The District intends to reimburse the developers from proceeds of future bond issues, or other lawfully available funds.

At September 30, 2017 and 2016, the District had total bonded debt outstanding as shown below:

<u>Series</u>	<u>2017</u>	<u>2016</u>
2013	\$ 5,040,000	\$ 5,175,000
2014	7,830,000	8,010,000
2015	7,595,000	7,730,000
2016	4,900,000	
	<u>\$ 25,365,000</u>	<u>\$ 20,915,000</u>

During the year, the District issued \$4,900,000 in unlimited tax bonds. At September 30, 2017, the District had \$150,663,000 unlimited tax bonds authorized, but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District and refunding of said bonds; \$75,740,000 for parks and recreational facilities and the refunding of said bonds; and \$31,710,000 for road improvements and the refunding of said bonds.

*Fort Bend County Municipal Utility District No. 172
Management's Discussion and Analysis
September 30, 2017*

During the year, the District issued a \$870,000 bond anticipation note (BAN) to provide short term financing for developer reimbursements. The District retired the BAN with proceeds from the issuance of long-term debt subsequent to year end. See Note 6 for additional information.

Next Year's Budget

In establishing the budget for the next fiscal year, the Board considered various economic factors that may affect the District, most notably projected revenues from property taxes and the projected cost of operating the District. A comparison of next year's budget to current year actual amounts for the General Fund is as follows:

	<u>2017 Actual</u>	<u>2018 Budget</u>
Total revenues	\$ 1,205,581	\$ 1,067,980
Total expenditures	<u>(795,329)</u>	<u>(704,350)</u>
Revenues over expenditures	410,252	363,630
Beginning fund balance	975,428	1,385,680
Ending fund balance	<u><u>\$ 1,385,680</u></u>	<u><u>\$ 1,749,310</u></u>

Property Taxes

The District's property tax base increased approximately \$26,424,000 for the 2017 tax year from \$518,364,042 to \$544,788,492. This increase was primarily due to new construction in the District and increased property values. For the 2017 tax year, the District has levied a maintenance tax rate of \$0.195 per \$100 of assessed value, a debt service tax rate of \$0.295 per \$100 of assessed value, and a contract tax rate of \$0.695 per \$100 of assessed value, for a total combined tax rate of \$1.185 per \$100. Tax rates for the 2016 tax year were \$0.23 per \$100 for maintenance and operations, \$0.29 per \$100 for debt service and \$0.695 per \$100 for contract tax.

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Basic Financial Statements

*Fort Bend County Municipal Utility District No. 172
Statement of Net Position and Governmental Funds Balance Sheet
September 30, 2017*

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
Assets						
Cash	\$ 491,999	\$ 24,713	\$ -	\$ 516,712	\$ -	\$ 516,712
Investments	940,692	2,214,849	928,740	4,084,281		4,084,281
Taxes receivable	1,926	10,285		12,211		12,211
Internal balances	111		(111)			
Capital assets, net					4,293,525	4,293,525
Total Assets	<u>\$1,434,728</u>	<u>\$2,249,847</u>	<u>\$ 928,629</u>	<u>\$4,613,204</u>	<u>4,293,525</u>	<u>8,906,729</u>
Liabilities						
Accounts payable	\$ 46,755	\$ -	\$ -	\$ 46,755		46,755
Other payables	367	2,651		3,018		3,018
Accrued interest payable					77,032	77,032
Bond anticipation note payable					870,000	870,000
Due to developers					1,067,853	1,067,853
Long-term debt						
Due within one year					680,000	680,000
Due after one year					24,189,621	24,189,621
Total Liabilities	<u>47,122</u>	<u>2,651</u>		<u>49,773</u>	<u>26,884,506</u>	<u>26,934,279</u>
Deferred Inflows of Resources						
Deferred property taxes	<u>1,926</u>	<u>10,285</u>		<u>12,211</u>	<u>(12,211)</u>	
Fund Balances/Net Position						
Fund Balances						
Restricted		2,236,911	928,629	3,165,540	(3,165,540)	
Unassigned	<u>1,385,680</u>			<u>1,385,680</u>	<u>(1,385,680)</u>	
Total Fund Balances	<u>1,385,680</u>	<u>2,236,911</u>	<u>928,629</u>	<u>4,551,220</u>	<u>(4,551,220)</u>	
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$1,434,728</u>	<u>\$2,249,847</u>	<u>\$ 928,629</u>	<u>\$4,613,204</u>		
Net Position						
Net investment in capital assets					(885,150)	(885,150)
Restricted for debt service					2,184,519	2,184,519
Unrestricted					(19,326,919)	(19,326,919)
Total Net Position					<u>\$ (18,027,550)</u>	<u>\$ (18,027,550)</u>

See notes to basic financial statements.

Fort Bend County Municipal Utility District No. 172

Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances

For the Year Ended September 30, 2017

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
Revenues						
Property taxes	\$ 1,199,470	\$5,112,897	\$ -	\$6,312,367	\$ (13,142)	\$ 6,299,225
Penalties and interest		50,373		50,373	(2,628)	47,745
City of Fulshear tax rebates		251,658		251,658		251,658
Accrued interest on bonds sold		5,525		5,525	(5,525)	
Miscellaneous		120		120		120
Investment earnings	6,111	25,418	5,528	37,057		37,057
Total Revenues	<u>1,205,581</u>	<u>5,445,991</u>	<u>5,528</u>	<u>6,657,100</u>	<u>(21,295)</u>	<u>6,635,805</u>
Expenditures/Expenses						
Operating and administrative						
Professional fees	158,328		14,412	172,740		172,740
Contracted services	9,680	74,700		84,380		84,380
Repairs and maintenance	40,000			40,000		40,000
Master District fees	568,170			568,170		568,170
Administrative	19,151	2,329	54	21,534		21,534
Capital outlay			5,159,889	5,159,889	(5,159,889)	
Debt service						
Principal		450,000		450,000	(450,000)	
Interest and fees		896,174		896,174	31,418	927,592
Debt issuance costs			406,319	406,319		406,319
Contractual obligation		3,412,723		3,412,723		3,412,723
Amortization					134,173	134,173
Total Expenditures/Expenses	<u>795,329</u>	<u>4,835,926</u>	<u>5,580,674</u>	<u>11,211,929</u>	<u>(5,444,298)</u>	<u>5,767,631</u>
Revenues Over/(Under)						
Expenditures/Expenses	410,252	610,065	(5,575,146)	(4,554,829)	5,423,003	868,174
Other Financing Sources/(Uses)						
Proceeds from sale of bonds			4,900,000	4,900,000	(4,900,000)	
Proceeds from bond anticipation note			870,000	870,000	(870,000)	
Repayment of operating advances			(43,500)	(43,500)	43,500	
Other Item						
Transfers to other governments					(298,604)	(298,604)
Net Change in Fund Balances	410,252	610,065	151,354	1,171,671	(1,171,671)	
Change in Net Position					569,570	569,570
Fund Balance/Net Position						
Beginning of the year	975,428	1,626,846	777,275	3,379,549	(21,976,669)	(18,597,120)
End of the year	<u>\$ 1,385,680</u>	<u>\$2,236,911</u>	<u>\$ 928,629</u>	<u>\$4,551,220</u>	<u>\$ (22,578,770)</u>	<u>\$ (18,027,550)</u>

See notes to basic financial statements.

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Fort Bend County Municipal Utility District No. 172
Notes to Basic Financial Statements
September 30, 2017

Note 1 – Summary of Significant Accounting Policies

The accounting policies of Fort Bend County Municipal Utility District No. 172 (the “District”) conform with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board. The following is a summary of the most significant policies:

Creation

The District was organized, created and established pursuant to an order of the Texas Commission on Environmental Quality, dated August 28, 2007, and operates in accordance with the Texas Water Code, Chapters 49 and 54. The Board of Directors held its first meeting on June 30, 2008 and the first bonds were sold on December 18, 2013.

The District’s primary activities include the provision of water, sewer, drainage, recreational and road facilities. As further discussed in Note 11, the District transfers certain facilities to the City of Fulshear upon completion of construction. The District has contracted with various consultants to provide services to operate and administer the affairs of the District. The District has no employees, related payroll or pension costs.

Reporting Entity

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

Government-Wide and Fund Financial Statements

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

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

Fort Bend County Municipal Utility District No. 172
Notes to Basic Financial Statements
September 30, 2017

Note 1 – Summary of Significant Accounting Policies (continued)

Government-Wide and Fund Financial Statements (continued)

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

- The General Fund is used to account for the operations of the District and all other financial transactions not reported in other funds. The principal source of revenue is property taxes. Expenditures include costs associated with the daily operations of the District.
- The Debt Service Fund is used to account for the payment of interest and principal on the District's general long-term debt and contractual obligations to Fort Bend County Municipal Utility District No. 169 (the "Master District"). The primary sources of revenue for debt service are property taxes and City of Fulshear tax rebates. Expenditures include costs incurred in assessing and collecting these taxes.
- The Capital Projects Fund is used to account for the expenditures of bond anticipation note and bond proceeds for the construction of the District's water, sewer and drainage facilities and the Master District regional park facilities.

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

Measurement Focus and Basis of Accounting

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

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

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

Note 1 – Summary of Significant Accounting Policies (continued)

Use of Restricted Resources

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

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Receivables from and payables to external parties are reported separately and are not offset, unless a legal right of offset exists. At September 30, 2017, an allowance for uncollectible accounts was not considered necessary.

Interfund Activity

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

Capital Assets

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

The District's interest in regional park facilities is amortized using the straight-line method over the remaining life of the District's contract with Fort Bend County Municipal Utility District No. 169.

Deferred Inflows and Outflows of Financial Resources

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

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

*Fort Bend County Municipal Utility District No. 172
Notes to Basic Financial Statements
September 30, 2017*

Note 1 – Summary of Significant Accounting Policies (continued)

Fund Balances – Governmental Funds

Governmental accounting standards establish the following fund balance classifications:

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

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

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

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

Unassigned - all other spendable amounts in the General Fund.

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

Use of Estimates

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

Fort Bend County Municipal Utility District No. 172
Notes to Basic Financial Statements
September 30, 2017

Note 2 – Adjustment from Governmental to Government-wide Basis

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

Total fund balance, governmental funds	\$	4,551,220
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.</p>		
Historical cost	\$	4,427,698
Less accumulated amortization		<u>(134,173)</u>
Change due to capital assets		4,293,525
<p>Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. The difference consists of:</p>		
Bonds payable, net		(24,869,621)
Bond anticipation note payable		(870,000)
Interest payable on bonds		<u>(77,032)</u>
Change due to long-term debt		(25,816,653)
<p>Amounts due to the District's developers for prefunded construction and operating advances are recorded as a liability in the <i>Statement of Net Position</i>.</p>		
		(1,067,853)
<p>Property taxes receivable and related penalties and interest have been levied and are due, but are not available soon enough to pay current period expenditures and, therefore, are deferred in the funds.</p>		
		12,211
Total net position - governmental activities	<u>\$</u>	<u>(18,027,550)</u>

Fort Bend County Municipal Utility District No. 172
Notes to Basic Financial Statements
September 30, 2017

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

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

Net change in fund balances - total governmental funds \$ 1,171,671

Governmental funds do not report revenues that are not available to pay current obligations. In contrast, such revenues are reported in the *Statement of Activities* when earned. The difference is for property taxes and related penalties and interest. (13,142)

Governmental funds report capital outlays for developer reimbursements and construction costs as expenditures in the funds; however, in the *Statement of Activities*, the cost of capital assets is charged to expense over the estimated useful life of the asset.

Capital outlays	\$ 5,159,889	
Amortization expense	(134,173)	
		5,025,716

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

Issuance of long term debt	(4,900,000)	
Issuance of bond anticipation note	(870,000)	
Principal payments	450,000	
Interest expense accrual	(39,571)	
		(5,359,571)

Amounts paid to the District's developers for operating advances use financial resources at the fund level, but are recorded as a reduction to the liability in the *Statement of Net Position*. 43,500

The District conveys its infrastructure to the City of Fulshear upon completion of construction. Since these improvements are funded by the developers, financial resources are not expended in the fund financial statements; however, in the *Statement of Activities*, these amounts are reported as transfers to other governments. (298,604)

Change in net position of governmental activities		\$ 569,570
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Fort Bend County Municipal Utility District No. 172
Notes to Basic Financial Statements
September 30, 2017

Note 3 – Deposits and Investments

Deposit Custodial Credit Risk

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

Investments

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

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

As of September 30, 2017, the District’s investments consist of the following:

Type	Fund	Carrying Value	Rating	Weighted Average Maturity
TexPool	General	\$ 940,692		
	Debt Service	2,214,849		
	Capital Projects	928,740		
Total		<u>\$ 4,084,281</u>	AAA	37 days

Fort Bend County Municipal Utility District No. 172
Notes to Basic Financial Statements
September 30, 2017

Note 3 – Deposits and Investments (continued)

TexPool

The District participates in TexPool, the Texas Local Government Investment Pool. The State Comptroller of Public Accounts exercises oversight responsibility of TexPool, which includes (1) the ability to significantly influence operations, (2) designation of management and (3) accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure.

As permitted by GAAP, TexPool uses amortized cost (which excludes unrealized gains and losses) rather than market value to compute share price and seeks to maintain a constant dollar value per share. Accordingly, the fair value of the District’s position in TexPool is the same as the value of TexPool shares. Investments in TexPool may be withdrawn on a same day basis, as long as the transaction is executed by 3:30 p.m.

Investment Credit and Interest Rate Risk

Investment credit risk is the risk that the investor may not recover the value of an investment from the issuer, while interest rate risk is the risk that the value of an investment will be adversely affected by changes in interest rates. The District’s investment policies do not address investment credit and interest rate risk beyond the rating and maturity restrictions established by state statutes.

Note 4 – Amounts Due to/from Other Funds

Amounts due to/from other funds at September 30, 2017, consist of the following:

	Interfund	
	Receivable	Payable
General Fund	\$ 111	\$ -
Capital Projects Fund		111
	<u>\$ 111</u>	<u>\$ 111</u>

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

Fort Bend County Municipal Utility District No. 172
Notes to Basic Financial Statements
September 30, 2017

Note 5 – Capital Assets

A summary of changes in capital assets, for the year ended September 30, 2017, is as follows:

	Beginning Balances	Additions	Ending Balances
Capital assets being amortized			
Interest in regional park facilities	\$ -	\$ 4,427,698	\$ 4,427,698
Less accumulated amortization		<u>(134,173)</u>	<u>(134,173)</u>
Capital assets, net	<u>\$ -</u>	<u>\$ 4,293,525</u>	<u>\$ 4,293,525</u>

Amortization expense for the current year was \$134,173.

Note 6 – Bond Anticipation Note

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

On July 18, 2017, the District issued a \$870,000 BAN with an interest rate of 1.65%, which is due on or before July 17, 2018. This BAN was repaid subsequent to year end. See Note 14 for additional information.

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

Beginning balance	\$ -
Amounts borrowed	<u>870,000</u>
Ending balance	<u>\$ 870,000</u>

Note 7 – Due to Developers

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

Fort Bend County Municipal Utility District No. 172
Notes to Basic Financial Statements
September 30, 2017

Note 7 – Due to Developers (continued)

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

Due to developers, beginning of year	\$ 1,544,940
Developer reimbursements	(732,191)
Repayment of operating advances	(43,500)
Developer funded construction and adjustments	<u>298,604</u>
Due to developers, end of year	<u>\$ 1,067,853</u>

In addition, the District will owe the developer approximately \$557,410, which is included in the following schedule of contractual commitments. The exact amount is not known until approved by the TCEQ and verified by the District's auditor. As previously noted, these projects will be reported in the government-wide financial statements upon completion of construction.

	<u>Contract Amount</u>	<u>Amounts Paid</u>	<u>Remaining Commitment</u>
Fulshear Bend Drive extension no. 2 - water, sewer and drainage facilities	\$ 557,410	\$ 442,015	\$ 115,395

Note 8 – Long-Term Debt

Long-term debt is comprised of the following:

Bonds payable	\$ 25,365,000
Unamortized discounts	<u>(495,379)</u>
	<u>\$ 24,869,621</u>
 Due within one year	 <u>\$ 680,000</u>

Fort Bend County Municipal Utility District No. 172
Notes to Basic Financial Statements
September 30, 2017

Note 8 – Long-Term Debt (continued)

The District's bonds payable at September 30, 2017, consists of unlimited tax bonds as follows:

Series	Amounts Outstanding	Original Issue	Interest Rates	Maturity Date, Serially, Beginning/ Ending	Interest Payment Dates	Call Dates
2013	\$ 5,040,000	\$ 5,305,000	3.00% - 5.00%	September 1, 2014/2037	March 1, September 1	September 1, 2021
2014	7,830,000	8,180,000	2.25% - 4.125%	September 1, 2016/2039	March 1, September 1	September 1, 2022
2015	7,595,000	7,730,000	2.00% - 4.00%	September 1, 2017/2040	March 1, September 1	September 1, 2023
2016	4,900,000	4,900,000	2.00% - 4.00%	September 1, 2018/2041	March 1, September 1	September 1, 2024
	<u>\$ 25,365,000</u>					

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

At September 30, 2017, the District had authorized but unissued bonds in the amount of \$150,663,000 for water, sewer and drainage facilities and refunding of such bonds; \$75,740,000 for park and recreational facilities and refunding of such bonds; and \$31,710,000 for road facilities and refunding of such bonds.

On December 14, 2016, the District issued its \$4,900,000 Series 2016 Unlimited Tax Park Bonds at a net effective interest rate of 3.53142%. Proceeds of the bonds were used to pay park construction charges to Fort Bend County Municipal Utility District No. 169 for the District's share of regional park and recreational facilities.

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

Bonds payable, beginning of year	\$ 20,915,000
Bonds issued	4,900,000
Bonds retired	(450,000)
Bonds payable, end of year	<u>\$ 25,365,000</u>

Fort Bend County Municipal Utility District No. 172
Notes to Basic Financial Statements
September 30, 2017

Note 8 – Long-Term Debt (continued)

As of September 30, 2017, annual debt service requirements on bonds outstanding are as follows:

Year	Principal	Interest	Totals
2018	\$ 680,000	\$ 920,125	\$ 1,600,125
2019	705,000	904,600	1,609,600
2020	730,000	888,450	1,618,450
2021	765,000	871,725	1,636,725
2022	790,000	851,049	1,641,049
2023	825,000	827,722	1,652,722
2024	860,000	802,526	1,662,526
2025	900,000	775,614	1,675,614
2026	935,000	746,339	1,681,339
2027	985,000	714,944	1,699,944
2028	1,030,000	680,457	1,710,457
2029	1,075,000	643,332	1,718,332
2030	1,115,000	604,194	1,719,194
2031	1,160,000	561,557	1,721,557
2032	1,210,000	516,763	1,726,763
2033	1,345,000	468,719	1,813,719
2034	1,385,000	415,719	1,800,719
2035	1,425,000	360,419	1,785,419
2036	1,470,000	303,319	1,773,319
2037	1,535,000	243,356	1,778,356
2038	1,525,000	178,319	1,703,319
2039	1,565,000	117,350	1,682,350
2040	1,050,000	54,000	1,104,000
2041	300,000	12,000	312,000
	\$ 25,365,000	\$ 13,462,599	\$ 38,827,599

Note 9 – Property Taxes

On May 8, 2010, the voters of the District authorized the District’s Board of Directors to levy taxes annually for use in financing general operations limited to \$1.50 per \$100 of assessed value and \$0.25 per \$100 of assessed value for road maintenance. The District’s bond resolutions require that property taxes be levied for use in paying interest and principal on long-term debt and for use in paying the cost of assessing and collecting taxes. Taxes levied to finance debt service requirements on long-term debt are without limitation as to rate or amount.

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

Fort Bend County Municipal Utility District No. 172
Notes to Basic Financial Statements
September 30, 2017

Note 9 – Property Taxes (continued)

Property taxes are collected based on rates adopted in the year of the levy. The District's 2017 fiscal year was financed through the 2016 tax levy, pursuant to which the District levied property taxes of \$1.215 per \$100 of assessed value, of which \$0.23 was allocated to maintenance and operations, \$0.29 was allocated to debt service, and \$0.695 was allocated to contract tax. The resulting tax levy was \$6,298,123 on the adjusted taxable value of \$518,364,042.

Property taxes receivable, at September 30, 2017, consisted of the following:

Current year taxes receivable	\$	10,176
Penalty and interest receivable		2,035
Property taxes receivable	\$	<u>12,211</u>

Note 10 – Transfers to Other Governments

In accordance with an agreement between the District and the City of Fulshear (the "City"), the District transfers certain facilities to the City (see Note 11). Accordingly, the District does not record these capital assets in the *Statement of Net Position*, but instead reports the completed projects as transfers to other governments on the *Statement of Activities*. For the year ended September 30, 2017, the total amount of projects completed and transferred to the City was \$298,604.

Note 11 – Utility Agreement

On May 14, 2010, the District entered into a Utility Agreement, as subsequently amended, (the "Utility Agreement") with the City for construction and extension of water distribution lines, sanitary sewer collection systems and drainage facilities (the "System") to serve the District. As the System is acquired or constructed, the District will transfer the System (except for detention ponds and drainage ditches) to the City but will reserve a security interest in the System. The Utility Agreement expires 30 years from the year after the year the District first issues unlimited tax bonds. The District issued its first series of unlimited tax bonds on December 18, 2013.

The City will establish water and sewer rates and charges to all users in the District. All revenue derived from these charges belongs to the City.

Fort Bend County Municipal Utility District No. 172
Notes to Basic Financial Statements
September 30, 2017

Note 11 – Utility Agreement (continued)

The City levies and collects ad valorem taxes on taxable property within the District as it does with any other property located in the City. Pursuant to the Utility Agreement, the City has agreed to rebate to the District all of the City's ad valorem tax revenue from the property in the District in excess of \$0.10 per \$100 of assessed value starting with the year after the year the District first issues unlimited tax bonds. The City will continue to pay the tax rebate for 30 years from the year after the year the District first issued unlimited tax bonds. If the City's tax rate is equal to or less than \$0.10 then no tax rebate is due. The City will pay the rebate portion of the taxes actually collected to the District on February 28 of the year following the year in which the taxes are levied and quarterly thereafter until the tax rebate has been paid in full. The amount of rebate payment will vary with changes in the City's tax rate and the District's appraised valuation and growth rate. Consequently, the amounts subject to rebate by the City will vary year to year. For the fiscal year ended September 30, 2017, the District collected \$251,658 in City tax rebates.

Note 12 – Master District

On May 14, 2010, the District entered into a Contract for Financing, Operation and Maintenance of Regional Facilities (the "Contract") with Fort Bend County Municipal Utility District No. 169 (the "Master District"), as subsequently amended, whereby the Master District agrees to provide or cause to be provided the regional water, wastewater, drainage, park and recreational and road facilities necessary to serve all districts located within the Master District's service area, which is approximately 3,294 acres (which includes the District). Facilities (other than parks, detention ponds, drainage ditches and non-potable water facilities) are conveyed to or accepted by the City pursuant to a Utility Agreement between the City and the Master District and City ordinance.

The Master District will charge each participating district a monthly fee for Master District operating and maintenance expenses based on the unit cost per connection, currently \$30, multiplied by the number of equivalent single-family connections reserved to the district. During the current year, the District recorded \$568,170 for the District's share of Master District operating and maintenance expenses pursuant to the Contract.

The Master District will finance park and recreational facilities by imposing park construction charges on all participating districts. These park construction charges will be calculated by the Master District from time to time based on each participating district's pro-rata share of total connections and total construction costs, as of the date the park construction charges are imposed. The District will be obligated to issue park bonds, or use available surplus operating funds, to pay the park construction charges, but the District is not required to issue park bonds in an amount that exceeds any legal limit. Under Chapter 49 of the Texas Water Code, the outstanding principal amount of park bonds may not exceed an amount equal to one percent of the value of the taxable property in the District. During the current year, the District paid \$4,427,698 in park construction charges to the Master District.

Fort Bend County Municipal Utility District No. 172
Notes to Basic Financial Statements
September 30, 2017

Note 12 – Master District (continued)

The Master District is authorized to issue contract revenue bonds for the purpose of acquiring and constructing regional water, wastewater, drainage and road facilities needed to provide services to all participating districts. The District shall contribute annually to the payment of debt service requirements based on its annual pro rata share of the total certified assessed valuation of all participating districts. As of September 30, 2017, the District’s pro rata share is 47.59%. The District levied a contract tax rate of \$0.695 per \$100 of assessed valuation and paid \$3,412,723 to the Master District for contract tax collections.

As of September 30, 2017, the Master District has \$99,205,000 contract revenue bonds outstanding. The Master District’s debt service requirements on contract revenue bonds outstanding are as follows:

Year	Principal	Interest	Total
2018	\$ 3,105,000	\$ 3,553,491	\$ 6,658,491
2019	3,530,000	3,485,213	7,015,213
2020	3,675,000	3,364,664	7,039,664
2021	3,760,000	3,241,459	7,001,459
2022	3,845,000	3,115,883	6,960,883
2023 - 2027	19,120,000	13,715,031	32,835,031
2028 - 2032	21,960,000	10,177,153	32,137,153
2033 - 2037	25,145,000	5,462,731	30,607,731
2038 - 2042	14,365,000	1,119,478	15,484,478
2043	700,000	12,250	712,250
	<u>\$ 99,205,000</u>	<u>\$ 47,247,353</u>	<u>\$ 146,452,353</u>

The Contract also authorizes the establishment of an operating and maintenance reserve by the Master District equivalent to three months’ operating and maintenance expenses, as set forth in the Master District’s annual budget. The Master District shall bill the District an amount calculated by multiplying the monthly fee (as described above) by three in order to provide the initial funding required to establish the reserve. The Master District shall adjust the reserve as needed, not less than annually. The Master District has not yet established the operating and maintenance reserve.

Note 13 – Risk Management

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

Note 14 – Subsequent Events

On November 8, 2017, the Master District issued its \$8,440,000 Series 2017B Contract Revenue Bonds at a net effective rate of 3.433499%. Proceeds from the bonds were used to reimburse developers for the construction of road facilities to serve the Master District service area.

Fort Bend County Municipal Utility District No. 172
Notes to Basic Financial Statements
September 30, 2017

Note 14 – Subsequent Events (continued)

On December 20, 2017, the District issued its \$2,700,000 Series 2017 Unlimited Tax Bonds at a net effective interest rate of 3.340294%. Proceeds from the bonds were used to reimburse the District's developers for operating advances and infrastructure improvements in the District and to repay the Series 2017 bond anticipation note.

Required Supplementary Information

*Fort Bend County Municipal Utility District No. 172
 Required Supplementary Information - Budgetary Comparison Schedule - General Fund
 For the Year Ended September 30, 2017*

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues			
Property taxes	\$ 1,435,700	\$ 1,199,470	\$ (236,230)
Investment earnings	1,500	6,111	4,611
Total Revenues	<u>1,437,200</u>	<u>1,205,581</u>	<u>(231,619)</u>
Expenditures			
Operating and administrative			
Professional fees	75,500	158,328	(82,828)
Contracted services	9,800	9,680	120
Repairs and maintenance		40,000	(40,000)
Master District fees	477,360	568,170	(90,810)
Administrative	27,180	19,151	8,029
Total Expenditures	<u>589,840</u>	<u>795,329</u>	<u>(205,489)</u>
Revenues Over Expenditures	847,360	410,252	(437,108)
Fund Balance			
Beginning of the year	975,428	975,428	
End of the year	<u>\$ 1,822,788</u>	<u>\$ 1,385,680</u>	<u>\$ (437,108)</u>

*Fort Bend County Municipal Utility District No. 172
Notes to Required Supplementary Information
September 30, 2017*

Budgets and Budgetary Accounting

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

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Texas Supplementary Information

Fort Bend County Municipal Utility District No. 172
TSI-1. Services and Rates
September 30, 2017

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

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

2. Retail Service Providers

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

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

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

District employs winter averaging for wastewater usage? Yes No

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

b. Water and Wastewater Retail Connections:

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

See accompanying auditor's report.

*Fort Bend County Municipal Utility District No. 172
 TSI-2 General Fund Expenditures
 For the Year Ended September 30, 2017*

Professional fees		
Legal	\$	147,551
Audit		9,500
Engineering		1,277
		<u>158,328</u>
Contracted services		
Bookkeeping		<u>9,680</u>
Repairs and maintenance		<u>40,000</u>
Master District fees		<u>568,170</u>
Administrative		
Directors fees		9,750
Printing and office supplies		991
Insurance		3,742
Other		4,668
		<u>19,151</u>
Total expenditures	\$	<u><u>795,329</u></u>

Reporting of Utility Services in Accordance with HB 3693:

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

See accompanying auditors' report.

Fort Bend County Municipal Utility District No. 172
TSI-3. Investments
September 30, 2017

Fund	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year
General				
TexPool	9747700005	Variable	N/A	\$ 940,692
Debt Service				
TexPool	7947700002	Variable	N/A	1,711,145
TexPool	7947700001	Variable	N/A	503,704
				<u>2,214,849</u>
Capital Projects				
TexPool	7947700003	Variable	N/A	96,036
TexPool	7947700004	Variable	N/A	832,704
				<u>928,740</u>
Total - All Funds				<u>\$ 4,084,281</u>

See accompanying auditors' report.

Fort Bend County Municipal Utility District No. 172
TSI-4. Taxes Levied and Receivable
September 30, 2017

	Maintenance Taxes	Debt Service Taxes	Contract Taxes	Totals
Taxes Receivable, Beginning of Year	\$ 5,491	\$ 5,184	\$ 12,643	\$ 23,318
Adjustments to Prior Year Tax Levy	683		403	1,086
Adjusted Receivable	6,174	5,184	13,046	24,404
2016 Original Tax Levy	1,151,792	1,452,259	3,480,414	6,084,465
Adjustments	40,445	50,997	122,216	213,658
Adjusted Tax Levy	1,192,237	1,503,256	3,602,630	6,298,123
Total to be accounted for	1,198,411	1,508,440	3,615,676	6,322,527
Tax collections:				
Current year	1,190,311	1,500,827	3,596,809	6,287,947
Prior years	6,174	5,184	13,046	24,404
Total Collections	1,196,485	1,506,011	3,609,855	6,312,351
Taxes Receivable, End of Year	\$ 1,926	\$ 2,429	\$ 5,821	\$ 10,176
Taxes Receivable, By Years				
2016	\$ 1,926	\$ 2,429	\$ 5,821	\$ 10,176
	2016	2015	2014	2013
Property Valuations:				
Land	\$114,089,442	\$102,665,392	\$ 77,539,476	\$42,210,414
Improvements	412,610,580	323,311,350	150,725,930	33,484,790
Personal Property	3,403,127	2,390,420	1,321,585	257,310
Exemptions	(11,739,107)	(18,585,512)	(11,736,537)	(3,570,156)
Total Property Valuations	\$518,364,042	\$409,781,650	\$217,850,454	\$72,382,358
Tax Rates per \$100 Valuation:				
Maintenance tax rates	\$ 0.230	\$ 0.3018	\$ 0.3276	\$ 0.6038
Debt service tax rates	0.290	0.2850	0.3000	
Contract tax rates	0.695	0.6950	0.6950	0.7000
Total Tax Rates per \$100 Valuation	\$ 1.215	\$ 1.2818	\$ 1.3226	\$ 1.3038
Adjusted Tax Levy:	\$ 6,298,123	\$ 5,252,581	\$ 2,881,290	\$ 943,721
Percentage of Taxes Collected to Taxes Levied **	99.84%	100.00%	100.00%	100.00%

* Maximum Maintenance Tax Rate Approved by Voters for water, wastewater, drainage and recreational facilities: \$1.50 on May 8, 2010

** Maximum Maintenance Tax Rate Approved by Voters for road facilities: \$0.25 on May 8, 2010

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

See accompanying auditors' report.

Fort Bend County Municipal Utility District No. 172
TSI-5. Long-Term Debt Service Requirements
Series 2013--by Years
September 30, 2017

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2018	\$ 145,000	\$ 221,800	\$ 366,800
2019	155,000	217,450	372,450
2020	160,000	212,800	372,800
2021	170,000	208,000	378,000
2022	180,000	202,560	382,560
2023	190,000	196,440	386,440
2024	200,000	189,600	389,600
2025	210,000	182,000	392,000
2026	220,000	173,600	393,600
2027	235,000	164,800	399,800
2028	245,000	154,813	399,813
2029	260,000	143,788	403,788
2030	275,000	132,088	407,088
2031	290,000	119,025	409,025
2032	305,000	105,250	410,250
2033	320,000	90,000	410,000
2034	340,000	74,000	414,000
2035	360,000	57,000	417,000
2036	380,000	39,000	419,000
2037	400,000	20,000	420,000
	<u>\$ 5,040,000</u>	<u>\$ 2,904,013</u>	<u>\$ 7,944,013</u>

See accompanying auditors' report.

Fort Bend County Municipal Utility District No. 172
TSI-5. Long-Term Debt Service Requirements
Series 2014--by Years
September 30, 2017

Due During Fiscal Years Ending	Principal Due September 1	Interest Due March 1, September 1	Total
2018	\$ 190,000	\$ 288,031	\$ 478,031
2019	200,000	283,756	483,756
2020	210,000	279,256	489,256
2021	225,000	274,531	499,531
2022	235,000	268,906	503,906
2023	250,000	261,856	511,856
2024	265,000	254,356	519,356
2025	280,000	246,406	526,406
2026	295,000	237,306	532,306
2027	320,000	226,981	546,981
2028	340,000	215,381	555,381
2029	355,000	202,631	557,631
2030	370,000	189,319	559,319
2031	385,000	174,519	559,519
2032	400,000	159,119	559,119
2033	425,000	143,119	568,119
2034	445,000	126,119	571,119
2035	465,000	108,319	573,319
2036	490,000	89,719	579,719
2037	510,000	69,506	579,506
2038	575,000	48,469	623,469
2039	600,000	24,750	624,750
	<u>\$ 7,830,000</u>	<u>\$ 4,172,356</u>	<u>\$ 12,002,356</u>

See accompanying auditors' report.

Fort Bend County Municipal Utility District No. 172
TSI-5. Long-Term Debt Service Requirements
Series 2015--by Years
September 30, 2017

Due During Fiscal Years Ending	Principal Due March 1	Interest Due March 1, September 1	Total
2018	\$ 145,000	\$ 257,294	\$ 402,294
2019	150,000	254,394	404,394
2020	160,000	251,394	411,394
2021	170,000	248,194	418,194
2022	175,000	244,583	419,583
2023	185,000	240,426	425,426
2024	195,000	235,570	430,570
2025	210,000	230,208	440,208
2026	220,000	224,433	444,433
2027	230,000	218,163	448,163
2028	245,000	211,263	456,263
2029	260,000	203,913	463,913
2030	270,000	195,788	465,788
2031	285,000	187,013	472,013
2032	305,000	177,394	482,394
2033	400,000	167,100	567,100
2034	400,000	153,600	553,600
2035	400,000	139,600	539,600
2036	400,000	125,600	525,600
2037	425,000	111,600	536,600
2038	750,000	94,600	844,600
2039	765,000	64,600	829,600
2040	850,000	34,000	884,000
	<u>\$ 7,595,000</u>	<u>\$ 4,270,730</u>	<u>\$ 11,865,730</u>

See accompanying auditors' report.

Fort Bend County Municipal Utility District No. 172
TSI-5. Long-Term Debt Service Requirements
Series 2016--by Years
September 30, 2017

Due During Fiscal Years Ending	Principal Due March 1	Interest Due March 1, September 1	Total
2018	\$ 200,000	\$ 153,000	\$ 353,000
2019	200,000	149,000	349,000
2020	200,000	145,000	345,000
2021	200,000	141,000	341,000
2022	200,000	135,000	335,000
2023	200,000	129,000	329,000
2024	200,000	123,000	323,000
2025	200,000	117,000	317,000
2026	200,000	111,000	311,000
2027	200,000	105,000	305,000
2028	200,000	99,000	299,000
2029	200,000	93,000	293,000
2030	200,000	87,000	287,000
2031	200,000	81,000	281,000
2032	200,000	75,000	275,000
2033	200,000	68,500	268,500
2034	200,000	62,000	262,000
2035	200,000	55,500	255,500
2036	200,000	49,000	249,000
2037	200,000	42,250	242,250
2038	200,000	35,250	235,250
2039	200,000	28,000	228,000
2040	200,000	20,000	220,000
2041	300,000	12,000	312,000
	<u>\$ 4,900,000</u>	<u>\$ 2,115,500</u>	<u>\$ 7,015,500</u>

See accompanying auditors' report.

Fort Bend County Municipal Utility District No. 172
TSI-5. Long-Term Debt Service Requirements
All Bonded Debt Series--by Years
September 30, 2017

Due During Fiscal Years Ending	Principal Due September 1	Interest Due March 1, September 1	Total
2018	\$ 680,000	\$ 920,125	\$ 1,600,125
2019	705,000	904,600	1,609,600
2020	730,000	888,450	1,618,450
2021	765,000	871,725	1,636,725
2022	790,000	851,049	1,641,049
2023	825,000	827,722	1,652,722
2024	860,000	802,526	1,662,526
2025	900,000	775,614	1,675,614
2026	935,000	746,339	1,681,339
2027	985,000	714,944	1,699,944
2028	1,030,000	680,457	1,710,457
2029	1,075,000	643,332	1,718,332
2030	1,115,000	604,194	1,719,194
2031	1,160,000	561,557	1,721,557
2032	1,210,000	516,763	1,726,763
2033	1,345,000	468,719	1,813,719
2034	1,385,000	415,719	1,800,719
2035	1,425,000	360,419	1,785,419
2036	1,470,000	303,319	1,773,319
2037	1,535,000	243,356	1,778,356
2038	1,525,000	178,319	1,703,319
2039	1,565,000	117,350	1,682,350
2040	1,050,000	54,000	1,104,000
2041	300,000	12,000	312,000
	<u>\$ 25,365,000</u>	<u>\$ 13,462,599</u>	<u>\$ 38,827,599</u>

See accompanying auditors' report.

*Fort Bend County Municipal Utility District No. 172
 TSI-6. Change in Long-Term Bonded Debt
 September 30, 2017*

	Bond Issue				Totals
	Series 2013	Series 2014	Series 2015	Series 2016	
Interest rate	3.00% - 5.00%	2.25% - 4.125%	2.00% - 4.00%	2.00% - 4.00%	
Dates interest payable	3/1; 9/1	3/1; 9/1	3/1; 9/1	3/1; 9/1	
Maturity dates	9/1/14 - 9/1/37	9/1/16 - 9/1/39	9/1/17 - 9/1/40	9/1/18 - 9/1/41	
Beginning bonds outstanding	\$ 5,175,000	\$ 8,010,000	\$ 7,730,000	\$ -	\$ 20,915,000
Bonds issued				4,900,000	4,900,000
Bonds retired	(135,000)	(180,000)	(135,000)		(450,000)
Ending bonds outstanding	<u>\$ 5,040,000</u>	<u>\$ 7,830,000</u>	<u>\$ 7,595,000</u>	<u>\$ 4,900,000</u>	<u>\$ 25,365,000</u>
Interest paid during fiscal year	<u>\$ 225,850</u>	<u>\$ 292,081</u>	<u>\$ 259,995</u>	<u>\$ 114,750</u>	<u>\$ 892,676</u>
Paying agent's name and city All Series	<u>The Bank of New York Mellon Trust Company, N.A. Dallas, Texas</u>				

Bond Authority:	Water, Sewer and Drainage Bonds	Parks and Recreational Bonds	Road Bonds
	Amount Authorized by Voters	\$ 171,878,000	\$ 80,640,000
Amount Issued	(21,215,000)	(4,900,000)	
Remaining To Be Issued	<u>\$ 150,663,000</u>	<u>\$ 75,740,000</u>	<u>\$ 31,710,000</u>

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

Debt Service Fund cash and investments balances as of September 30, 2017: \$ 2,239,562

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 1,617,817

See accompanying auditors' report.

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Fort Bend County Municipal Utility District No. 172
TSI-7a. Comparative Schedule of Revenues and Expenditures - General Fund
For the Last Five Fiscal Years

	Amounts				
	2017	2016	2015	2014	2013
Revenues					
Property taxes	\$ 1,199,470	\$ 1,231,366	\$ 729,103	\$ 459,142	\$ 102,460
Interest	6,111	795	309	46	
Total Revenues	<u>1,205,581</u>	<u>1,232,161</u>	<u>729,412</u>	<u>459,188</u>	<u>102,460</u>
Expenditures					
Operating and administrative					
Professional fees	158,328	102,013	52,344	58,377	75,775
Contracted services	9,680	9,620	8,645	11,082	6,330
Repairs and maintenance	40,000				
Master District fees	568,170	457,200	443,700	406,080	211,440
Administrative	19,151	17,547	15,352	14,110	15,128
Other					500
Total Expenditures	<u>795,329</u>	<u>586,380</u>	<u>520,041</u>	<u>489,649</u>	<u>309,173</u>
Revenues Over/(Under) Expenditures	<u>\$ 410,252</u>	<u>\$ 645,781</u>	<u>\$ 209,371</u>	<u>\$ (30,461)</u>	<u>\$ (206,713)</u>

* Percent is negligible

See accompanying auditors' report.

Percent of Fund Total Revenues

2017	2016	2015	2014	2013
99%	100%	100%	100%	100%
1%	*	*	*	
100%	100%	100%	100%	100%
13%	8%	7%	13%	74%
1%	1%	1%	2%	6%
3%				
47%	37%	61%	88%	206%
2%	1%	2%	3%	15%
				*
66%	47%	71%	106%	301%
34%	53%	29%	(6%)	(201%)

Fort Bend County Municipal Utility District No. 172
TSI-7b. Comparative Schedule of Revenues and Expenditures - Debt Service Fund
For the Last Five Fiscal Years

	Amounts				
	2017	2016	2015	2014	2013
Revenues					
Property taxes	\$5,112,897	\$3,998,379	\$2,176,352	\$ 519,882	\$ 123,960
Penalties and interest	50,373	24,083	13,238	3,754	702
City of Fulshear tax rebates	251,658	221,102	147,898	57,073	
Accrued interest on bonds sold	5,525	10,111	6,576	10,849	
Miscellaneous	120	90	140	270	820
Investment earnings	25,418	4,016	2,060	899	63
Total Revenues	5,445,991	4,257,781	2,346,264	592,727	125,545
Expenditures					
Tax collection services	77,029	53,424	39,084	12,680	6,987
Debt service					
Principal	450,000	300,000			
Interest and fees	896,174	724,155	452,180	173,313	
Contractual obligation	3,412,723	2,677,799	1,461,329	458,085	110,193
Total Expenditures	4,835,926	3,755,378	1,952,593	644,078	117,180
Revenues Over/(Under) Expenditures	\$ 610,065	\$ 502,403	\$ 393,671	\$ (51,351)	\$ 8,365
Total Active Retail Water Connections	N/A	N/A	N/A	N/A	N/A
Total Active Retail Wastewater Connections	N/A	N/A	N/A	N/A	N/A

*Percentage is negligible

See accompanying auditors' report.

Percent of Fund Total Revenues

2017	2016	2015	2014	2013
94%	94%	93%	87%	98%
1%	1%	1%	1%	1%
5%	5%	6%	10%	
*	*	*	2%	
*	*	*	*	1%
*	*	*	*	*
100%	100%	100%	100%	100%
1%	1%	2%	2%	6%
8%	7%			
16%	17%	19%	29%	
63%	63%	62%	77%	88%
88%	88%	83%	108%	94%
12%	12%	17%	(8%)	6%

Fort Bend County Municipal Utility District No. 172
TSI-8. Board Members, Key Personnel and Consultants
For the Year Ended September 30, 2017

Complete District Mailing Address: c/o Allen Boone Humphries Robinson LLP
 3200 Southwest Freeway, Suite 2600, Houston, TX 77027

District Business Telephone Number: (713) 860-6400

Submission Date of the most recent District Registration Form
 (TWC Sections 36.054 and 49.054): June 26, 2017

Limit on Fees of Office that a Director may receive during a fiscal year: \$ 7,200
 (Set by Board Resolution -- TWC Section 49.0600)

Names:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid *	Expense Reimburse- ments	Title at Year End
Board Members				
William Conlan	05/14 - 05/18	\$ 2,400	\$ 381	President
Kenneth Martinec	05/16 - 05/20	2,850	382	Vice President
William Martin	06/17 - 05/20	450	96	Secretary
Jennifer Quade	05/14 - 05/18	1,800	366	Assistant Vice President
Rebecca Mulvaney	05/14 - 05/18	1,500	354	Assistant Secretary
Holly Miday	11/16 - 06/17	750	153	Former Director
Consultants				
Allen Boone Humphries Robinson LLP	2008	Amounts Paid		Attorney
<i>General legal fees</i>		\$ 129,346		
<i>Bond counsel</i>		153,059		
Andrews Kurth Kenyon	2016	31,309		Litigation Attorney
F. Matuska, Inc.	2010	11,095		Bookkeeper
Assessments of the Southwest, Inc.	2010	18,468		Tax Collector
Fort Bend Central Appraisal District	Legislation	40,010		Property Valuation
Perdue Brandon Fielder Collins & Mott, LLP	2011	14,721		Delinquent Tax Attorney
Brown & Gay Engineers, Inc.	2010	1,547		Engineer
McGrath & Co., PLLC	Annual	14,550		Auditor
FirstSouthwest, a Division of Hilltop Securities	2010	107,334		Financial Advisor

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

**FORT BEND COUNTY MUNICIPAL
UTILITY DISTRICT NO. 173**

FORT BEND COUNTY, TEXAS

FINANCIAL REPORT

September 30, 2017

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McGrath & Co., PLLC

Certified Public Accountants

P.O. Box 270148
Houston, Texas 77277

Mark W. McGrath CPA
mark@mcgrath-co.com

Colette M. Garcia CPA
colette@mcgrath-co.com

Independent Auditors' Report

Board of Directors
Fort Bend County Municipal Utility District No. 173
Fort Bend County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Fort Bend County Municipal Utility District No. 173, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

*Board of Directors
Fort Bend County Municipal Utility District No. 173
Fort Bend County, Texas*

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Fort Bend County Municipal Utility District No. 173, as of September 30, 2017, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other-Matters

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The Texas Supplementary Information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Texas Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied to the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

McGuire & Co, P.C.

Houston, Texas
January 10, 2018

Management's Discussion and Analysis

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**Fort Bend County Municipal Utility District No. 173
Management's Discussion and Analysis
September 30, 2017**

Using this Annual Report

Within this section of the financial report of Fort Bend County Municipal Utility District No. 173 (the "District"), the District's Board of Directors provides a narrative discussion and analysis of the financial activities of the District for the fiscal year ended September 30, 2017. This analysis should be read in conjunction with the independent auditors' report and the basic financial statements that follow this section.

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

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

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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

Fort Bend County Municipal Utility District No. 173
Management's Discussion and Analysis
September 30, 2017

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

Fund Financial Statements

The fund financial statements include the *Governmental Funds Balance Sheet* and the *Governmental Funds Revenues, Expenditures and Changes in Fund Balances*. The focus of fund financial statements is on specific activities of the District rather than the District as a whole, reported using modified accrual accounting. These statements report on the District's use of available financial resources and the balances of available financial resources at the end of the year. Except for the General Fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties, governmental statutes or regulations.

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

Financial Analysis of the District as a Whole

The District's net position at September 30, 2017, was negative \$13,202,938. The District's net position is negative because the District incurs debt to construct water, sewer and drainage facilities which it conveys to the City of Fulshear. A comparative summary of the District's overall financial position, as of September 30, 2017 and 2016, is as follows:

	2017	2016
Current and other assets	<u>\$ 1,178,793</u>	<u>\$ 70,415</u>
Current liabilities	3,953,145	5,431
Long-term liabilities	<u>10,428,586</u>	<u>7,571,695</u>
Total liabilities	<u>14,381,731</u>	<u>7,577,126</u>
Net position		
Restricted	237,644	56,344
Unrestricted	<u>(13,440,582)</u>	<u>(7,563,055)</u>
Total net position	<u>\$ (13,202,938)</u>	<u>\$ (7,506,711)</u>

Fort Bend County Municipal Utility District No. 173
Management's Discussion and Analysis
September 30, 2017

The total net position of the District decreased during the current fiscal year by \$5,696,227. A comparative summary of the District's *Statement of Activities* for the past two years is as follows:

	<u>2017</u>	<u>2016</u>
Revenues		
Property taxes, penalties and interest	\$ 1,151,439	\$ 448,453
City of Fulshear tax rebates	40,858	
Other	117,134	666
Total revenues	<u>1,309,431</u>	<u>449,119</u>
Expenses		
Operating and administrative	751,834	264,142
Contractual obligation	560,464	216,066
Interest and fees	153,495	
Developer interest	319,939	
Debt issuance costs	467,675	
Total expenses	<u>2,253,407</u>	<u>480,208</u>
Change in net position before other item	(943,976)	(31,089)
Other item		
Transfers to other governments	<u>(4,752,251)</u>	<u>(3,893,000)</u>
Change in net position	(5,696,227)	(3,924,089)
Net position, beginning of year	(7,506,711)	(3,582,622)
Net position, end of year	<u>\$ (13,202,938)</u>	<u>\$ (7,506,711)</u>

Financial Analysis of the District's Funds

The District's combined fund balances, as of September 30, 2017, were \$1,095,009, which consists of negative \$57,785 in the General Fund, \$248,404 in the Debt Service Fund and \$904,390 in the Capital Projects Fund.

General Fund

A comparative summary of the General Fund's financial position as of September 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Total assets	\$ 21,386	\$ 14,071
Total liabilities	\$ 77,554	\$ 5,431
Total deferred inflows	1,617	
Total fund balance	<u>(57,785)</u>	<u>8,640</u>
Total liabilities and fund balance	<u>\$ 21,386</u>	<u>\$ 14,071</u>

Fort Bend County Municipal Utility District No. 173
Management's Discussion and Analysis
September 30, 2017

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

	2017	2016
Total revenues	\$ 553,553	\$ 216,208
Total expenditures	(648,978)	(262,029)
Revenues under expenditures	(95,425)	(45,821)
Other changes in fund balance	29,000	33,000
Net change in fund balance	<u>\$ (66,425)</u>	<u>\$ (12,821)</u>

The District manages its activities with the objectives of ensuring that expenditures will be adequately covered by revenues each year and that an adequate fund balance is maintained. The District's primary financial resources in the General Fund are from a property tax levy and developer advances. These financial resources are influenced by a variety of factors:

- Property tax revenues are dependent upon assessed values in the District and the maintenance tax rate set by the District. Property tax revenues increased from prior year because the District increased the maintenance and operations component of the levy and because assessed values increased from prior year.
- The District's developer advances funds to the District as needed to pay operating costs.

Debt Service Fund

A comparative summary of the Debt Service Fund's financial position as of September 30, 2017 and 2016 is as follows:

	2017	2016
Total assets	<u>\$ 250,805</u>	<u>\$ 56,344</u>
Total deferred inflows	\$ 2,401	\$ -
Total fund balance	248,404	56,344
Total deferred inflows and fund balance	<u>\$ 250,805</u>	<u>\$ 56,344</u>

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

	2017	2016
Total revenues	\$ 645,578	\$ 232,911
Total expenditures	(699,331)	(218,179)
Revenues over/(under) expenditures	(53,753)	14,732
Other changes in fund balance	245,813	
Net change in fund balance	<u>\$ 192,060</u>	<u>\$ 14,732</u>

The District's financial resources in the Debt Service Fund in the current year are from contract tax revenues, City of Fulshear tax rebates, and capitalized interest from the sale of bonds. During the prior

Fort Bend County Municipal Utility District No. 173
Management's Discussion and Analysis
September 30, 2017

year, financial resources were from contract tax revenues. The difference between these financial resources and debt service requirements resulted in an increase in fund balance each year. It is important to note that the District sets its annual debt service tax rate as recommended by its financial advisor, who monitors projected cash flows in the Debt Service Fund to ensure that the District will be able to meet its future debt service requirements and contract obligations to Fort Bend County Municipal Utility District No. 169.

Capital Projects Fund

A Capital Projects Fund was established to account for the expenditure of proceeds from the issuance of the District's Series 2016 Unlimited Tax Bonds and Series 2017 Bond Anticipation Note. A summary of the financial position of the Capital Projects Fund as of September 30, 2017 is as follows:

Total assets	\$ 906,602
Total liabilities	\$ 2,212
Total fund balance	904,390
Total liabilities and fund balance	\$ 906,602

A summary of the activities for the Capital Projects Fund for the current year is as follows:

Total revenues	\$ 115,812
Total expenditures	(7,294,409)
Revenues under expenditures	(7,178,597)
Other changes in fund balance	8,082,987
Net change in fund balance	\$ 904,390

General Fund Budgetary Highlights

The Board of Directors adopts an annual unappropriated budget for the General Fund prior to the beginning of each fiscal year. The Board amended the budget during the year to reflect changes in anticipated revenues and expenditures.

Since the District's budget is primarily a planning tool, actual results varied from the budgeted amounts. Actual net change in fund balance was \$144,215 less than budgeted. The *Budgetary Comparison Schedule* on page 34 of this report provides variance information per financial statement line item.

Capital Assets

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

**Fort Bend County Municipal Utility District No. 173
Management's Discussion and Analysis
September 30, 2017**

The District and the City of Fulshear (the "City") have entered into an agreement which obligates the District to construct water, wastewater, and certain storm drainage facilities to serve the District and, when completed, to convey title to the facilities to the City. For the year ended September 30, 2017, capital assets in the amount of \$4,752,251 have been completed and recorded as transfers to other governments in the government-wide statements. Additional information is presented in Note 10.

Long-Term Debt and Related Liabilities

As of September 30, 2017, the District owes \$5,728,586 to developers for completed projects and operating advances. As discussed in Note 6, the District has an additional commitment in the amount of \$1,129,024 for projects under construction by the developers. As previously mentioned, the District will owe its developers for these projects upon completion of construction, at which time the capital assets and related liability will be recorded on the District's financial statements. The District intends to reimburse the developers from proceeds of future bond issues or other lawfully available funds.

During the year, the District issued \$4,800,000 in unlimited tax bonds, all of which were outstanding as of the end of the fiscal year. At September 30, 2017, the District had \$98,576,000 unlimited tax bonds authorized, but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District and the refunding of said bonds; \$45,920,000 for parks and recreational facilities and the refunding of said bonds; and \$24,430,000 for road improvements and the refunding of said bonds.

During the year, the District issued a \$3,748,000 bond anticipation note (BAN) to provide short term financing for developer reimbursements. The District retired the BAN with proceeds from the issuance of long-term debt. See Note 5 for additional information.

Next Year's Budget

In establishing the budget for the next fiscal year, the Board considered various economic factors that may affect the District, most notably projected revenues from property taxes and the projected cost of operating the District. A comparison of next year's budget to current year actual amounts for the General Fund is as follows:

	<u>2017 Actual</u>	<u>2018 Budget</u>
Total revenues	\$ 553,553	\$ 631,320
Total expenditures	<u>(648,978)</u>	<u>(631,320)</u>
Revenues under expenditures	(95,425)	
Other changes in fund balance	<u>29,000</u>	
Net change in fund balance	(66,425)	
Beginning fund balance	<u>8,640</u>	<u>(57,785)</u>
Ending fund balance	<u><u>\$ (57,785)</u></u>	<u><u>\$ (57,785)</u></u>

*Fort Bend County Municipal Utility District No. 173
Management's Discussion and Analysis
September 30, 2017*

Property Taxes

The District's property tax base increased approximately \$90,970,000 for the 2017 tax year from \$85,251,581 to \$176,221,729. This increase was primarily due to new construction in the District. For the 2017 tax year, the District has levied a maintenance tax rate of \$0.3722 per \$100 of assessed value; a contract tax rate of \$0.695 per \$100 assessed value and a debt service tax rate of \$0.275 per \$100 of assessed value, for a total combined tax rate of \$1.3422 per \$100. Tax rates for the 2016 tax year were \$0.64899 per \$100 for maintenance and operations and \$0.695 per \$100 for contract tax.

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Basic Financial Statements

Fort Bend County Municipal Utility District No. 173
Statement of Net Position and Governmental Funds Balance Sheet
September 30, 2017

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
Assets						
Cash	\$ 12,040	\$ 254,911	\$ 907,824	\$ 1,174,775	\$ -	\$ 1,174,775
Taxes receivable	1,617	2,401		4,018		4,018
Internal balances	7,729	(6,507)	(1,222)			
Total Assets	<u>\$ 21,386</u>	<u>\$ 250,805</u>	<u>\$ 906,602</u>	<u>\$ 1,178,793</u>		<u>1,178,793</u>
Liabilities						
Accounts payable	\$ 77,137	\$ -	\$ 2,212	\$ 79,349		79,349
Other payables	417			417		417
Accrued interest payable					25,379	25,379
Bond anticipation note payable					3,748,000	3,748,000
Due to developers					5,728,586	5,728,586
Long-term debt						
Due within one year					100,000	100,000
Due after one year					4,700,000	4,700,000
Total Liabilities	<u>77,554</u>		<u>2,212</u>	<u>79,766</u>	<u>14,301,965</u>	<u>14,381,731</u>
Deferred Inflows of Resources						
Deferred property taxes	<u>1,617</u>	<u>2,401</u>		<u>4,018</u>	<u>(4,018)</u>	
Fund Balances/Net Position						
Fund Balances						
Restricted		248,404	904,390	1,152,794	(1,152,794)	
Unassigned	(57,785)			(57,785)	57,785	
Total Fund Balances	<u>(57,785)</u>	<u>248,404</u>	<u>904,390</u>	<u>1,095,009</u>	<u>(1,095,009)</u>	
Total Liabilities, Deferred Inflows						
Total Liabilities and Fund Balances	<u>\$ 21,386</u>	<u>\$ 250,805</u>	<u>\$ 906,602</u>	<u>\$ 1,178,793</u>		
Net Position						
Restricted for debt service					237,644	237,644
Unrestricted					(13,440,582)	(13,440,582)
Total Net Position					<u>\$ (13,202,938)</u>	<u>\$ (13,202,938)</u>

See notes to basic financial statements.

Fort Bend County Municipal Utility District No. 173

**Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances
For the Year Ended September 30, 2017**

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
Revenues						
Property taxes	\$553,430	\$591,811	\$ -	\$ 1,145,241	\$ 3,348	\$ 1,148,589
Penalties and interest		2,180		2,180	670	2,850
City of Fulshear tax rebates		40,858		40,858		40,858
Accrued interest on bonds sold		9,530		9,530	(9,530)	
Capacity charges			114,692	114,692		114,692
Miscellaneous		332		332		332
Investment earnings	123	867	1,120	2,110		2,110
Total Revenues	553,553	645,578	115,812	1,314,943	(5,512)	1,309,431
Expenditures/Expenses						
Operating and administrative						
Professional fees	160,154	418	101,458	262,030		262,030
Contracted services	26,321	413		26,734		26,734
Administrative	18,203	390	177	18,770		18,770
Master District fees	444,300			444,300		444,300
Capital outlay			6,405,160	6,405,160	(6,405,160)	
Debt service						
Contractual obligation		560,464		560,464		560,464
Interest and fees		137,646		137,646	15,849	153,495
Developer interest			319,939	319,939		319,939
Debt issuance costs			467,675	467,675		467,675
Total Expenditures/Expenses	648,978	699,331	7,294,409	8,642,718	(6,389,311)	2,253,407
Revenues Under						
Expenditures/Expenses	(95,425)	(53,753)	(7,178,597)	(7,327,775)	6,383,799	(943,976)
Other Financing Sources/(Uses)						
Proceeds from sale of bonds		245,813	4,554,187	4,800,000	(4,800,000)	
Proceeds from bond anticipation note			3,748,000	3,748,000	(3,748,000)	
Developer advances	29,000			29,000	(29,000)	
Repayment of operating advances			(219,200)	(219,200)	219,200	
Other Item						
Transfers to other governments					(4,752,251)	(4,752,251)
Net Change in Fund Balances	(66,425)	192,060	904,390	1,030,025	(1,030,025)	
Change in Net Position					(5,696,227)	(5,696,227)
Fund Balance/Net Position						
Beginning of the year	8,640	56,344		64,984	(7,571,695)	(7,506,711)
End of the year	\$ (57,785)	\$248,404	\$ 904,390	\$ 1,095,009	\$(14,297,947)	\$(13,202,938)

See notes to basic financial statements.

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Fort Bend County Municipal Utility District No. 173
Notes to Basic Financial Statements
September 30, 2017

Note 1 – Summary of Significant Accounting Policies

The accounting policies of Fort Bend County Municipal Utility District No. 173 (the “District”) conform with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board. The following is a summary of the most significant policies:

Creation

The District was organized, created and established pursuant to an order of the Texas Commission on Environmental Quality dated August 28, 2007, and operates in accordance with the Texas Water Code, Chapters 49 and 54. The Board of Directors held its first meeting on June 30, 2008 and the first bonds were sold on November 22, 2016.

The District’s primary activities include construction of water, sewer, drainage, recreational, and road facilities. As further discussed in Note 10, the District transfers certain of these facilities to the City of Fulshear upon completion of construction. The District has contracted with various consultants to provide services to operate and administer the affairs of the District. The District has no employees, related payroll or pension costs.

Reporting Entity

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

Government-Wide and Fund Financial Statements

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

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

Fort Bend County Municipal Utility District No. 173
Notes to Basic Financial Statements
September 30, 2017

Note 1 – Summary of Significant Accounting Policies (continued)

Government-Wide and Fund Financial Statements (continued)

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

- The General Fund is used to account for the operations of the District and all other financial transactions not reported in other funds. The principal source of revenue is property taxes. Expenditures include costs associated with the daily operations of the District.
- The Debt Service Fund is used to account for the payment of interest and principal on the District's general long-term debt and contractual obligations to Fort Bend County Municipal Utility District No. 169 (the "Master District"). The primary sources of revenue in the Debt Service Fund are property taxes and City of Fulshear tax rebates. Expenditures include costs incurred in assessing and collecting these taxes.
- The Capital Projects Fund is used to account for the expenditures of bond proceeds for the construction of the District's water, sewer and drainage facilities.

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

Measurement Focus and Basis of Accounting

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

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

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

Note 1 – Summary of Significant Accounting Policies (continued)

Use of Restricted Resources

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

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Receivables from and payables to external parties are reported separately and are not offset, unless a legal right of offset exists. At September 30, 2017, an allowance for uncollectible accounts was not considered necessary.

Interfund Activity

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

Deferred Inflows and Outflows of Financial Resources

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

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

Fund Balances – Governmental Funds

Governmental accounting standards establish the following fund balance classifications:

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

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

Fort Bend County Municipal Utility District No. 173
Notes to Basic Financial Statements
September 30, 2017

Note 1 – Summary of Significant Accounting Policies (continued)

Fund Balances – Governmental Funds (continued)

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

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

Unassigned – deficit fund balance in the General Fund.

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses/expenditures during the period reported. These estimates include, among others, the value of amounts due to developers and the value of capital assets transferred to the City of Fulshear. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from the estimates.

*Fort Bend County Municipal Utility District No. 173
Notes to Basic Financial Statements
September 30, 2017*

Note 2 – Adjustment from Governmental to Government-wide Basis

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

Total fund balance, governmental funds		\$ 1,095,009
<p>Property taxes receivable and related penalties and interest have been levied and are due, but are not available soon enough to pay current period expenditures and, therefore, are deferred in the funds.</p>		
Property taxes receivable	\$ 3,348	
Penalty and interest receivable	670	
Change due to property taxes		4,018
<p>Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. The difference consists of:</p>		
Bonds payable, net	(4,800,000)	
Bond anticipation note payable	(3,748,000)	
Interest payable on bonds	(25,379)	
Change due to long-term debt		(8,573,379)
Amounts due to the District's developers for prefunded construction and operating advances are recorded as a liability in the <i>Statement of Net Position</i> .		(5,728,586)
Total net position - governmental activities		\$ (13,202,938)

*Fort Bend County Municipal Utility District No. 173
Notes to Basic Financial Statements
September 30, 2017*

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

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

Net change in fund balances - total governmental funds	\$ 1,030,025
Governmental funds do not report revenues that are not available to pay current obligations. In contrast, such revenues are reported in the <i>Statement of Activities</i> when earned. The difference is for property taxes and related penalties and interest.	4,018
Capital outlays for developer reimbursements are recorded as expenditures in the fund, but reduce the liability for due to developers in the <i>Statement of Net Position</i> .	6,405,160
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal uses current financial resources. However, neither transaction has any effect on net assets. Other elements of debt financing are reported differently between the fund and government wide statements.	
Issuance of long term debt	\$ (4,800,000)
Issuance of bond anticipation note	(3,748,000)
Interest expense accrual	<u>(25,379)</u>
	(8,573,379)
Amounts received from the District's developer for operating advances provide financial resources at the fund level, but are recorded as a liability in the <i>Statement of Net Position</i> .	(29,000)
Amounts repaid to the District's developer for operating advances do not use financial resources at the fund level, but reduce the liability in the <i>Statement of Net Position</i> .	219,200
The District conveys its infrastructure to the City of Fulshear upon completion of construction. Since these improvements are funded by the developers, financial resources are not expended in the fund financial statements; however, in the <i>Statement of Activities</i> , these amounts are reported as transfers to other governments.	(4,752,251)
Change in net position of governmental activities	<u><u>\$ (5,696,227)</u></u>

Fort Bend County Municipal Utility District No. 173
Notes to Basic Financial Statements
September 30, 2017

Note 3 – Deposits and Investments

Deposit Custodial Credit Risk

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

Investments

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

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

Note 4 – Amounts Due to/from Other Funds

Amounts due to/from other funds at September 30, 2017, consist of the following:

	Interfund	
	Receivable	Payable
General Fund	\$ 7,729	\$ -
Debt Service Fund		6,507
Capital Projects Fund		1,222
	<u>\$ 7,729</u>	<u>\$ 7,729</u>

Fort Bend County Municipal Utility District No. 173
Notes to Basic Financial Statements
September 30, 2017

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

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

Note 5 – Bond Anticipation Note

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

On July 19, 2017, the District issued a \$3,748,000 BAN with an interest rate of 1.63%, which is due on July 18, 2018. This BAN was repaid subsequent to year end. See Note 14 for additional information.

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

Beginning balance	\$ -
Amounts borrowed	3,748,000
Ending balance	<u>\$ 3,748,000</u>

Note 6 – Due to Developers

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

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

Due to developers, beginning of year	\$ 7,571,695
Developer reimbursements	(6,405,160)
Repayment of operating advances	(219,200)
Developer funded construction and adjustments	4,752,251
Operating advances from developer	29,000
Due to developers, end of year	<u>\$ 5,728,586</u>

Fort Bend County Municipal Utility District No. 173
Notes to Basic Financial Statements
September 30, 2017

Note 6 – Due to Developers (continued)

In addition, the District will owe the developers approximately \$1,129,024, which is included in the following schedule of contractual commitments. The exact amount is not known until approved by the TCEQ and verified by the District’s auditor. As previously noted, these projects will be reported in the government-wide financial statements upon completion of construction.

	Contract Amount	Amounts Paid	Remaining Commitment
Water, sewer and drainage facilities:			
Creek Bend Lane Extension No. 10 *	\$ 593,962	\$ 302,323	\$ 291,639
Creek Cove at Cross Creek Ranch, Section 11	535,062		535,062
	<u>\$ 1,129,024</u>	<u>\$ 302,323</u>	<u>\$ 826,701</u>

* Denotes District share only

Note 7 – Long-Term Debt

Long-term debt is comprised of the following:

Bonds payable	<u>\$ 4,800,000</u>
Due within one year	<u>\$ 100,000</u>

The District’s bonds payable at September 30, 2017, consists of unlimited tax bonds as follows:

Series	Amounts Outstanding	Original Issue	Interest Rates	Maturity Date, Serially, Beginning/ Ending	Interest Payment Dates	Call Dates
2016	\$ 4,800,000	\$ 4,800,000	2.00% - 3.875%	September 1, 2018/2042	March 1, September 1	September 1, 2024

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

At September 30, 2017, the District had authorized but unissued bonds in the amount of \$98,576,000 for water, sewer and drainage facilities and refunding of said bonds; \$45,920,000 for park and recreational facilities and refunding of said bonds; and \$24,430,000 for road improvements and refunding of said bonds.

Fort Bend County Municipal Utility District No. 173
Notes to Basic Financial Statements
September 30, 2017

Note 7 – Long-Term Debt (continued)

On November 22, 2016, the District issued its \$4,800,000 Series 2016 Unlimited Tax Bonds at a net effective interest rate of 3.764778%. Proceeds of the bonds were used to reimburse developers for operating advances and the cost of capital assets constructed within the District plus interest expense at the net effective interest rate of the bonds and to pay capitalized interest into the Debt Service Fund.

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

Bonds payable, beginning of year	\$	-
Bonds issued		4,800,000
Bonds payable, end of year	\$	<u>4,800,000</u>

Fort Bend County Municipal Utility District No. 173
Notes to Basic Financial Statements
September 30, 2017

Note 7 – Long-Term Debt (continued)

As of September 30, 2017, annual debt service requirements on bonds outstanding are as follows:

Year	Principal	Interest	Totals
2018	\$ 100,000	\$ 163,375	\$ 263,375
2019	105,000	161,375	266,375
2020	110,000	159,275	269,275
2021	115,000	157,075	272,075
2022	125,000	153,625	278,625
2023	130,000	149,875	279,875
2024	135,000	145,975	280,975
2025	140,000	141,925	281,925
2026	150,000	137,725	287,725
2027	155,000	133,225	288,225
2028	165,000	128,575	293,575
2029	170,000	123,625	293,625
2030	180,000	118,313	298,313
2031	190,000	112,463	302,463
2032	200,000	106,050	306,050
2033	210,000	99,050	309,050
2034	220,000	91,700	311,700
2035	230,000	83,725	313,725
2036	240,000	75,388	315,388
2037	255,000	66,388	321,388
2038	265,000	56,825	321,825
2039	280,000	46,888	326,888
2040	295,000	36,038	331,038
2041	310,000	24,606	334,606
2042	325,000	12,594	337,594
	<u>\$ 4,800,000</u>	<u>\$ 2,685,678</u>	<u>\$ 7,485,678</u>

Note 8 – Property Taxes

On May 8, 2010, the voters of the District authorized the District’s Board of Directors to levy taxes annually for use in financing general operations limited to \$1.50 per \$100 of assessed value and \$0.25 per \$100 of assessed value for maintenance of road facilities. The District’s bond resolutions require that property taxes be levied for use in paying interest and principal on long-term debt and for use in paying the cost of assessing and collecting taxes. Taxes levied to finance debt service requirements on long-term debt are without limitation as to rate or amount.

Fort Bend County Municipal Utility District No. 173
Notes to Basic Financial Statements
September 30, 2017

Note 8 – Property Taxes (continued)

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

Property taxes are collected based on rates adopted in the year of the levy. The District’s 2017 fiscal year was financed through the 2016 tax levy, pursuant to which the District levied property taxes of \$1.34399 per \$100 of assessed value, of which \$0.64899 was allocated to maintenance and operations and \$0.695 was allocated to contractual obligations. The resulting tax levy was \$1,145,773 on the adjusted taxable value of \$85,251,581.

Property taxes receivable, at September 30, 2017, consisted of the following:

Current year taxes receivable	\$	3,348
Penalty and interest receivable		670
Property taxes receivable	<u>\$</u>	<u>4,018</u>

Note 9 – Transfers to Other Governments

In accordance with an agreement between the District and the City of Fulshear (the “City”), the District transfers certain facilities to the City (see Note 10). Accordingly, the District does not record these capital assets in the *Statement of Net Position*, but instead reports the completed projects as transfers to other governments on the *Statement of Activities*. For the year ended September 30, 2017, the total amount of projects completed and transferred to the City was \$4,752,251.

Note 10 – Utility Agreement

On May 14, 2010, the District entered into a Utility Agreement, as subsequently amended, (the “Utility Agreement”) with the City of Fulshear (the “City”), for construction and extension of water distribution lines, sanitary sewer collection systems and drainage facilities (the “System”) to serve the District. As the System is acquired or constructed, the District will transfer the System (except for detention ponds and drainage ditches) to the City, but will reserve a security interest in the System. The Utility Agreement expires May 14, 2047, which is 30 years from the year after the year the District first issued unlimited tax bonds.

The City will establish water and sewer rates and charges to all users in the District. All revenue derived from these charges belongs to the City.

Fort Bend County Municipal Utility District No. 173
Notes to Basic Financial Statements
September 30, 2017

Note 10 – Utility Agreement (continued)

The City levies and collects ad valorem taxes on taxable property within the District as it does with any other property located in the City. Pursuant to the Utility Agreement, the City has agreed to rebate to the District all of the City's ad valorem tax revenue from the property in the District in excess of \$0.10 per \$100 of assessed value starting with the year after the year the District first issues unlimited tax bonds. The City will continue to pay the tax rebate for 30 years from the year after the year the District first issued unlimited tax bonds. If the City's tax rate is equal to or less than \$0.10 then no tax rebate is due. The City will pay the rebate portion of the taxes actually collected to the District on February 28 of the year following the year in which the taxes are levied and quarterly thereafter until the tax rebate has been paid in full. The amount of rebate payment will vary with changes in the City's tax rate and the District's appraised valuation and growth rate; consequently, the amounts subject to rebate by the City will vary year to year. During the current fiscal year, the District received \$40,858 in rebates from the City.

Note 11 – Master District

On May 14, 2010, the District entered into a Contract for Financing, Operation and Maintenance of Regional Facilities (the "Contract") with Fort Bend County Municipal Utility District No. 169 (the "Master District"), as subsequently amended, whereby the Master District agrees to provide or cause to be provided the regional water, wastewater, drainage, park and recreational and road facilities necessary to serve all districts located within the Master District's service area, which is approximately 3,294 acres (which includes the District). Facilities (other than parks, detention ponds, drainage ditches and non-potable water facilities) are conveyed to or accepted by the City pursuant to a Utility Agreement between the City and the Master District and City ordinance.

The Master District will charge each participating district a monthly fee for Master District operating and maintenance expenses based on the unit cost per connection, currently \$30, multiplied by the number of equivalent single-family connections reserved to the District. During the current year, the District recorded \$444,300 for the District's share of Master District operating and maintenance expenses pursuant to the Contract.

The Master District will finance park and recreational facilities by imposing park construction charges on all participating districts. These park construction charges will be calculated by the Master District from time to time based on each participating district's pro-rata share of total connections and total construction costs, as of the date the park construction charges are imposed. The District will be obligated to issue park bonds, or use available surplus operating funds, to pay the park construction charges, but the District is not required to issue park bonds in an amount that exceeds any legal limit. Under Chapter 49 of the Texas Water Code, the outstanding principal amount of park bonds may not exceed an amount equal to one percent of the value of the taxable property in the District.

Fort Bend County Municipal Utility District No. 173
Notes to Basic Financial Statements
September 30, 2017

Note 11 – Master District (continued)

The Master District is authorized to issue contract revenue bonds for the purpose of acquiring and constructing regional water, wastewater, drainage and road facilities needed to provide services to all participating districts. The District shall contribute annually to the payment of debt service requirements based on its annual pro rata share of the total certified assessed valuation of all participating districts. As of September 30, 2017, the District’s pro rata share is 7.86%. The District levied a contract tax rate of \$0.695 per \$100 of assessed valuation and paid \$560,464 to the Master District for contract tax collections.

As of September 30, 2017, the Master District has \$99,205,000 contract revenue bonds outstanding. The Master District’s debt service requirements on contract revenue bonds and contract revenue refunding bonds outstanding are as follows:

Year	Principal	Interest	Total
2018	\$ 3,105,000	\$ 3,553,491	\$ 6,658,491
2019	3,530,000	3,485,213	7,015,213
2020	3,675,000	3,364,664	7,039,664
2021	3,760,000	3,241,459	7,001,459
2022	3,845,000	3,115,883	6,960,883
2023 - 2027	19,120,000	13,715,031	32,835,031
2028 - 2032	21,960,000	10,177,153	32,137,153
2033 - 2037	25,145,000	5,462,731	30,607,731
2038 - 2042	14,365,000	1,119,478	15,484,478
2043	700,000	12,250	712,250
	<u>\$ 99,205,000</u>	<u>\$ 47,247,353</u>	<u>\$ 146,452,353</u>

The Contract also authorizes the establishment of an operating and maintenance reserve by the Master District equivalent to three months’ operating and maintenance expenses, as set forth in the Master District’s annual budget. The Master District shall bill the District an amount calculated by multiplying the monthly fee (as described above) by three in order to provide the initial funding required to establish the reserve. The Master District shall adjust the reserve as needed, not less than annually. The Master District has not yet established the operating and maintenance reserve.

Note 12 – Risk Management

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

Fort Bend County Municipal Utility District No. 173
Notes to Basic Financial Statements
September 30, 2017

Note 13 – Economic Dependency

The District is dependent upon its developers for operating advances. The developers continue to own a substantial portion of the taxable property within the District. The developers' willingness to make future operating advances, if necessary, and to pay property taxes will directly affect the District's ability to meet its future obligations.

Note 14 – Subsequent Events

On November 8, 2017, the Master District issued its \$8,440,000 Series 2017B Contract Revenue Bonds at a net effective rate of 3.433499%. Proceeds from the bonds were used to reimburse developers for the construction of road facilities to serve the Master District service area.

On December 20, 2017, the District issued its \$7,000,000 Series 2017 Unlimited Tax Bonds at a net effective interest rate of 3.471885%. Proceeds of the bonds were used to (1) reimburse developers for the cost of capital assets constructed within the District plus interest expense at the net effective interest rate of the bonds; (2) to repay a \$3,748,000 BAN issued in the current fiscal year; and (3) to pay capitalized interest into the Debt Service Fund.

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Required Supplementary Information

*Fort Bend County Municipal Utility District No. 173
 Required Supplementary Information - Budgetary Comparison Schedule - General Fund
 For the Year Ended September 30, 2017*

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues				
Property taxes	\$ 374,790	\$ 542,820	\$ 553,430	\$ 10,610
Investment earnings			123	123
Total Revenues	<u>374,790</u>	<u>542,820</u>	<u>553,553</u>	<u>10,733</u>
Expenditures				
Operating and administrative				
Professional fees	71,500	111,500	160,154	(48,654)
Contracted services	10,400	10,400	26,321	(15,921)
Administrative	17,900	17,900	18,203	(303)
Master District fees	223,710	325,230	444,300	(119,070)
Total Expenditures	<u>323,510</u>	<u>465,030</u>	<u>648,978</u>	<u>(183,948)</u>
Revenues Over/(Under) Expenditures	51,280	77,790	(95,425)	(173,215)
Other Financing Sources				
Developer advances			29,000	29,000
Net Change in Fund Balance	51,280	77,790	(66,425)	(144,215)
Fund Balance				
Beginning of the year	8,640	8,640	8,640	
End of the year	<u>\$ 59,920</u>	<u>\$ 86,430</u>	<u>\$ (57,785)</u>	<u>\$ (144,215)</u>

*Fort Bend County Municipal Utility District No. 173
Notes to Required Supplementary Information
September 30, 2017*

Budgets and Budgetary Accounting

An annual unappropriated budget is adopted for the General Fund by the District's Board of Directors. The budget is prepared using the same method of accounting as for financial reporting. The budget was amended during the year to reflect changes in anticipated revenues and expenditures.

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Texas Supplementary Information

Fort Bend County Municipal Utility District No. 173
TSI-1. Services and Rates
September 30, 2017

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

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

2. Retail Service Providers

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


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

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

District employs winter averaging for wastewater usage? Yes No

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

b. Water and Wastewater Retail Connections:

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

See accompanying auditor's report.

*Fort Bend County Municipal Utility District No. 173
 TSI-2 General Fund Expenditures
 For the Year Ended September 30, 2017*

Professional fees		
Legal	\$	142,387
Engineering		12,267
Audit		5,500
		<u>160,154</u>
Contracted services		
Bookkeeping		8,580
Tax collection services		17,741
		<u>26,321</u>
Administrative		
Directors fees		9,450
Printing and office supplies		1,165
Insurance		3,742
Other		3,846
		<u>18,203</u>
Master District fees		<u>444,300</u>
Total expenditures	\$	<u><u>648,978</u></u>

Reporting of Utility Services in Accordance with HB 3693:

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

See accompanying auditors' report.

Fort Bend County Municipal Utility District No. 173
TSI-4. Taxes Levied and Receivable
September 30, 2017

	Maintenance Taxes	Contract Taxes	Totals	
Taxes Receivable, Beginning of Year	\$ -	\$ -	\$ -	
2016 Original Tax Levy	552,794	591,983	1,144,777	
Adjustments	481	515	996	
Adjusted Tax Levy	553,275	592,498	1,145,773	
Rollback Taxes	1,770	1,043	2,813	
Total to be accounted for	555,045	593,541	1,148,586	
Tax collections				
Current year	551,658	590,767	1,142,425	
Prior years	1,770	1,043	2,813	
Total Collections	553,428	591,810	1,145,238	
Taxes Receivable, End of Year	\$ 1,617	\$ 1,731	\$ 3,348	
Taxes Receivable, By Years				
2016	\$ 1,617	\$ 1,731	\$ 3,348	
	2016	2015	2014	2013
Property Valuations:				
Land	\$ 56,803,710	\$ 32,495,330	\$ 20,659,960	\$ 20,716,970
Improvements	31,139,110	3,271,400	1,635,290	1,666,030
Personal Property	1,689,440	962,630	1,009,845	1,171,250
Exemptions	(4,380,679)	(4,061,587)	(3,771,145)	(3,701,300)
Total Property Valuations	\$ 85,251,581	\$ 32,667,773	\$ 19,533,950	\$ 19,852,950
Tax Rates per \$100 Valuation:				
Maintenance tax rates	\$ 0.64899	\$ 0.64426	\$ 0.6276	\$ 0.6038
Contract tax rates	0.69500	0.69500	0.6950	0.7000
Total Tax Rates per \$100 Valuation	\$ 1.34399	\$ 1.33926	\$ 1.3226	\$ 1.3038
Adjusted Tax Levy	\$ 1,145,773	\$ 437,506	\$ 258,356	\$ 258,843
Percentage of Taxes Collected to Taxes Levied**	99.71%	100.00%	100.00%	100.00%

* Maximum maintenance tax rate approved by voters for water, wastewater, drainage and recreational facilities:

\$1.50 on May 8, 2010

* Maximum maintenance tax rate approved by voters for road facilities:

\$0.25 on May 8, 2010

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

See accompanying auditors' report.

*Fort Bend County Municipal Utility District No. 173
 TSI-5. Long-Term Debt Service Requirements
 Series 2016--by Years
 September 30, 2017*

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2018	\$ 100,000	\$ 163,375	\$ 263,375
2019	105,000	161,375	266,375
2020	110,000	159,275	269,275
2021	115,000	157,075	272,075
2022	125,000	153,625	278,625
2023	130,000	149,875	279,875
2024	135,000	145,975	280,975
2025	140,000	141,925	281,925
2026	150,000	137,725	287,725
2027	155,000	133,225	288,225
2028	165,000	128,575	293,575
2029	170,000	123,625	293,625
2030	180,000	118,313	298,313
2031	190,000	112,463	302,463
2032	200,000	106,050	306,050
2033	210,000	99,050	309,050
2034	220,000	91,700	311,700
2035	230,000	83,725	313,725
2036	240,000	75,388	315,388
2037	255,000	66,388	321,388
2038	265,000	56,825	321,825
2039	280,000	46,888	326,888
2040	295,000	36,038	331,038
2041	310,000	24,606	334,606
2042	325,000	12,594	337,594
	<u>\$ 4,800,000</u>	<u>\$ 2,685,678</u>	<u>\$ 7,485,678</u>

See accompanying auditors' report.

Fort Bend County Municipal Utility District No. 173
TSI-6. Change in Long-Term Bonded Debt
September 30, 2017

	Bond Issue Series 2016
Interest rate	2.00% - 3.875%
Dates interest payable	3/1; 9/1
Maturity dates	9/1/18 to 9/1/42
Beginning bonds outstanding	\$ -
Bonds issued	<u>4,800,000</u>
Ending bonds outstanding	<u>\$ 4,800,000</u>
Interest paid during fiscal year	<u>\$ 136,146</u>

Paying agent's name and city
Series 2016

The Bank of New York Mellon Trust Company, N.A. Dallas, Texas

Bond Authority:	Water, Sewer and Drainage Bonds	Park Bonds	Road Bonds
Amount Authorized by Voters	\$ 103,376,000	\$ 45,920,000	\$ 24,430,000
Amount Issued	(4,800,000)		
Remaining To Be Issued	<u>\$ 98,576,000</u>	<u>\$ 45,920,000</u>	<u>\$ 24,430,000</u>

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

Debt Service Fund cash and investments balances as of September 30, 2017: \$ 254,911

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 299,427

See accompanying auditors' report.

Fort Bend County Municipal Utility District No. 173
TSI-7a. Comparative Schedule of Revenues and Expenditures - General Fund
For the Last Five Fiscal Years

	Amounts				
	2017	2016	2015	2014	2013
Revenues					
Property taxes	\$ 553,430	\$ 216,169	\$ 122,507	\$ 119,871	\$ 84,149
Investment earnings	123	39	44		
Total Revenues	553,553	216,208	122,551	119,871	84,149
Expenditures					
Operating and administrative					
Professional fees	160,154	51,695	46,615	48,142	35,136
Contracted services	26,321	12,747	13,876	12,029	12,113
Administrative	18,203	15,757	13,835	12,878	10,710
Master District fees	444,300	181,830	79,740	29,550	7,920
Total Expenditures	648,978	262,029	154,066	102,599	65,879
Revenues Over (Under) Expenditures	\$ (95,425)	\$ (45,821)	\$ (31,515)	\$ 17,272	\$ 18,270

*Percentage is negligible

See accompanying auditors' report.

Percent of Fund Total Revenues

2017	2016	2015	2014	2013
100%	100%	100%	100%	100%
*	*	*		
100%	100%	100%	100%	100%
29%	24%	38%	40%	42%
5%	6%	11%	10%	14%
3%	7%	11%	11%	13%
80%	84%	65%	25%	9%
117%	121%	125%	86%	78%
(17%)	(21%)	(25%)	14%	22%

Fort Bend County Municipal Utility District No. 173

*TSI-7b. Comparative Schedule of Revenues and Expenditures - Debt Service Fund
For the Last Five Fiscal Years*

	Amounts				
	2017	2016	2015	2014	2013
Revenues					
Property taxes	\$ 591,811	\$ 231,964	\$ 135,676	\$ 138,798	\$ 94,146
Penalties and interest	2,180	320			26
City of Fulshear tax rebates	40,858				
Accrued interest on bonds sold	9,530	450			
Miscellaneous	332		200	80	10
Investment earnings	867	177	122	104	38
Total Revenues	<u>645,578</u>	<u>232,911</u>	<u>135,998</u>	<u>138,982</u>	<u>94,220</u>
Expenditures					
Administrative	1,221	2,113	429	85	115
Debt service					
Contractual obligation	560,464	216,066	123,522	133,755	70,380
Interest and fees	137,646				
Total Expenditures	<u>699,331</u>	<u>218,179</u>	<u>123,951</u>	<u>133,840</u>	<u>70,495</u>
Revenues Over (Under) Expenditures	<u>\$ (53,753)</u>	<u>\$ 14,732</u>	<u>\$ 12,047</u>	<u>\$ 5,142</u>	<u>\$ 23,725</u>

*Percentage is negligible

See accompanying auditors' report.

Percent of Fund Total Revenues

2017	2016	2015	2014	2013
93%	100%	100%	100%	100%
*	*			*
6%				
1%	*			
*		*	*	*
*	*	*	*	*
100%	100%	100%	100%	100%
*	1%	*	*	*
87%	93%	91%	96%	75%
21%				
108%	94%	91%	96%	75%
(8%)	6%	9%	4%	25%

Fort Bend County Municipal Utility District No. 173
TSI-8. Board Members, Key Personnel and Consultants
For the Year Ended September 30, 2017

Complete District Mailing Address: c/o Allen Boone Humphries Robinson LLP
3200 Southwest Freeway, Suite 2600, Houston, TX 77027

District Business Telephone Number: (713) 860-6400

Submission Date of the most recent District Registration Form
(TWC Sections 36.054 and 49.054): May 11, 2016

Limit on Fees of Office that a Director may receive during a fiscal year: \$ 7,200
(Set by Board Resolution -- TWC Section 49.0600)

Names:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid *	Expense Reimburse- ments	Title at Year End
Board Members				
Judith Y. Klein	5/2016 - 5/2020	\$ 1,950	\$ 473	President
Patrick Newton	1/2017 - 5/2018	1,350	282	Vice President
Linda Penney	5/2014 - 5/2018	1,350	626	Assistant Secretary
Jeffery Bauguss	3/2017 - 5/2018	1,050	101	Secretary
Holly Miday	9/2017 - 5/2020			Assistant Vice President
Jennifer Baxter	5/2014 - 1/2017	900	28	Former Director
Lori Messick	5/2016 - 9/2017	1,650	97	Former Director
Laurie Sawyer	5/2014 - 3/2017	1,200	88	Former Director
Consultants				
		<u>Amounts Paid</u>		
Allen Boone Humphries Robinson LLP	2008			Attorney
<i>General legal fees</i>		\$ 142,632		
<i>Bond counsel</i>		172,717		
Andrews Kurth Kenyon LLP	2016	34,309		Litigation Attorney
F. Matuska, Inc.	2010	10,121		Bookkeeper
Assessments of the Southwest, Inc.	2010	9,149		Tax Collector
Fort Bend Central Appraisal District	Legislation	7,391		Property Valuation
Perdue, Brandon, Fielder, Collins, & Mott, LLP	2011	418		Delinquent Tax Attorney
Brown & Gay Engineers, Inc.	2010	12,267		Engineer
McGrath & Co, PLLC	Annual	22,550		Auditor
FirstSouthwest, a Division of Hilltop Securities	2010	122,987		Financial Advisor

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

APPENDIX C
Specimen Municipal Bond Insurance Policy



MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

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

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

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

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

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

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

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

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

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer

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