

## OFFICIAL STATEMENT DATED SEPTEMBER 18, 2018

IN THE OPINION OF ORRICK, HERRINGTON & SUTCLIFFE LLP, SPECIAL TAX COUNSEL, BASED UPON AN ANALYSIS OF EXISTING LAWS, REGULATIONS, RULINGS AND COURT DECISIONS, AND ASSUMING, AMONG OTHER MATTERS, THE ACCURACY OF CERTAIN REPRESENTATIONS AND COMPLIANCE WITH CERTAIN COVENANTS, INTEREST ON THE BONDS IS EXCLUDED FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER SECTION 103 OF THE INTERNAL REVENUE CODE OF 1986. IN THE FURTHER OPINION OF SPECIAL TAX COUNSEL, INTEREST ON THE BONDS IS NOT A SPECIFIC PREFERENCE ITEM FOR PURPOSES OF THE FEDERAL ALTERNATIVE MINIMUM TAX. SPECIAL TAX COUNSEL EXPRESSES NO OPINION REGARDING ANY OTHER TAX CONSEQUENCES RELATED TO THE OWNERSHIP OR DISPOSITION OF, OR THE AMOUNT, ACCRUAL OR RECEIPT OF INTEREST ON, THE BONDS. SEE “TAX MATTERS” HEREIN.

THE BONDS HAVE BEEN DESIGNATED AS “QUALIFIED TAX-EXEMPT OBLIGATIONS” FOR FINANCIAL INSTITUTIONS. SEE “TAX MATTERS—QUALIFIED TAX-EXEMPT OBLIGATIONS.”

### NEW ISSUE-Book-Entry Only

Insured Rating (BAM): S&P “AA” (stable outlook)  
Underlying Rating: S&P “BBB”  
See “MUNICIPAL BOND RATING” and  
“MUNICIPAL BOND INSURANCE” herein.

**\$5,670,000**

**FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 140**  
**(A political subdivision of the State of Texas located within Fort Bend County)**  
**UNLIMITED TAX BONDS**  
**SERIES 2018**

The bonds described above (the “Bonds”) are obligations solely of Fort Bend County Municipal Utility District No. 140 (the “District”) and are not obligations of the State of Texas, Fort Bend County, the City of Richmond, or any entity other than the District.

The Bonds, when issued, will constitute valid and legally binding obligations of the District and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against taxable property within the District. THE BONDS ARE SUBJECT TO INVESTMENT CONSIDERATIONS DESCRIBED HEREIN. See “INVESTMENT CONSIDERATIONS.”

**Dated Date: October 1, 2018**

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

Principal of the Bonds is payable at maturity or earlier redemption at the principal payment office of the paying agent/registrar, initially The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the “Paying Agent/Registrar”) upon surrender of the Bonds for payment. Interest on the Bonds accrues from October 1, 2018, and is payable each March 1 and September 1, commencing March 1, 2019, until maturity or prior redemption. The Bonds will be issued only in fully registered form. The Bonds will be issued in denominations of \$5,000 each or integral multiples thereof. The Bonds are subject to redemption prior to their maturity, as shown below.

The Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Bonds. Beneficial owners of the Bonds will not receive physical certificates representing the Bonds, but will receive a credit balance on the books of the nominees of such beneficial owners. So long as Cede & Co. is the Registered Owner of the Bonds, the principal of and interest on the Bonds will be paid by the Paying Agent/Registrar directly to DTC, which will, in turn, remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds. 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 BUILD AMERICA MUTUAL ASSURANCE COMPANY. See “MUNICIPAL BOND INSURANCE” herein.

### MATURITY SCHEDULE

Principal Amount	Maturity (September 1)	CUSIP Number (b)	Interest Rate	Initial Reoffering Yield (c)	Principal Amount	Maturity (September 1)	CUSIP Number (b)	Interest Rate	Initial Reoffering Yield (c)
\$ 175,000	2019	34681U HD3	3.000 %	2.10 %	\$ 175,000	2029	(a) 34681U HP6	3.250 %	3.30 %
175,000	2020	34681U HE1	3.000	2.25	175,000	2030	(a) 34681U HQ4	3.250	3.40
175,000	2021	34681U HF8	4.000	2.40	175,000	2031	(a) 34681U HR2	3.375	3.45
175,000	2022	34681U HG6	4.000	2.50	245,000	2032	(a) 34681U HS0	3.500	3.50
175,000	2023	34681U HH4	4.000	2.60	525,000	2033	(a) 34681U HT8	3.500	3.55
175,000	2024	34681U HJ0	5.000	2.75	525,000	2034	(a) 34681U HU5	3.500	3.60
175,000	2025	(a) 34681U HK7	3.000	2.90	525,000	2035	(a) 34681U HV3	3.625	3.65
175,000	2026	(a) 34681U HL5	3.000	3.00	525,000	2036	(a) 34681U HW1	3.625	3.70
175,000	2027	(a) 34681U HM3	3.000	3.10	525,000	2037	(a) 34681U HX9	3.750	3.75
175,000	2028	(a) 34681U HN1	3.125	3.20	525,000	2038	(a) 34681U HY7	3.750	3.80

- (a) Bonds maturing on or after September 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 September 1, 2024, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent Interest Payment Date (as herein defined) to the date fixed for redemption. See “THE BONDS—Redemption Provisions.”
- (b) CUSIP Numbers have been assigned to the Bonds by CUSIP Service Bureau 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 yield represents the initial offering yield to the public, which has been established by the Underwriter for offers to the public and which subsequently may be changed.

The Bonds are offered by the Underwriter subject to prior sale, when, as and if issued by the District and accepted by the respective 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 Jeanne H. McDonald, P.C., Bond Counsel and Orrick, Herrington & Sutcliffe LLP, Houston, Texas, Special Tax Counsel. See “LEGAL MATTERS.” Delivery of the Bonds in book-entry form through the facilities of DTC is expected on or about October 18, 2018.

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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 representations 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, orders, contracts, audited financial statements, engineering and other related reports set forth in this OFFICIAL STATEMENT are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from Jeanne H. McDonald, P.C., Bond Counsel, 2277 Plaza Drive, Suite 280, Sugar Land, Texas 77479, for further 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 and, to the extent that information actually comes to its attention, the other matters described in this OFFICIAL STATEMENT until delivery of the Bonds to the Underwriter (as herein defined) and thereafter only as specified in "PREPARATION OF OFFICIAL STATEMENT—Updating the Official Statement."

Build America Mutual Assurance Company ("BAM") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this OFFICIAL STATEMENT or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading "MUNICIPAL BOND INSURANCE" and "APPENDIX B—Specimen Municipal Bond Insurance Policy."

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

### **Award of the Bonds**

After requesting competitive bids for the Bonds, the District accepted the bid resulting in the lowest net effective interest rate, which bid was tendered by Robert W. Baird & Co., Inc. (the "Underwriter") bearing the interest rates shown on the cover page hereof, at a price of 98.0995% of the par value thereof plus accrued interest to the date of delivery which resulted in a net effective interest rate of 3.722698%, as calculated pursuant to Chapter 1204 of the Texas Government Code, as amended (the IBA method).

### **Prices and Marketability**

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

The District has no control over trading of the Bonds in the secondary market. Moreover, there is no guarantee that a secondary market will be made in the Bonds. In such a secondary market, the difference between the bid and asked price of 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, as bonds of such entities are more generally bought, sold or traded in the secondary market.

### **Securities Laws**

No registration statement relating to the offer and sale of the Bonds has been filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein 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 other jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdiction.

## OFFICIAL STATEMENT SUMMARY

The following is a brief summary of certain information contained herein which is qualified in its entirety by the detailed information and financial statements 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.

### RECENT EXTREME WEATHER EVENTS

#### *General...*

The greater Houston area, including the District, 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 District 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.

#### *2016 Flooding...*

Between April and June 2016, severe flooding damaged various areas in the Greater Houston Area including areas along the Brazos River, which include properties within the District. Approximately 36 houses within the District were inundated by flood waters. Such flooded areas, including affected properties within the District, have been deemed by the Governor of Texas as disaster areas. SEE INVESTMENT CONSIDERATIONS—2016 Flooding.”

#### *2017 Flooding...*

Based on information reported to the District, approximately 157 homes within the District experienced flooding or other significant damage as a result of Hurricane Harvey. Additionally, there was a temporary loss in sanitary sewer service due to submergence of an electrical panel at the City’s lift station located within the District. At its Board of Directors meeting on September 19, 2017, the Board of Directors of the District requested a reappraisal of damaged property located within the District. To the extent that property is reappraised to reflect values immediately after the disaster, the District must prorate the taxes on the property for the year in which the disaster occurred so that after the date of the disaster the taxes owed reflect the reappraised value.

The certified assessed value of properties in the District decreased approximately \$1.1 million due to flood damage as a result of Hurricane Harvey, but such amount may have been affected by increases in taxable value due to home building that is on-going in the District. A substantial future decrease in the assessed valuation in the District could result in a corresponding increase in the District’s tax rate and the rates levied by overlapping taxing units.

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

## THE DISTRICT

<i>Description...</i>	The District is a political subdivision of the State of Texas, created by order of the Texas Commission on Environmental Quality (the “TCEQ”), on July 15, 2003, and operates pursuant to Chapters 49 and 54 of the Texas Water Code. The District contains approximately 371 acres of land. See “THE DISTRICT.”
<i>Location...</i>	The District is located approximately 25 miles southwest of the central downtown business district of the City of Houston and lies wholly within the extraterritorial jurisdiction of the City of Richmond (the “City”) and within the boundaries of the Lamar Consolidated Independent School District. Access to the District is provided by U.S. Highway 59 to U.S. Highway 90A to Farm-to-Market 359, which is the District’s eastern boundary. See “THE DISTRICT” and “AERIAL PHOTOGRAPH.”
<i>Status of Development...</i>	<p>The District has been developed as River’s Edge, a primarily single-family residential development. The residential development in the District includes 847 single-family residential lots on approximately 282 acres. As of June 30, 2018, 791 homes were completed, 18 homes were in a builder’s name and 38 vacant developed lots were available for home construction. Existing homes within the District have a market value ranging from approximately \$125,000 to \$460,000.</p> <p>In addition to residential development, there are approximately 14 acres of commercial development in the District where two retail centers have been constructed on an aggregate of approximately 6 of the 14 acres: an approximate 18,000 square foot center occupied by a coffee shop, a bakery, a nail spa, a UPS Store, and a pub and an approximate 12,350 square foot retail center occupied by a seafood restaurant and oyster bar, a pub, a hair salon, and a bakery. Additionally, a gymnastics training facility has been constructed on approximately 2 of the 14 acres and the remaining approximately 6 acres are vacant.</p> <p>Recreational facilities in the District include adult and toddler pools, a playground, a volleyball court, a baseball and soccer field and a community party barn. Approximately 18 developable acres currently within the District have not been provided with water distribution, wastewater collection and storm drainage facilities and approximately 57 acres within the District are not developable (detention ponds, drainage easements, flood plain, parks and open spaces). See “THE DISTRICT.”</p>
<i>Homebuilding...</i>	Perry Homes, David Weekley Homes and K Hovnanian Homes, and are actively marketing and constructing homes in the District. See “THE DISTRICT—Builders.”
<i>100-Year Flood Plain...</i>	The Federal Emergency Management Agency (“FEMA”) commissioned a study to reevaluate the “base flood elevation” (commonly referred to as the 100-year flood plain elevation) in Fort Bend County in 2006 and the revised FIRM’s became the “effective” flood rate maps of Fort Bend County on April 2, 2014. The FIRM’s (Panel Nos. 48157CO235L and 48157CO255L, dated April 2, 2014) indicate that approximately 267 acres (consisting of 528 lots) within the District lie within the 100-year flood plain. Approximately 104 acres consisting of approximately 319 lots comprising River’s Edge Sections Thirteen, Fifteen-A, Fifteen-B, Sixteen and a portion of Section Seventeen are located outside the 100-year flood plain. A Letter of Map Revision was approved by FEMA on August 4, 2016, to remove the remaining portion of River’s Edge, Section Seventeen from the 100-year flood plain. Homeowners of existing houses and lots that are deemed to be within the existing 100-year flood plain are required to purchase flood insurance. Additionally, Fort Bend County requires all slabs on new houses and commercial buildings to be constructed a minimum of 18-inches above the 100-year flood plain elevation. See “THE SYSTEM—100-Year Flood Plain.”
<i>Payment Record...</i>	The District has previously issued \$19,440,000 principal amount of unlimited tax bonds in five series, \$1,825,000 principal amount of unlimited tax park bonds in one series and \$10,130,000 principal amount of unlimited tax refunding bonds in three series. After issuance of the Bonds, the District will have an aggregate of \$22,440,000 principal amount of bonds outstanding (the “Outstanding Bonds”). The District has never defaulted on its debt service payments. See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds.”

## THE BONDS

<i>Description...</i>	\$5,670,000 Unlimited Tax Bonds, Series 2018 (the “Bonds”) are being issued pursuant to an order authorizing the issuance of the Bonds (the “Bond Order”) adopted by the District’s Board of Directors (the “Board”) as fully registered bonds. The Bonds are scheduled to mature serially on September 1 in each of the years 2019 through 2038, both inclusive, in the principal amounts shown on the cover page hereof. The Bonds will be issued in denominations of \$5,000 or integral multiples of \$5,000. Interest on the Bonds accrues from October 1, 2018, and is payable March 1, 2019 and each September 1 and March 1 thereafter, until the earlier of maturity or redemption. See “THE BONDS.”
<i>Book-Entry-Only System...</i>	The 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. See “BOOK-ENTRY-ONLY SYSTEM.”
<i>Redemption...</i>	Bonds maturing on or after September 1, 2025 are subject to redemption in whole, or from time to time in part, at the option of the District prior to their maturity dates on September 1, 2024, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. See “THE BONDS—Redemption Provisions.”
<i>Use of Proceeds...</i>	Proceeds from the Bonds will be used to pay for the items shown herein under “USE AND DISTRIBUTION OF BOND PROCEEDS” and to pay administrative costs and certain other costs and engineering fees related to the issuance of the Bonds. See “USE AND DISTRIBUTION OF BOND PROCEEDS” and “THE SYSTEM.”
<i>Authority for Issuance...</i>	The Bonds are the sixth series of bonds issued out of an aggregate of \$27,500,000 principal amount of unlimited tax bonds authorized by the District’s voters for the purpose of purchasing and constructing water, wastewater and/or storm drainage facilities. The Bonds are issued by the District pursuant to an Order of the TCEQ, the terms and conditions of the Bond Order, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas and an election held within the District. See “THE BONDS—Authority for Issuance,” and “— Issuance of Additional Debt,” and “INVESTMENT CONSIDERATIONS—Future Debt.”
<i>Source of Payment...</i>	Principal of and interest on the Bonds are payable from the proceeds of a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied against taxable property within the District. The Bonds are obligations of the District and are not obligations of the City of Richmond, Fort Bend County, the State of Texas or any entity other than the District. See “THE BONDS—Source of and Security for Payment.”
<i>Municipal Bond Rating and Municipal Bond Insurance...</i>	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 Build America Mutual Assurance Company (“BAM” or the “Insurer”). The Bonds are rated “BBB” by S&P without regard to credit enhancement. See “INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance,” “MUNICIPAL BOND RATING,” “MUNICIPAL BOND INSURANCE,” and “APPENDIX B.”

<i>Tax Exemption...</i>	In the opinion of Orrick, Herrington & Sutcliffe LLP, Special Tax Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Special Tax Counsel, interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Special Tax Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See “TAX MATTERS” herein.
<i>Qualified Tax-Exempt Obligations...</i>	The Bonds have been designated “Qualified Tax-Exempt Obligations” for financial institutions. See “TAX MATTERS—Qualified Tax-Exempt Obligations.”
<i>Bond Counsel...</i>	Jeanne H. McDonald, P.C., Bond Counsel, Sugar Land, Texas. See “MANAGEMENT OF THE DISTRICT” and “LEGAL MATTERS.”
<i>Special Tax Counsel...</i>	Orrick, Herrington & Sutcliffe LLP, Houston, Texas. See “MANAGEMENT OF THE DISTRICT” and “TAX MATTERS.”
<i>Financial Advisor...</i>	Masterson Advisors LLC, Houston, Texas. See “MANAGEMENT OF THE DISTRICT.”
<i>Disclosure Counsel...</i>	McCall, Parkhurst & Horton L.L.P., Dallas, Texas.
<i>Paying Agent/Registrar...</i>	The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. See “THE BONDS—Method of Payment of Principal and Interest.”

## **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, including particularly the section captioned “INVESTMENT CONSIDERATIONS.”



## SELECTED FINANCIAL INFORMATION (UNAUDITED)

2018 Taxable Assessed Valuation.....	\$184,676,180	(a)
Estimated Taxable Assessed Valuation as of July 15, 2018.....	\$192,078,233	(b)
Gross Direct Debt Outstanding .....	\$22,440,000	(c)
Estimated Overlapping Debt .....	<u>13,537,848</u>	(d)
Gross Direct Debt and Estimated Overlapping Debt.....	\$35,977,848	
Ratios of Gross Direct Debt to:		
2018 Taxable Assessed Valuation .....	12.15%	
Estimated Taxable Assessed Valuation as of July 15, 2018.....	11.68%	
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:		
2018 Taxable Assessed Valuation.....	19.48%	
Estimated Taxable Assessed Valuation as of July 15, 2018.....	18.73%	
Debt Service Funds Available as of August 21, 2018 .....	\$2,213,551	
Operating Funds Available as of August 21, 2018.....	\$2,073,605	
Capital Projects Funds Available as of August 21, 2018 .....	\$ 718,311	(e)
2018 Debt Service Tax Rate.....	\$0.94	
2018 Maintenance Tax Rate.....	<u>0.31</u>	
2018 Total Tax Rate.....	\$1.25	
Projected Average Annual Debt Service Requirement (2019-2038).....	\$1,488,965	(f)
Projected Maximum Annual Debt Service Requirement (2020).....	\$1,868,144	(f)
Tax Rates Required to Pay Average Annual Debt Service (2019-2038) at a 95% Collection Rate		
Based upon 2018 Taxable Assessed Valuation .....	\$0.85	(g)
Based upon Estimated Taxable Assessed Valuation as of July 15, 2018 .....	\$0.82	(g)
Tax Rates Required to Pay Maximum Annual Debt Service (2020) at a 95% Collection Rate		
Based upon 2018 Taxable Assessed Valuation .....	\$1.07	(g)
Based upon Estimated Taxable Assessed Valuation as of July 15, 2018 .....	\$1.03	(g)
Status of Development as of June 30, 2018 (h):		
Homes Completed.....	791	
Homes Under Construction .....	18	
Lots Available for Construction .....	38	
Estimated Population .....	2,810	(i)

- (a) The Fort Bend Central Appraisal District (the "Appraisal District") has certified \$183,579,410 of taxable value and an additional \$1,096,770 remains uncertified and subject to review and adjustment prior to certification. The 2018 Taxable Assessed Valuation shown herein is the certified value plus the uncertified value. See "TAXING PROCEDURES."
- (b) Provided by the Appraisal District for informational purposes only. Such amounts reflect an estimate of the taxable assessed value within the District on July 15, 2018. No tax will be levied on such amount until it is certified. Increases in value occurring between January 1, 2018 and July 15, 2018, will be certified as of January 1, 2019 and provided for purposes of taxation in the fall of 2018. See "TAXING PROCEDURES."
- (c) Includes the Bonds and the Outstanding Bonds. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds."
- (d) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt."
- (e) Of such balance, approximately \$425,000 is allocated for phase two of the City of Richmond water plant. See "THE DISTRICT—Water Supply and Wastewater Services Contracted with the City of Richmond."
- (f) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements."
- (g) See "TAX DATA—Tax Adequacy for Debt Service" and "INVESTMENT CONSIDERATIONS—Possible Impact on District Tax Rates."
- (h) See "THE DISTRICT—Land Use" and "—Status of Development."
- (i) Based upon 3.5 persons per occupied single-family residence.

## OFFICIAL STATEMENT

### **FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 140** *(A political subdivision of the State of Texas located within Fort Bend County)*

**\$5,670,000**

### **UNLIMITED TAX BONDS SERIES 2018**

This OFFICIAL STATEMENT provides certain information in connection with the issuance by Fort Bend County Municipal Utility District No. 140 (the “District”) of its \$5,670,000 Unlimited Tax Bonds, Series 2018 (the “Bonds”).

The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, the general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas, an order authorizing the issuance of the Bonds (the “Bond Order”) adopted by the Board of Directors of the District (the “Board”), and an election held within the District.

This OFFICIAL STATEMENT includes descriptions, among others, of the Bonds and the Bond Order, and certain other information about the District and development activity in the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of documents may be obtained from Jeanne H. McDonald, P.C., Bond Counsel, 2277 Plaza Drive, Suite 280, Sugar Land, Texas 77479.

## THE BONDS

### **Description**

The Bonds will be dated and accrue interest from October 1, 2018. Interest is payable on each March 1 and September 1, commencing March 1, 2019, until the earlier of maturity or prior redemption. The Bonds mature on September 1 in the amounts and years shown on the cover page of this OFFICIAL STATEMENT. Interest calculations are based on a 360-day year comprised of twelve 30-day months. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the partnership nominee of The Depository Trust Company (“DTC”), pursuant to the Book-Entry-Only System described herein. No physical delivery of the Bonds will be made to the owners thereof. Initially, principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., as registered owner. DTC will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See “Book-Entry-Only System” herein.

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

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

The information in this section concerning DTC and DTC’s book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy 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 do so 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 is on file with DTC.

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

DTC, the world's largest 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 3.6 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](http://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 affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District (or the Trustee on behalf thereof) 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).

Principal, premium, if any, interest payments and redemption proceeds on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, interest payments and redemption proceeds 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, 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. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

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

### **Method of Payment of Principal and Interest**

In the Bond Order, the Board has appointed The Bank of New York Mellon Trust Company, N.A., Dallas, Texas as the initial Paying Agent/Registrar for the Bonds. The principal of the Bonds shall be payable, without exchange or collection charges, in 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. In the event the book-entry system is discontinued, principal of the Bonds shall be payable upon presentation and surrender of the Bonds as they respectively become due and payable, at the principal payment office of the Paying Agent/Registrar in Dallas, Texas and interest on each Bond shall be payable by check payable on each Interest Payment Date, mailed by the Paying Agent/Registrar on or before each Interest Payment Date to the Registered Owner of record as of the close of business on the February 15 or August 15 immediately preceding each Interest Payment Date (defined herein as the "Record Date"), to the address of such Registered Owner as shown on the Paying Agent/Registrar's records (the "Register") or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and the Registered Owners at the risk and expense of the Registered Owners.

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 Order.

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

While the Bonds or any part of the principal thereof or interest thereon remains outstanding and unpaid, the District covenants to levy and annually assess and collect in due time, form and manner, and at the same time as other District taxes are appraised, levied and collected, in each year, a continuing direct annual ad valorem tax, without limit as to rate, upon all taxable property in the District sufficient to pay the interest on the Bonds as the same becomes due and to pay each installment of the principal of the Bonds as the same matures, with full allowance being made for delinquencies and costs of collection. In the Bond Order, the District covenants that said taxes are irrevocably pledged to the payment of the interest on and principal of the Bonds and to no other purpose.

The Bonds are obligations of the District and are not the obligations of the State of Texas, Fort Bend County, the City of Richmond, or any entity other than the District.

### **Funds**

In the Bond Order, the Debt Service Fund is confirmed, and the proceeds from all taxes levied, assessed and collected for and on account of the Bonds authorized by the Bond Order shall be deposited, as collected, in such fund.

Accrued interest on the Bonds shall be deposited into the Debt Service Fund upon receipt. The remaining proceeds of sale of the Bonds shall be deposited into the Capital Projects Fund, to be used for the purpose of paying for certain construction costs and paying the costs of issuance of the Bonds. Any monies remaining in the Capital Projects Fund after completion of construction of all Water, Sewer, and Drainage Facilities will be used as described in the Bond Order or ultimately transferred to the Debt Service Fund. See "USE AND DISTRIBUTION OF BOND PROCEEDS" for a complete description of the use of Bond proceeds and the projects related thereto.

### **Redemption Provisions**

The District reserves the right, at its option, to redeem the Bonds maturing on or after September 1, 2025, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000 on September 1, 2024, or any date thereafter, at a price of par value plus unpaid accrued interest on the principal amounts called for redemption from the most recent Interest Payment Date to the date fixed for redemption.

If less than all of the Bonds are redeemed at any time, the maturities of the Bonds to be redeemed will be selected by the District. If less than all of the Bonds of a certain maturity are to be redeemed, the particular Bonds to be redeemed shall be selected by the Paying Agent/Registrar by lot or other random method (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form).

If a Bond subject to redemption is in a denomination larger than \$5,000, a portion of such Bond may be redeemed, but only in integral multiples of \$5,000. Upon surrender of any Bond for redemption in part, the Paying Agent/Registrar shall authenticate and deliver in exchange therefor a Bond or Bonds of like maturity and interest rate in an aggregate principal amount equal to the unredeemed portion of the Bond so surrendered.

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 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**

At a bond election held within the District on September 13, 2003, voters of the District have authorized the issuance of \$27,500,000 principal amount of unlimited tax bonds for the purpose of purchasing and constructing water, wastewater and/or storm drainage facilities. The Bonds are being issued pursuant to such authorization.

The Texas Commission on Environmental Quality ("TCEQ") has authorized the District to sell the Bonds subject to certain restrictions, including the use of Bond proceeds as summarized in "USE AND DISTRIBUTION OF BOND PROCEEDS."

The Bonds are issued by the District pursuant to an Order of the TCEQ, the terms and conditions of the Bond Order, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, and 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 issued, the Attorney General of Texas must pass upon the legality of certain related matters. The Attorney General of Texas does not guarantee or pass upon the safety of the Bonds as an investment or upon the adequacy of the information contained in this OFFICIAL STATEMENT.

### **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 Order.

In the event the Book-Entry-Only System should be discontinued, each Bond 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 therefor, 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 Order 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 a Record Date and ending 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.

### **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 therefor 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 bond, 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 Order 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, a corporation organized and doing business under the laws of the United States of America or of any State, authorized under such laws to exercise trust powers, 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 District's voters have authorized the issuance of an aggregate of \$27,500,000 principal amount of unlimited tax bonds for the purpose of purchasing and constructing water, wastewater and/or storm drainage facilities, \$8,000,000 principal amount of unlimited tax bonds for the purpose of purchasing and constructing parks and recreational facilities and \$35,500,000 principal amount of unlimited tax bonds for refunding outstanding bonds and could authorize additional amounts. The District currently has \$6,175,000 principal amount of unlimited tax bonds for the purpose of purchasing and constructing parks and recreational facilities and \$35,055,000 principal amount of unlimited tax bonds for the purpose of refunding outstanding bonds authorized but unissued. After the issuance of the Bonds, the District will have \$2,390,000 principal amount of unlimited tax bonds for the purpose of purchasing and constructing water, wastewater and/or storm drainage facilities authorized but unissued.

Conservation and reclamation districts in certain counties are authorized to develop and finance with property taxes certain parks and recreational facilities after a district election has been successfully held to approve the issuance of bonds payable from taxes and/or a maintenance tax to support parks and recreational facilities. On September 13, 2003, the voters of the District authorized the issuance of \$8,000,000 principal amount of unlimited tax bonds for the purpose of purchasing and constructing parks and recreational facilities. The District is authorized to issue bonds payable from an ad valorem tax to pay for the development and maintenance of parks and recreational facilities if (i) the bonds payable from any source do not exceed one percent (1%) of the value of the taxable property in the District at the time of issuance of the bonds, or an amount greater than the estimated cost of the park plan, whichever amount is smaller; (ii) the District obtains any necessary governmental consents allowing the issuance of such bonds; and (iii) the bonds are approved by the Attorney General of Texas. The District may issue bonds for such purposes payable solely from net operating revenues without an election. The issuance of such bonds is subject to rules and regulations adopted by the TCEQ. Current law may be changed in a manner to increase the amount of bonds as related to a percentage of the value of taxable property. The levy of taxes for such purposes may dilute the security for the Bonds.

The District is authorized by statute to engage in fire-fighting activities, including the issuing of bonds payable from taxes for such purpose. Before the District could issue fire-fighting bonds payable from taxes, the following actions would be required: (a) amendments to existing city ordinances specifying the purposes for which the District may issue bonds; (b) authorization of a detailed master plan and bonds for such purpose by the qualified voters in the District; (c) approval of the master plan and issuance of bonds by the TCEQ; and (d) approval of bonds by the Attorney General of Texas. The voters of the District approved the District's fire plan at an election on September 13, 2003, after the TCEQ approved District's fire plan on July 15, 2003. The fire plan does not contemplate the issuance of bonds.

Pursuant to Chapter 54 of the Water Code, a municipal utility district may petition the TCEQ for the power to issue bonds supported by property taxes to finance roads. Before the District could issue such bonds, the District would be required to receive a grant of such power from the TCEQ, authorization from the District's voters to issue such bonds, and approval of the bonds by the Attorney General of Texas. The District has not considered filing an application to the TCEQ for "road powers" or calling such an election at this time.

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

## **Annexation by the City of Richmond**

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Richmond, the District must conform to a City of Richmond ordinance consenting to the creation of the District. In addition, the District may be annexed by the City of Richmond without the District's consent, but subject to the terms of the strategic partnership agreement described below under "Strategic Partnership." If the District is annexed, the City will assume the District's assets and obligations (including the Bonds) and dissolve the District within one hundred twenty (120) days. Annexation of territory by the City is a policy-making matter within the discretion of the Mayor and City Council of the City of Richmond, and therefore, the District makes no representation that the City of Richmond will ever annex the District and assume its debt, nor does the District make any representation concerning the ability of the City of Richmond to pay debt service on the District's bonds if annexation were to occur.

## **Strategic Partnership**

The District has entered into a revised and restated strategic partnership agreement with the City of Richmond to provide the terms and conditions under which services would be provided and funded by the parties and under which the District would continue to exist for an extended period if the land within the District were to be annexed for full or limited purposes by the City of Richmond. The agreement provides that the City of Richmond will not annex the District for full purposes until ninety percent (90%) of the District's water, sewer and drainage facilities have been constructed and the developer is reimbursed by the District to the maximum extent allowed by TCEQ rules or the City assumes the District's obligations for such reimbursement. The agreement also provides that the City may annex for limited purposes any commercial land in the District at any time after initial development and occupancy of such tract, which would subject such annexed tract to the City's sales tax, and that the tracts annexed for limited purposes shall remain in the District and subject to the District's authority to tax and charge for District services.

## **Consolidation**

The District has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its assets (such as cash and the utility system) and liabilities (such as the Bonds) with the assets and liabilities of the district(s) 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**

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 in the Bond Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Order, the 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 Order. Except for mandamus, the Bond Order 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, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered 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 Order 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 District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District 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 Limitations."

## **No Arbitrage**

The District will certify as of the date the Bonds are delivered and paid for that, based upon all facts and estimates now known or reasonably expected to be in existence on the date the Bonds are delivered and paid for, the District reasonably expects that the proceeds of the Bonds will not be used in a manner that would cause the Bonds, or any portion of the Bonds, to be “arbitrage bonds” under the Internal Revenue Code of 1986, as amended (the “Code”), and the regulations prescribed thereunder. Furthermore, all officers, employees, and agents of the District have been authorized and directed to provide certifications of facts and estimates that are material to the reasonable expectations of the District as of the date the Bonds are delivered and paid for. In particular, all or any officers of the District are authorized to certify to the facts and circumstances and reasonable expectations of the District on the date the Bonds are delivered and paid for regarding the amount and use of the proceeds of the Bonds. Moreover, the District covenants in the Bond Resolutions that it shall make such use of the proceeds of the Bonds, regulate investment of proceeds of the Bonds, and take such other and further actions and follow such procedures, including, without limitation, calculating the yield on the Bonds, as may be required so that the Bonds shall not become “arbitrage bonds” under the Code and the regulations prescribed from time to time thereunder.

## **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 Order provides that the District may discharge its obligations to the Registered Owners of any or all of the Bonds to pay principal, interest and redemption price thereon in any manner permitted by law. Under current Texas law, such discharge may be accomplished either (i) by depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of, premium, if any, and all interest to accrue on the Bonds to maturity or redemption or (ii) by depositing with any place of payment (paying agent) 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 the 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.

## USE AND DISTRIBUTION OF BOND PROCEEDS

The construction costs below were compiled by Costello, Inc., the District's engineer (the "Engineer"), and were submitted to the TCEQ in the District's Bond Application. 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. The surplus funds may be expended for any lawful purpose for which surplus construction funds may be used, if approved by the TCEQ, where required.

### CONSTRUCTION COSTS

Drainage/Flood Protection Berm for:

Rio Vista.....	\$ 104,890
North DRS.....	1,295,000
South.....	545,000
TxDot Sluice Gate.....	60,000
NRCS Bank Stabilization Grant.....	2,100,000
Engineering.....	365,944
Construction Contingencies.....	215,280
Condemnation Costs (legal).....	50,000
Land Acquisition Costs.....	520,000

**Total Construction Costs..... \$ 5,256,114**

### NON-CONSTRUCTION COSTS

Legal Fees.....	\$ 106,700
Financial Advisory Fees.....	105,050
Bond Discount (a).....	107,756
Bond Issuance Expenses.....	33,891
Bond Application Report.....	35,000
TCEQ Fee (0.25%).....	14,175
Attorney General Fee (0.1%).....	5,670
Contingency (a).....	5,644

**Total Non-Construction Costs..... \$ 413,886**

**TOTAL BOND ISSUE..... \$ 5,670,000**

(a) The TCEQ approved a maximum amount of Bond discount of 2.00%. Contingency represents the difference in the estimated and actual amount of Bond discount and can be used for purposes allowed and approved by the TCEQ.

## **THE DISTRICT**

### **General**

The District is a municipal utility district created by an order of the TCEQ dated July 15, 2003, after a hearing on a petition for creation submitted by the developer. 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, particularly Article XVI, Section 59 of the Texas Constitution, and Chapters 49 and 54 of the Texas Water Code, as amended.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water as well as to construct recreational facilities. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District is also empowered to establish, operate, and maintain fire-fighting facilities, independently or with one or more conservation and reclamation districts. Additionally, the District may, subject to certain limitations, develop and finance roads. See “THE BONDS—Issuance of Additional Debt.”

The TCEQ exercises continuing supervisory jurisdiction over the District. In order to obtain the consent for creation from the City of Richmond, within whose extraterritorial jurisdiction the District lies, the District is required to observe certain requirements of the City which: limit the purposes for which the District may sell bonds to the acquisition, construction, and improvement of waterworks, wastewater, drainage facilities and recreational facilities; limit the net effective interest rate on such bonds and other terms of such bonds; require approval by the City of District construction plans; and permit connections only to lots and commercial or multi-family reserves described in plats which have been approved by the Planning Commission of the City and recorded in the real property records. Construction and operation of the District’s system is subject to the regulatory jurisdiction of additional governmental agencies. See “THE SYSTEM—Regulation.”

### **Description and Location**

The District contains approximately 371 acres of land. The District is located approximately 25 miles southwest of the central downtown business district of the City of Houston and lies wholly within the extraterritorial jurisdiction of the City of Richmond and within the boundaries of the Lamar Consolidated Independent School District. Access to the District is provided by U.S. Highway 59 to U.S. Highway 90A to Farm-to-Market 359, which is the District’s eastern boundary. See “AERIAL LOCATION MAP.”

## **Land Use**

The District currently includes approximately 282 developed acres of single-family residential development (847 lots), approximately 14 acres of commercial property served by trunkline water, sewer and drainage facilities (of which approximately 6 acres has been developed as two retail strip centers, approximately 2 acres has been developed as a gymnastics training facility and approximately 6 acres are vacant), approximately 18 developable acres currently within the District not provided with water distribution, wastewater collection and storm drainage facilities and approximately 57 undevelopable acres (detention ponds, drainage easements, flood plain, parks and open spaces). The table herein represents a detailed breakdown of the current acreage and development in the District.

<u>Single Family Residential</u>	Approximate	
	Acres	Lots
River's Edge		
Section One.....	58	200
Section Two.....	18	21
Section Three.....	9	34
Section Four.....	11	39
Section Five.....	20	72
Section Six.....	24	97
Section Seven.....	2	8
Section Ten.....	11	36
Section Eleven.....	11	27
Section Twelve.....	4	16
Section Thirteen.....	11	47
Section Fifteen-A.....	19	65
Section Fifteen-B.....	49	78
Section Sixteen.....	14	52
Section Seventeen.....	21	55
Subtotal.....	282	847
Commercial.....	14	--
Future Development.....	18	--
Non-Developable (a).....	57	--
Totals.....	371	847

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

## **Status of Development**

***Residential:*** The District is being developed as River's Edge. As of June 30, 2018, 791 homes were completed, 18 homes were in a builder's name and 38 vacant developed lots were available for home construction. Homes within the District range in price from approximately \$125,000 to \$460,000. The current estimated population in the District is 2,810 based upon 3.5 persons per occupied single-family residence. See "Land Use" herein.

Recreational facilities available to residents include adult and toddler pools, a playground, a volleyball court, a baseball and soccer field and a community party barn. There are also two amenity lakes.

***Commercial:*** Commercial development in the District consists of approximately 14 acres of commercial development in the District where two retail centers have been constructed on an aggregate of approximately 6 of the 14 acres: an approximate 18,000 square foot center occupied by a coffee shop, a bakery, a nail spa, a UPS Store, and a pub and an approximate 12,350 square foot retail center occupied by a seafood restaurant and oyster bar, a pub, a hair salon, and a bakery. Additionally, a gymnastics training facility has been constructed on approximately 2 of the 14 acres and the remaining approximately 6 acres are vacant.

## **Builders**

Perry Homes, David Weekley Homes and K. Hovnanian Homes are actively marketing and constructing homes in the District.

## **Water Supply and Wastewater Services Contract with the City of Richmond**

Under the Amended and Restated Water Supply and Wastewater Services Contract between the City of Richmond, Texas (the "City"), and the District dated July 1, 2004 as amended on September 19, 2005, June 7, 2006, June 16, 2007 and July 14, 2011, the City agreed to provide the District with water sufficient to meet the District's needs up to four hundred thirty-two thousand two hundred fifty (432,250) gallons per day of water (990 equivalent single-family connections). The City's obligation to provide water continues for the term of the contract, explained further below. The City of Richmond facilities are adequate to provide water supply to the District through full build out. The District does not own capacity in the City's water plants, and the District did not pay water connection fees. However, the Water and Wastewater Contract provides that the District will pay for its share of the design and construction of a new City water plant to serve the District and other areas designated by the City if the City elects to construct such a water plant. If the District fails to pay its share of any phase of the new City water plant, the City will have no further obligation to serve any unplatted land within the District, and the District will be obligated to pay water connection fees for all platted connections within one year of such refusal. The City's new water plant, phase one has been constructed and the District funded its share from proceeds of the Outstanding Bonds. Phase two of the new water plant is currently in the design phase, and the District is funding its share from proceeds of the District's Series 2016 Bonds in the approximate amount of \$425,000. To date, the District has paid impact fees for wastewater treatment plant capacity for 861 connections. The City is obligated to provide wastewater treatment in the amounts secured by payment of the impact fees. The Water and Wastewater Contract has an initial forty-year term that expires June 30, 2044, which term automatically renews for consecutive one-year terms unless terminated by either party.

## MANAGEMENT OF THE DISTRICT

### **Board of Directors**

The District is governed by the Board, consisting of five (5) directors, which has control over and management supervision of all affairs of the District. Directors are elected to staggered four-year terms and elections are held in May in even numbered years only. All of the Board members reside within the District. The current members and officers of the Board along with their titles and terms, are listed as follows:

<u>Name</u>	<u>District Board Title</u>	<u>Term Expires</u>
Janice Walker-Suchyta	President	May 2020
Gene E. Tomas	Vice President	May 2022
David W. Smith	Assistant Vice President	May 2022
Suzan C. Orr	Secretary	May 2020
Barry Waites	Director	May 2020

### **District Consultants**

The 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 District has engaged Jeanne H. McDonald, P.C., as general counsel to the District and as Bond Counsel in connection with the issuance of the District's bonds. The fees of the attorneys in their capacity as Bond Counsel are contingent upon the sale and delivery of the Bonds. Compensation to the attorneys for other services to the District is based on time charges actually incurred. See "LEGAL MATTERS" and "TAX MATTERS."

**Special Tax Counsel:** Orrick, Herrington & Sutcliffe LLP serves as special tax counsel to the District. The fees to be paid Special Tax Counsel 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 District's audited financial statement for the fiscal year ending July 31, 2017, was prepared by McGrath & Co. PLLC, Certified Public Accountants. The District has engaged McGrath & Co. PLLC to audit its financial statements for the fiscal year ending July 31, 2018. See "APPENDIX A" for a copy of the District's July 31, 2017 financial statement.

**Engineer:** The District's consulting engineer is Costello, Inc.

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

**Tax Assessor/Collector:** The District has appointed an independent tax assessor/collector to perform the tax collection function. Mr. Mike Arterburn of Utility Tax Service, LLC (the "Tax Assessor/Collector") has been employed by the District to serve in this capacity.

**Bookkeeper:** The District has contracted with McLennan & Associates, L.P. (the "Bookkeeper") for bookkeeping services.

**Utility System Operator:** The City of Richmond operates the District's internal water and wastewater system.

## **THE SYSTEM**

### **Regulation**

Construction and operation of the District's water, wastewater and storm drainage system 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. 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, the City of Richmond, and the Texas Department of Health also exercise regulatory jurisdiction over the District's system.

### **Water Supply**

Water supply for the District is provided by the City of Richmond through a water plant facility that includes five water wells with 3,320 gallons per minute ("gpm") of capacity, a 1,510,000 gallon ground storage tank, a 760,000 gallon elevated storage tank and 4,350 gpm of booster pump capacity. These services are provided pursuant to the Amended and Restated Water Supply and Wastewater Services Contract between the City and the District. See "THE DISTRICT—Water Supply and Wastewater Services Contract with the City." The City of Richmond facilities are adequate to provide water supply to the District through full build-out of the District; however, the District is participating in the construction of a new water plant to offset the District's utilization of the City of Richmond's water supply. Construction on phase one of the City's new water plant is complete. Additionally, a portion of the proceeds from the Series 2016 Bonds have been escrowed and will be expended to fund the District's share of the City's water plant, phase two, which will begin construction in the fall of 2018.

### **Subsidence and Conversion to Surface Water Supply**

The District obtains its water supply from the City of Richmond. The City of Richmond's authority to pump groundwater is subject to an annual permit issued by the Fort Bend Subsidence District (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 City of Richmond and the District.

The Subsidence District's regulations require the City of Richmond, individually or collectively with other water users, to: (i) prepare a groundwater reduction plan ("GRP") and obtain certification of the GRP from the Subsidence District by the applicable water well permit expiration date in the year 2010; (ii) limit groundwater withdrawals to no more than 70% of the total annual water demand of the water users within the GRP, beginning January 2016; and (iii) limit groundwater withdrawals to no more than 40% of the total annual water demand of the water users within the GRP, beginning January 2025. The City's GRP, in which the District is a participant, was submitted timely and has been certified by the Subsidence District.

If the GRP participants fail to comply with the above Subsidence District regulations, the GRP participants will be subject to a \$6.50 per 1,000 gallons disincentive fee penalty imposed by the Subsidence District for any groundwater withdrawn in excess of 40% of the total annual water demand. If the District failed to comply with surface water conversion requirements mandated by the City as administrator of the GRP, the District would be subject to monetary or other penalties imposed by the City.

The City of Richmond has had discussions with its GRP participants, including the District, regarding the costs for engineering and construction of the first phase of a five million gallon per day regional surface water treatment plant. The total estimated cost for such surface water treatment plant is approximately \$12,150,000, of which approximately \$944,784 or 7.776% is the District's share. As provided in the Groundwater Reduction Plan Participation Agreement between the District and the City, the City gives the District the option to sell bonds to pay its pro rata share of the plant. At this time, the District has no plans to finance its share of surface water improvements through its own direct debt. The District currently funds its share of surface water improvements and other costs related to the operation of the GRP through surface water fees charged by the City of Richmond, in its role as administrator of the GRP. The District then passes these costs on to its customers as a charge on their water and sewer bills. The current surface water fee is \$2.20 per 1,000 gallons of supplied water, subject to change by the City.

## **Wastewater Treatment**

The District's wastewater is treated by the City of Richmond through a 1,500,000 gallon per day ("gpd") wastewater treatment plant. These services are provided pursuant to the Amended and Restated Water Supply and Wastewater Services Contract between the City and the District. See "THE DISTRICT—Water Supply and Wastewater Services Contract with the City." The District has purchased capacity in the City of Richmond's wastewater treatment plant facilities through payment of impact fees. To date, the District has purchased impact fees for 861 equivalent single-family connections. The City of Richmond's wastewater treatment facilities are adequate to serve the District through full build-out. The City is obligated to provide wastewater treatment in the amounts secured by payment of the impact fees.

## **Water Distribution, Wastewater Collection and Storm Drainage Facilities**

Water distribution, wastewater collection and storm drainage facilities have been constructed to serve 847 single-family residential lots and 14 acres of commercial reserves. See "THE DISTRICT—Land Use."

## **100-Year Flood Plain**

The Federal Emergency Management Agency ("FEMA") commissioned a study to reevaluate the "base flood elevation" (commonly referred to as the 100-year flood plain elevation) in Fort Bend County in 2006 and the revised FIRM's became the "effective" flood rate maps of Fort Bend County on April 2, 2014. The effective FIRM's (Panel Nos. 48157CO235L and 48157CO255L, dated April 2, 2014) indicate that approximately 267 acres consisting of 528 lots within the District lie within the 100-year flood plain. Approximately 104 acres consisting of approximately 319 lots comprising River's Edge Sections Thirteen, Fifteen-A, Fifteen-B, Sixteen and a portion of Section Seventeen are located outside the 100-year flood plain. A Letter of Map Revision was approved by FEMA on August 4, 2016, to remove the remaining portion of River's Edge, Section Seventeen from the 100-year flood plain. Homeowners of existing houses and lots that are deemed to be within the existing 100-year flood plain are required to purchase flood insurance. Additionally, Fort Bend County requires all slabs on new houses and commercial buildings to be constructed a minimum of 18-inches above the 100-year flood plain elevation. See "INVESTMENT CONSIDERATIONS—Hurricane Harvey."

The District is proposing to expend Bond proceeds to construct various drainage and flood protection improvements identified as a result of Hurricane Harvey. See "USE AND DISTRIBUTION OF BOND PROCEEDS."

## **2016 Flooding**

Between April and June 2016, severe flooding damaged various areas in the Greater Houston Area including areas along the Brazos River, which include properties within the District. Approximately 36 houses within the District were inundated by flood waters. SEE INVESTMENT CONSIDERATIONS—2016 Flooding."

## **2017 Flooding**

According to reports, approximately 157 homes within the District experienced flooding or other significant damage. See "INVESTMENT CONSIDERATIONS—Hurricane Harvey."

## Water and Wastewater Operations

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

	Fiscal Year Ended July 31				
	2018 (a)	2017	2016	2015	2014
Revenues:					
Water Service	\$ 370,749	\$ 361,693	\$ 316,414	\$ 250,121	\$ 255,262
Sewer Service	323,171	305,489	257,149	226,347	216,725
Property Taxes	892,749	620,096	735,974	519,158	421,339
Penalites and Interest	32,058	883	28,972	23,167	4,953
Garbage Service	197,087	187,191	156,513	143,617	136,613
Tap Connection and Inspection	136,634	115,729	187,563	168,838	78,305
Fire Protection	255,652	243,300	208,148	179,928	151,719
Groundwater Reduction Plan	330,254	155,978	132,249	89,369	189,204
Miscellaneous	123	3,500	2,310	3,978	2,000
Investment Earnings	29,430	10,149	3,590	1,328	1,428
Total Revenues	\$ 2,567,908	\$ 2,004,008	\$ 2,028,882	\$ 1,605,851	\$ 1,457,548
Expenditures:					
Current Service Operations					
Purchased Services	\$ 655,278	\$ 629,874	\$ 554,938	\$ 438,910	\$ 447,622
Professional Fees	111,145	185,356	143,749	116,713	91,592
Contracted Services	245,384	528,042	510,999	448,166	365,712
Repairs and Maintenance	559,705	138,910	174,324	322,390	129,069
Groundwater Reduction Plan	335,910	161,925	158,615	76,207	168,704
Utilities	11,255	7,794	7,483	7,536	7,157
Administrative	9,053	41,176	37,158	31,282	31,660
Other	387,082 <sup>(b)</sup>	4,535	1,565	5,482	5,912
Capital Outlay	-	83,179	-	-	-
Interest	-	-	-	-	4,173
Intergovernmental	-	-	-	-	-
Capital Contribution	-	-	-	3,476	110,263 <sup>(d)</sup>
Total Expenditures	\$ 2,314,811	\$ 1,780,791	\$ 1,588,831	\$ 1,450,162	\$ 1,361,864
NET REVENUES	\$ 253,097	\$ 223,217	\$ 440,051	\$ 155,689	\$ 95,684
Other Financing Sources	\$ -	\$ -	\$ -	\$ 11,289 <sup>(c)</sup>	\$ -
General Operating Fund					
Balance (Beginning of Year)	\$ 2,042,437	\$ 1,819,220	\$ 1,379,169	\$ 1,212,191	\$ 1,116,507
General Operating Fund					
Balance (End of Year)	\$ 2,295,534	\$ 2,042,437	\$ 1,819,220	\$ 1,379,169	\$ 1,212,191

(a) Unaudited. Provided by the District's Bookkeeper.

(b) Includes \$323,874 of flood-related legal and engineering expenses.

(c) Transfer from the Capital Projects Fund.

(d) Reflects the District's pro rata share of engineering fees for design of the City's new water plant.



## FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)

2018 Taxable Assessed Valuation.....	\$184,676,180	(a)
Estimated Taxable Assessed Valuation as of July 15, 2018.....	\$192,078,233	(b)
Gross Direct Debt Outstanding .....	\$22,440,000	(c)
Estimated Overlapping Debt .....	<u>13,537,848</u>	(d)
Gross Direct Debt and Estimated Overlapping Debt.....	\$35,977,848	
Ratios of Gross Direct Debt to:		
2018 Taxable Assessed Valuation .....	12.15%	
Estimated Taxable Assessed Valuation as of July 15, 2018.....	11.68%	
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:		
2018 Taxable Assessed Valuation.....	19.48%	
Estimated Taxable Assessed Valuation as of July 15, 2018.....	18.73%	
Debt Service Funds Available as of August 21, 2018 .....	\$2,213,551	
Operating Funds Available as of August 21, 2018 .....	\$2,073,605	
Capital Projects Funds Available as of August 21, 2018 .....	\$ 718,311	

- (a) The Fort Bend Central Appraisal District (the “Appraisal District”) has certified \$183,579,410 of taxable value and an additional \$1,096,770 remains uncertified and subject to review and adjustment prior to certification. The 2018 Taxable Assessed Valuation shown herein is the certified value plus the uncertified value. See “TAXING PROCEDURES.”
- (b) Provided by the Appraisal District for informational purposes only. Such amounts reflect an estimate of the taxable assessed value within the District on July 15, 2018. No tax will be levied on such amount until it is certified. Increases in value occurring between January 1, 2018 and July 15, 2018, will be certified as of January 1, 2019 and provided for purposes of taxation in the fall of 2019. See “TAXING PROCEDURES.”
- (c) Includes the Bonds and the Outstanding Bonds. See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds.”
- (d) See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt” and “—Overlapping Taxes.”

### **Investments of the District**

The District has adopted an Investment Policy as required by the Public Funds Investment Act, Chapter 2256, Texas Government Code. The District’s goal is to preserve principal and maintain liquidity while securing a competitive yield on its portfolio. Funds of the District will be invested in short term U.S. Treasuries, certificates of deposit insured by the Federal Deposit Insurance Corporation (“FDIC”) or secured by collateral evidenced by perfected safekeeping receipts held by a third party bank, and public funds investment pools rated in the highest rating category by a nationally recognized rating service. The District does not currently own, nor does it anticipate, the inclusion of long term securities or derivative products in the District’s investment portfolio.

## **Outstanding Debt**

The District has previously issued five series of unlimited tax bonds in the principal amount of \$19,440,000, one series of unlimited tax park bonds in the principal amount of \$1,825,000 and three series of unlimited tax refunding bonds in the principal amount of \$10,130,000. An aggregate principal amount of \$16,770,000 of unlimited tax bonds are outstanding (the "Outstanding Bonds"). The following table lists the original principal amount of the Outstanding Bonds and the principal amount of the Outstanding Bonds as of September 2, 2018.

Series		Original Principal Amount	Outstanding Bonds as of 9/2/18
2006		\$ 2,250,000	\$ -
2007		4,620,000	165,000
2007A		4,500,000	-
2011		2,370,000	300,000
2013	(a)	2,000,000	1,570,000
2015	(a)	4,920,000	4,765,000
2016		5,700,000	5,100,000
2016A	(b)	1,825,000	1,680,000
2017	(a)	3,210,000	3,190,000
Total		\$ 31,395,000	\$ 16,770,000

(a) Unlimited tax refunding bonds.

(b) Unlimited tax park bonds.

## **Debt Service Requirements**

The following sets forth the debt service on the Outstanding Bonds (see “Outstanding Debt” in this section) and the Bonds.

Year	Outstanding Bonds Debt Service Requirements	Plus: Debt Service on the Bonds			Total Debt Service Requirements
		Principal	Interest	Total	
2019	\$ 1,492,168	\$ 175,000	\$ 184,720	\$ 359,720	\$ 1,851,887
2020	1,496,881	175,000	196,263	371,263	1,868,144
2021	1,487,465	175,000	191,013	366,013	1,853,478
2022	1,476,341	175,000	184,013	359,013	1,835,354
2023	1,465,905	175,000	177,013	352,013	1,817,918
2024	1,449,883	175,000	170,013	345,013	1,794,895
2025	1,433,136	175,000	161,263	336,263	1,769,399
2026	1,419,916	175,000	156,013	331,013	1,750,929
2027	1,415,798	175,000	150,763	325,763	1,741,560
2028	1,400,739	175,000	145,513	320,513	1,721,251
2029	1,384,731	175,000	140,044	315,044	1,699,775
2030	1,368,159	175,000	134,356	309,356	1,677,515
2031	1,365,963	175,000	128,669	303,669	1,669,631
2032	1,229,700	245,000	122,763	367,763	1,597,463
2033	587,338	525,000	114,188	639,188	1,226,525
2034	563,500	525,000	95,813	620,813	1,184,313
2035	424,350	525,000	77,438	602,438	1,026,788
2036	-	525,000	58,406	583,406	583,406
2037	-	525,000	39,375	564,375	564,375
2038	-	525,000	19,688	544,688	544,688
Total	\$ 21,461,971	\$ 5,670,000	\$ 2,647,320	\$ 8,317,320	\$ 29,779,291

Average Annual Debt Service Requirements (2019-2038) ..... \$1,488,965  
Maximum Annual Debt Service Requirement (2020) ..... \$1,868,144

### **Estimated Overlapping Debt**

The following table indicates the outstanding debt payable from ad valorem taxes, of governmental entities within which the District is located and the estimated percentages and amounts of such indebtedness attributable to property within the District. 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 District 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.

<u>Taxing Jurisdiction</u>	<u>Outstanding Bonds</u>	<u>As of</u>	<u>Percent</u>	<u>Overlapping Amount</u>
Fort Bend County .....	\$ 620,856,527	09/30/17	0.23%	\$ 1,427,970
Lamar Consolidated Independent School District.....	1,062,270,000	07/31/18	1.14%	12,109,878
Total Estimated Overlapping Debt.....				\$13,537,848
The District's Total Direct Debt (a) .....				22,440,000
Total Direct and Estimated Overlapping Debt .....				\$35,977,848

Direct and Estimated Overlapping Debt as a Percentage of:

2018 Taxable Assessed Valuation of \$184,676,180.....	19.48%
Estimated Taxable Assessed Valuation as of July 15, 2018 of \$192,078,233 .....	18.73%

(a) The Bonds and the Outstanding Bonds.

### **Overlapping Taxes**

Property within the District is subject to taxation by several taxing authorities in addition to the District. 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 the District, having the power to tax the property. The District'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 bonded debt of the District and other taxing authorities (see "Estimated Overlapping Debt" above), certain taxing jurisdictions, including the District, 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 are all of the taxes levied for the 2017 tax year by all overlapping taxing jurisdictions and the District's 2018 tax rate. 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.

	<u>Tax Rate Per \$100 Taxable Assessed Valuation</u>
Fort Bend County (a).....	\$ 0.45300
Lamar Consolidated Independent School District.....	1.39005
Total Overlapping Tax Rate.....	\$ 1.84305
The District.....	1.25000
Total Tax Rate.....	\$ 3.09305

(a) See "INVESTMENT CONSIDERATIONS—Overlapping Debt and Taxes."

## **TAX DATA**

### **Debt Service Tax**

The Board covenants in the Bond Order to levy and assess, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax adequate to provide funds to pay the principal of and interest on the Bonds. See “Historical Tax Rate Distribution” and “Tax Roll Information” below and “TAXING PROCEDURES.”

### **Maintenance Tax**

The Board has the statutory authority to levy and collect an annual ad valorem tax for the operation and maintenance of the District, if such a maintenance tax is authorized by the District’s voters. A maintenance tax election was conducted September 13, 2003, and voters of the District authorized, among other things, the Board to levy a maintenance tax at a rate not to exceed \$1.25 per \$100 taxable assessed valuation. A maintenance tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds. See “Debt Service Tax” above.”

### **Historical Tax Rate Distribution**

	2018	2017	2016	2015	2014
Debt Service	\$ 0.94	\$ 0.75	\$ 0.89	\$ 0.70	\$ 0.87
Maintenance and Operations	0.31	0.50	0.36	0.55	0.47
Total	\$ 1.25	\$ 1.25	\$ 1.25	\$ 1.25	\$ 1.34

### **Tax Exemptions**

As discussed in the section titled “TAXING PROCEDURES” herein, certain property in the District may be exempt from taxation by the District. The District does not exempt any percentage of the market value of any residential homesteads from taxation. For 2018, the District has exempted \$5,000 of the appraised value of resident homesteads for persons who are disabled or 65 years of age or older.

### **Additional Penalties**

The District has contracted with a delinquent tax attorney to collect certain delinquent taxes. In connection with that contract, the District established 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 November 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.

## **Historical Tax Collections**

The following statement of tax collections sets forth in condensed form a portion of the historical tax experience of the District. Such table has been prepared for inclusion herein, based upon information obtained from the District's Tax Assessor/Collector. Reference is made to such statements and records for further and complete information. See "Tax Roll Information" below.

	Net Taxable		Tax Rate	Total (b) Tax Levy	Total Collections as of July 31, 2018 (c)	
	Assessed Valuation (a)				Amount	Percent
2013	\$ 102,888,160		\$ 1.34	\$ 1,377,857	\$ 1,377,790	99.99%
2014	110,673,260		1.34	1,483,022	1,482,445	99.96%
2015	133,809,380		1.25	1,672,617	1,671,913	99.96%
2016	171,435,218		1.25	2,142,940	2,141,042	99.91%
2017	180,246,578 (d)		1.25	2,322,421	2,300,739	99.07%
2018	184,676,180		1.25	2,308,452	(e)	(e)

- (a) Net valuation represents final gross appraised value as certified by the Appraisal District less any exemptions granted. See "Tax Roll Information" below for gross appraised value and exemptions granted by the District.
- (b) Represents actual tax levy, including any adjustments by the Appraisal District, as of the date hereof.
- (c) Unaudited.
- (d) The Appraisal District originally provided a 2017 certified value of \$185,793,676. According to the Tax Assessor/Collector, as a result of reappraisals in connection with Hurricane Harvey, the District's value will be effectively reduced by \$5,547,098. Although the Appraisal District has not issued a revised total District value for 2017, the amount shown throughout the OFFICIAL STATEMENT, reflects a reduction of \$5,547,098.
- (e) In process of collection. 2018 taxes are due by January 31, 2019.

## **Tax Roll Information**

The District's assessed value as of January 1 of each year is used by the District in establishing its tax rate (see "TAXING PROCEDURES—Valuation of Property for Taxation"). The following represents the composition of property comprising the 2015 through 2018 Taxable Assessed Valuations and the Estimated Taxable Assessed Valuation as of July 15, 2018. Taxes are levied on taxable value certified by the Appraisal District as of January 1 of each year.

Tax Year	Type of Property			Gross Assessed Valuations	Deferments and Exemptions	Uncertified Value	Net Assessed Valuation
	Land	Improvements	Personal Property				
2015	\$ 29,829,130	\$ 104,890,620	\$ 1,231,140	\$ 135,950,890	\$ (2,141,510)	\$ -	\$ 133,809,380
2016	34,071,770	138,962,060	1,433,800	174,467,630	(3,032,412)	-	171,435,218
2017	33,667,220	154,007,942 (a)	1,546,190	189,221,352	(8,974,774)	-	180,246,578 (a)
2018	34,597,040	150,731,070	1,333,800	186,661,910	(3,082,500)	1,096,770	184,676,180
Estimate as of 7/15/18	36,078,770	156,761,070	1,333,800	194,173,640	(3,082,500)	987,093	192,078,233

- (a) The Appraisal District originally provided a 2017 certified value of \$185,793,676. According to the Tax Assessor/Collector, as a result of reappraisals in connection with Hurricane Harvey, the District's value will be effectively reduced by \$5,547,098. Although the Appraisal District has not issued a revised total District value for 2017, the amount shown throughout the OFFICIAL STATEMENT, reflects a reduction of \$5,547,098.

## **Principal Taxpayers**

The following table represents the ten principal taxpayers, the taxable assessed value of such property, and such property's taxable assessed valuation as a percentage of the certified portion (\$183,579,410) of the 2018 Taxable Assessed Valuation of \$184,676,180. This represents ownership as of January 1, 2018. Principal taxpayer lists related to the uncertified portion (\$1,096,770) of the 2018 Taxable Assessed Valuation and the Estimated Taxable Assessed Valuation as of July 15, 2018, of \$192,078,233, which is subject to review and downward adjustment prior to certification, are not currently available.

<u>Taxpayer</u>	<u>2018 Certified Taxable Assessed Valuation</u>	<u>% of 2018 Certified Taxable Assessed Valuation</u>
Malfridge Ronald P JR Trust	\$ 3,320,330	1.81%
River's Edge Properties LLC	1,680,000	0.92%
Richmond 90A LLC	1,176,130	0.64%
K Hovnanian of Houston II LLC (a)	1,134,000	0.62%
Weekley Homes LLC (a)	694,080	0.38%
Perry Homes LLC (a)	670,790	0.37%
Centerpoint Energy Electric	527,310	0.29%
From Better Inc.	494,800	0.27%
Individual	452,210	0.25%
Lorb Holdings LLC	447,620	0.24%
Total of Principal Taxpayers	\$ 10,597,270	5.77%

(a) See "THE DISTRICT—Builders."

## **Tax Adequacy for Debt Service**

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 taxable assessed valuation which would be required to meet average annual and maximum annual debt service requirements if no growth in the District's tax base occurred beyond the 2018 Taxable Assessed Valuation of \$184,676,180 (\$183,579,410 of certified value and \$1,096,770 of uncertified value) or the Estimated Taxable Assessed Valuation as of July 15, 2018 of \$192,078,233. The calculations contained in the following table merely represent the tax rates required to pay principal of and interest on the Bonds and the Outstanding Bonds when due, assuming no further increase or any decrease in taxable values in the District, collection of ninety-five percent (95%) of taxes levied, the sale of no additional bonds, and no other funds available for the payment of debt service. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements" and "INVESTMENT CONSIDERATIONS—Possible Impact on District Tax Rates."

Average Annual Debt Service Requirement (2019-2038) .....	\$1,488,965
\$0.85 Tax Rate on the 2018 Taxable Assessed Valuation .....	\$1,491,260
\$0.82 Tax Rate on Estimated Taxable Assessed Valuation as of July 15, 2018 .....	\$1,496,289
Maximum Annual Debt Service Requirement (2020).....	\$1,868,144
\$1.07 Tax Rate on the 2018 Taxable Assessed Valuation .....	\$1,877,233
\$1.03 Tax Rate on Estimated Taxable Assessed Valuation as of July 15, 2018 .....	\$1,879,486

No representation or suggestion is made that the uncertified portion of the 2018 Taxable Assessed Valuation or the Estimated Taxable Assessed Valuation as of July 15, 2018 provided by the Appraisal District for the District will be certified as taxable value by the Appraisal District, and no person should rely upon such amounts or their inclusion herein as assurance of their attainment. See "TAXING PROCEDURES."

## **TAXING PROCEDURES**

### **Authority to Levy Taxes**

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in an amount sufficient to pay the principal of and interest on the Bonds and any additional bonds payable from taxes which the District may hereafter issue (see “INVESTMENT CONSIDERATIONS—Future Debt”) and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Order to levy such a tax from year-to-year as described more fully herein under “THE BONDS—Source of Payment.” Under Texas law, the Board may also levy and collect an annual ad valorem tax for the operation and maintenance of the District and for the payment of certain contractual obligations. See “TAX DATA—Debt Service Tax” and “—Maintenance 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 District. Provisions of the Property Tax Code are complex and are not fully summarized here.

The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State 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 District. 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 District**

Except for certain exemptions provided by Texas law, all real property and tangible personal property in the District is subject to taxation by the District; however, it is expected that no effort will be made by the District to collect taxes on personal property other than on personal property rendered for taxation, business inventories and the property of privately owned utilities. Principal categories of exempt property include: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; farm products owned by the producer; all oil, gas and mineral interests owned by an institution of higher education; certain property owned by exclusively charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; solar and wind-powered energy devices; and most individually owned automobiles. In addition, the District may by its own action exempt certain residential homesteads of persons sixty-five (65) years or older or under a disability for purposes of payment of disability insurance benefits under the Federal Old-Age Survivors and Disability Insurance Act to the extent deemed advisable by the Board. The District would be required to call an election on such residential homestead exemption upon petition by at least twenty percent (20%) of the number of qualified voters who voted in the District’s preceding election and would be required to offer such an exemption if a majority of voters approve it at such election. For the 2018 tax year, the District granted an exemption of \$20,000 of assessed valuation for persons 65 years of age or older and individuals who are under a disability for purposes of payment of disability insurance benefits under the Federal Old-Age Survivors and Disability Insurance Act. The District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between \$5,000 and \$12,000 of assessed valuation depending upon the disability rating of the veteran, if such rating is less than 100%. A veteran who receives a disability rating of 100% is entitled to an exemption for the full value of the veteran’s residence homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran’s residence homestead is also entitled 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 (i) the residence homestead was donated by a charitable organization at no cost to the disabled veteran or, effective January 1, 2018, (ii) the residence was donated by a charitable organization at some cost to the disabled veteran if such cost is less than or equal to fifty percent (50%) of the total good faith estimate of the market value of the residence as of the date the donation is made. Also, the surviving spouse of (i) a member of the armed forces or, effective January 1, 2018, (ii) a first responder as defined under Texas law, 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. See “TAX DATA.”

**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 appraised value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of a homestead exemption may be considered each year, but must be adopted by June 30. See “TAX DATA.”



**Freeport Goods Exemption:** A “Freeport Exemption” applies to goods, wares, ores, and merchandise other than oil, gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining petroleum or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A “Goods-in-Transit” Exemption is applicable to the same categories of tangible personal property which are covered by the Freeport Exemption, if, for tax year 2011 and prior applicable years, such property is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation, and the location where said property is detained during that period is not directly or indirectly owned or under the control of the property owner. For tax year 2012 and subsequent years, such Goods-in-Transit Exemption includes tangible personal property acquired in or imported into Texas for storage purposes only if such property is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit personal property. A taxing unit must exercise its option to tax goods- in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law. The District has taken official action to allow taxation of all such goods-in-transit personal property for all prior and subsequent years.

### **Tax Abatement**

Fort Bend County may designate all or part of the area within the District as a reinvestment zone. Thereafter, Fort Bend County, the City and the District, 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 the District, 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 agreement. 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 District must be appraised by the Appraisal District at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Property Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Property Tax Code.

Nevertheless, certain land may be appraised at less than market value under the Property Tax Code. In November 1997, Texas voters approved a constitutional amendment to limit increases in the appraised value of residence homesteads to ten percent (10%) 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 fair market value. The Property Tax Code permits under certain circumstances that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. 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 District 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. The District, however, at its expense has the right to obtain from the Appraisal District a current estimate of appraised values within the District or an estimate of any new property or improvements within the District. While such current estimate of appraised values may serve to indicate the rate and extent of growth of taxable values within the District, it cannot be used for establishing a tax rate within the District until such time as the Appraisal District chooses formally to include such values on its appraisal roll.

When requested by a local taxing unit, such as the District, the Appraisal District is required to complete a reappraisal as soon as practicable of all property damaged in an area that the Governor declares a disaster area. For reappraised property, the taxes are pro-rated for the year in which the disaster occurred. The taxing unit assesses taxes prior to the date the disaster occurred based upon market value as of January 1. Beginning on the date of the disaster and for the remainder of the year, the taxing unit applies its tax rate to the reappraised market value of the property.

### **District and Taxpayer Remedies**

Under certain circumstances taxpayers and taxing units (such as the District) 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 sets forth notice and hearing procedures for certain tax rate increases by the District and provides for taxpayer referenda which could result in the repeal of certain tax increases. The Property 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**

The District is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. The rate of taxation is set by the Board of Directors, after the legally required notice has been given to owners of property within the District, based upon: a) the valuation of property within the District as of the preceding January 1, and b) the amount required to be raised for debt service, maintenance purposes, and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent if not paid before February 1 of the year following the year in which imposed. However, a person who is 65 years of age or older or disabled is entitled by law to pay current taxes on his residential homestead in installments or to receive a deferral or abatement of delinquent taxes without penalty during the time he owns or occupies his property as his residential homestead. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. A delinquent tax on personal property incurs an additional penalty, in an amount established by the District and a delinquent tax attorney, 60 days after the date the taxes become delinquent. The delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, which may be rejected by taxing units. The District's tax collector is required to enter into an installment payment agreement with any person who is delinquent on the payment of tax on a residence homestead for payment of tax, penalties and interest, if the person requests an installment agreement 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 continue to accrue during the period of deferral.

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

### **Rollback of Operation and Maintenance Tax Rate**

The qualified voters of the District have the right to petition for a rollback of the District's operation and maintenance tax rate only if the total tax bill on the average residence homestead increases by more than eight percent. If a rollback election is called and passes, the rollback tax rate is the current year's debt service and contract tax rates plus 1.08 times the previous year's operation and maintenance tax rate. Thus, debt service and contract tax rates cannot be changed by a rollback election.

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

Taxes levied by the District are a personal obligation of the owner of the property as of January 1 of the year 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 the District, having power to tax the property. The District's tax lien is on a parity with tax liens of such other taxing units. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Overlapping Taxes." 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 the 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, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both subject to the restrictions on residential homesteads described in the preceding section under "Levy and Collection of Taxes". In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights or by bankruptcy proceedings which restrict the collection of taxpayer debts. A taxpayer may redeem property within six (6) months for commercial property and two (2) years for residential and all other types of property after the purchaser's deed issued at the foreclosure sale is filed in the county records. See "INVESTMENT CONSIDERATIONS—General" and "—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 the District and may prevent the collection of penalties and interest on such taxes or may affect the valuation of such property.

## INVESTMENT CONSIDERATIONS

### **Recent Extreme Weather Events**

The greater Houston area, including the District, 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 District 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.

### **2016 Flooding**

Between April and June 2016, severe flooding damaged various areas in the Greater Houston Area including areas along the Brazos River, which include properties within the District. Approximately 36 houses within the District were inundated by flood waters. Such flooded areas, including affected properties within the District, have been deemed by the Governor of Texas as disaster areas.

### **2017 Flooding**

Based on information reported to the District, approximately 157 homes within the District experienced flooding or other significant damage as a result of Hurricane Harvey. Additionally, there was a temporary loss in sanitary sewer service due to submergence of an electrical panel at the City’s lift station located within the District. At its Board of Directors meeting on September 19, 2017, the Board of Directors of the District requested a reappraisal of damaged property located within the District. To the extent that property is reappraised to reflect values immediately after the disaster, the District must prorate the taxes on the property for the year in which the disaster occurred so that after the date of the disaster the taxes owed reflect the reappraised value.

The certified assessed value of properties in the District decreased approximately \$1.1 million due to flood damage as a result of Hurricane Harvey, but such amount may have been affected by increases in taxable value due to home building that is on-going in the District. A substantial future decrease in the assessed valuation in the District could result in a corresponding increase in the District’s tax rate and the rates levied by overlapping taxing units.

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

### **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.

## **100-Year Flood Plain**

The Federal Emergency Management Agency (“FEMA”) commissioned a study to reevaluate the “base flood elevation” (commonly referred to as the 100-year flood plain elevation) in Fort Bend County in 2006 and the revised FIRM’s became the “effective” flood rate maps of Fort Bend County on April 2, 2014. The effective FIRM’s (Panel Nos. 48157CO235L and 48157CO255L, dated April 2, 2014) indicate that 267 acres consisting of 528 lots within the District lie within the 100-year flood plain. Approximately 104 acres consisting of approximately 319 lots comprising River’s Edge Sections Thirteen, Fifteen-A, Fifteen-B, Sixteen and a portion of Section Seventeen are located outside the 100-year flood plain. A Letter of Map Revision was approved by FEMA on August 4, 2016, to remove the remaining portion of River’s Edge, Section Seventeen from the 100-year flood plain. Homeowners of existing houses and lots that are deemed to be within the existing 100-year flood plain may be required to purchase flood insurance. Additionally, Fort Bend County requires all slabs on new houses and commercial buildings to be constructed a minimum of 18-inches above the 100-year flood plain elevation. See “THE SYSTEM—100-Year Flood Plain.”

The District will expend Bond proceeds to construct various drainage and flood protection improvements identified as a result of Hurricane Harvey. See “USE AND DISTRIBUTION OF BOND PROCEEDS.”

## **General**

The Bonds are obligations solely of the District and are not obligations of the City of Richmond, Fort Bend County, the State of Texas, or any entity other than the District. Payment of the principal of and interest on the Bonds depends upon the ability of the District to collect taxes levied on taxable property within the District in an amount sufficient to service the District’s bonded debt or in the event of foreclosure, on the value of the taxable property in the District and the taxes levied by the District and other taxing authorities upon the property within the District. See “THE BONDS— Source of and Security for Payment.” The collection by the District of delinquent taxes owed to it and the enforcement by Registered Owners of the District’s obligation to collect sufficient taxes may be a costly and lengthy process. Furthermore, the District cannot and does not make any representations that continued development of taxable property within the District will accumulate or maintain taxable values sufficient to justify continued payment of taxes by property owners or that there will be a market for the property or that owners of the property will have the ability to pay taxes. See “Registered Owners’ Remedies and Bankruptcy Limitations” below.

## **Economic Factors and Interest Rates**

A substantial percentage of the taxable value of the District results from the current market value of single-family residences, developed lots which are currently being marketed by the developer for sale to either home purchasers or homebuilders for the construction of primary residences and from commercial properties. The market value of such homes, lots, and commercial properties is related to general economic conditions affecting the demand for residences and such commercial properties. Demand for lots of this type and the construction of residential dwellings thereon can be significantly affected by factors such as interest rates, unemployment rate, credit availability, construction costs, energy availability and the prosperity and demographic characteristics of the urban center toward which the marketing of lots is directed. Decreased levels of construction activity would tend to restrict the growth of property values in the District or could adversely impact such values.

## **Competition**

The demand for and construction of single-family homes in the District, which is 25 miles from downtown Houston, could be affected by competition from other residential developments including other residential developments located in the southwestern 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 District and in more established neighborhoods closer to downtown Houston. Such homes could represent additional competition for new homes proposed to be sold within the District.

## **Development and Home Construction in the District**

As of June 30, 2018, approximately 38 developed lots within the District owned by Houston River’s Edge Venture, L.P. remained vacant. In addition, approximately 6 acres served by trunkline water, wastewater and storm drainage facilities for commercial development remain vacant. Estates at River’s Edge LLC owns approximately 18 acres of developable land in the District. Future increases in value will result primarily from the construction of new homes and commercial improvements. The District makes no representation with regard to whether or not the homebuilding and commercial development programs will be successful. See “THE DISTRICT—Land Use—Status of Development.”

### **Possible Impact on District Tax Rates**

Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of owners of property within the District to pay their taxes. The 2018 Taxable Assessed Valuation is \$184,676,180 (\$183,579,410 certified and \$1,096,410 uncertified). After issuance of the Bonds, the maximum annual debt service requirement will be \$1,868,144 (2020), and the average annual debt service requirement will be \$1,488,965 (2019-2042 inclusive). Assuming no increase or decrease from the 2018 Taxable Assessed Valuation, the issuance of no additional debt, and no other funds available for the payment of debt service, tax rates of \$1.07 and \$0.85 per \$100 of taxable assessed valuation at a ninety-five percent (95%) collection rate would be necessary to pay the maximum annual debt service requirement and the average annual debt service requirement, respectively. The Estimated Taxable Assessed Valuation as of July 15, 2018, is \$192,078,233, which reduces the above calculations to \$1.03 and \$0.82 per \$100 of taxable assessed valuation, respectively.

No representation or suggestion is made that the uncertified portion of the 2018 Taxable Assessed Valuation or the Estimated Taxable Assessed Valuation as of July 15, 2018 provided by the Appraisal District for the District will be certified as taxable value by the Appraisal District, and no person should rely upon such amounts or their inclusion herein as assurance of their attainment. See "TAXING PROCEDURES."

### **Tax Collections Limitations and Foreclosure Remedies**

The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other local taxing authorities on the property against which taxes are levied, and such lien may be enforced by judicial foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time-consuming and expensive collection procedures, (b) a bankruptcy court's stay of tax collection procedures against a taxpayer, or (c) market conditions affecting the marketability of taxable property within the District and limiting the proceeds from a foreclosure sale of such property. Moreover, the proceeds of any sale of property within the District available to pay debt service on the Bonds may be limited by the existence of other tax liens on the property (see "FINANCIAL INFORMATION CONCERNING THE DISTRICT (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 the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes assessed against such taxpayer. 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.

### **Registered Owners' Remedies and Bankruptcy Limitations**

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 in the Bond Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Order, the 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 Order. Except for mandamus, the Bond Order 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, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered 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 Order 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 District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District 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 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 Owner's 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**

The District currently has an aggregate of \$6,175,000 principal amount of unlimited tax bonds for the purpose of purchasing and constructing parks and recreational facilities authorized but unissued and \$35,055,000 principal amount of unlimited tax bonds for the purpose of refunding outstanding bonds authorized but unissued. After the issuance of the Bonds, \$2,390,000 principal amount of unlimited tax bonds for the purpose of purchasing and constructing water, wastewater and storm drainage facilities authorized but unissued. In addition, voters may authorize the issuance of additional bonds secured by ad valorem taxes. The issuance of additional obligations may increase the District's tax rate and adversely affect the security for, and the investment quality and value of, the Bonds. See "THE BONDS—Issuance of Additional Debt."

### **Environmental Regulation and Air Quality**

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

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

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

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

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

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

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

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

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

Texas Pollutant Discharge Elimination System (“TPDES”) permits set limits on the type and quantity of discharge, in accordance with state and federal laws and regulations. The TCEQ reissued the TPDES Construction General Permit (TXR150000) on February 19, 2013. The TPDES Construction General Permit became effective on March 5, 2013, and is a general permit authorizing the discharge of stormwater runoff associated with small and large construction sites and certain nonstormwater discharges into surface water in the state. It has a 5-year permit term, and is then subject to renewal. Moreover, the Clean Water Act (“CWA”) and Texas Water Code require municipal wastewater treatment plants to meet secondary treatment effluent limitations and must establish the total maximum allowable daily load (“TMDL”) of certain pollutants into the water bodies. The TMDLs that municipal utility districts may discharge may have an impact on the municipal utility district’s ability to obtain and maintain TPDES permits.



On May 27, 2015, the EPA and the United States Army Corps of Engineers (“USACE”) jointly issued a final version of the Clean Water Rule (“CWR”), which expands the scope of the federal government’s CWA jurisdiction over intrastate water bodies and wetlands. The final rule became effective on August 28, 2015. On October 9, 2015, the United States Court of Appeals for the Sixth Circuit put the CWR on hold nationwide. On January 22, 2018, the United States Supreme Court held that challenges to the CWR must proceed in federal district court as they do not fall within one of the CWA’s enumerated categories of EPA actions for which the federal courts of appeal have jurisdiction. On February 6, 2018, the states of Texas, Louisiana, and Mississippi filed a lawsuit in federal district court seeking an injunction enjoining the implementation and enforcement of the CWR.

On June 27, 2017, the EPA and the USACE released a proposed rule rescinding the CWR, reinstating language in place before 2015 changes, and proposing the development of a revised definition of “waters of the United States.” This proposed rule was published in the Federal Register on July 27, 2017, the comment period ended on September 28, 2017, and comments are currently under review by the agencies. The EPA plans to issue a proposed new regulation in the spring of 2018, and finalize the revised rule by the end of 2018. On January 31, 2018, the EPA and the USACE finalized a rule extending the effective date of the CWR by two years from the date the rule is published in the Federal Register, until 2020. In response, a coalition of states filed a lawsuit in the U.S. District Court for the Southern District of New York alleging the EPA violated the Administrative Procedure Act by enacting this rule without the customary 30-day comment period. If the CWR is not rescinded, operations of municipal utility districts, including the District, are potentially subject to additional restrictions and requirements, including permitting requirements, if construction or maintenance activities require the dredging, filling or other physical alteration of jurisdictional waters of the United States or associated wetlands that are within the “waters of the United States.”

### **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 of the Bonds 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.

### **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.

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

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

### **Risk Factors Related to the Purchase of Municipal Bond Insurance**

The Underwriter has entered into an agreement with Build America Mutual Assurance Company (“BAM” or the “Insurer”) 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 bond insurer (the “Insurer”) and its claim paying ability. The Insurer’s financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of the Insurer and of the ratings on the Bonds insured by the Insurer will not be subject to downgrade and such event could adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds. See description of “MUNICIPAL BOND RATING” and “MUNICIPAL BOND INSURANCE.”

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

Neither the District nor the Underwriter has made independent investigation into the claims paying ability of the Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest on the Bonds and the claims paying ability of the Insurer, particularly over the life of the investment. See “MUNICIPAL BOND RATING” and “MUNICIPAL BOND INSURANCE” for further information provided by the Insurer and the Policy, which includes further instructions for obtaining current financial information concerning the Insurer.

## **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 Build America Mutual Assurance Company. S&P has assigned a credit rating of "BBB" to the Bonds without regard to credit enhancement. An explanation of the rating may be obtained from S&P, 55 Water Street, New York, New York 10041.

There is no assurance that such ratings will continue for any given period of time or that they 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, Build America Mutual Assurance Company ("BAM") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as APPENDIX B to this OFFICIAL STATEMENT.

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

### **Build America Mutual Assurance Company**

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

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

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

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

### ***Capitalization of BAM***

BAM's total admitted assets, total liabilities, and total capital and surplus, as of June 30, 2018 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$519.5 million, \$99.3 million and \$420.2 million, respectively.

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

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

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

#### *Additional Information Available from BAM*

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

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

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

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

## **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 obligations of the District under the Constitution and laws of the State of Texas, payable from the proceeds of an annual ad valorem tax levied, without limit as to rate or amount, upon all taxable property within the District, and, based upon their examination of a transcript of certified proceedings relating to the issuance and sale of the Bonds, the approving legal opinion of Bond Counsel, to a like effect. Delivery of the Bonds will also be accomplished by the approving legal opinion of Special Tax Counsel to the effect that (i) interest on the Bonds is excludable from gross income of the holders for federal tax purposes under existing law, (ii) certain original issue discount on the Original Issue Discount Bonds (defined below) is excludable from gross income for federal income tax purposes under existing law as described more fully in "Tax Treatment of Original Issue Discount and Premium Bonds," and (iii) the Bonds are not "private activity bonds" under the Internal Revenue Code of 1986, as amended (the "Code"), as amended, and interest on the Bonds will not be subject to the alternative minimum tax on individuals and corporations, except as described below in the discussion regarding adjusted current earnings adjustments for corporations.

Bond Counsel has reviewed the information appearing in this OFFICIAL STATEMENT under “THE BONDS,” “THE DISTRICT—Water Supply and Wastewater Services Contract with the City,” “TAXING PROCEDURES,” “LEGAL 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.

Special Tax Counsel’s opinion will address the matters described below under “TAX MATTERS.” Bond Counsel will not be responsible in any manner for the matters addressed in the opinion of Special Tax Counsel, and likewise, Special Tax Counsel will not be responsible in any manner for the matters addressed in the opinion of Bond Counsel. Moreover, Bond Counsel and Special Tax Counsel have no joint responsibility with respect to the Bonds or the proceedings related to the Bonds.

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

#### **No Material Adverse Change**

The obligations of the Underwriter to take and pay for the Bonds, and of the District to deliver the Bonds, are subject to the condition that, up to the time of delivery of and receipt of payment for the Bonds, there shall have been no material adverse change in the condition (financial or otherwise) of the District from that set forth or contemplated in the PRELIMINARY OFFICIAL STATEMENT.

#### **No-Litigation Certificate**

The District will furnish the Underwriter a certificate, executed by both the President and Secretary of the Board, and dated as of the date of delivery of the Bonds, to the effect that there is not pending, and to their knowledge, there is not threatened, any litigation affecting the validity of the Bonds, or the levy and/or collection of taxes for the payment thereof, or the organization or boundaries of the District, or the title of the officers thereof to their respective offices, and that no additional bonds or other indebtedness have been issued since the date of the statement of indebtedness or nonencumbrance certificate submitted to the Attorney General of Texas in connection with approval of the Bonds.

### **TAX MATTERS**

In the opinion of Orrick, Herrington & Sutcliffe LLP, Special Tax Counsel (“Special Tax Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”). Special Tax Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of obligations, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Special Tax Counsel assumes the accuracy of these representations and compliance with these covenants. Special Tax Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Special Tax Counsel’s attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Special Tax Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Special Tax Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Bonds may otherwise affect a Beneficial Owner’s federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner’s other items of income or deduction. Special Tax Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. Prospective purchasers of the Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Special Tax Counsel is expected to express no opinion.

The opinion of Special Tax Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Special Tax Counsel’s judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service (“IRS”) or the courts. Furthermore, Special Tax Counsel cannot give and has not given any opinion or assurance about the future activities of the District or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The District has covenanted, however, to comply with the requirements of the Code.

Special Tax Counsel’s engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Special Tax Counsel is not obligated to defend the District or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the District and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the District legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the District or the Beneficial Owners to incur significant expense.

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

The District has designated the Bonds as “qualified tax-exempt obligations” within the meaning of Section 265(b)(3)(B) of the Internal Revenue Code of 1986, as amended. Pursuant to that section of the Code, a qualifying financial institution will be allowed a deduction from its own federal corporate income tax for the portion of interest expense the financial institution is able to allocate to designated “bank-qualified” investments.

## **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 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 except as described 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, 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.

### **Financial Advisor**

Masterson Advisors LLC is employed as the Financial Advisor to the District to render certain professional services, including advising the District on a plan of financing and preparing the OFFICIAL STATEMENT, including the OFFICIAL NOTICE OF SALE and the OFFICIAL BID FORM for the sale of the Bonds. In its capacity as Financial Advisor, Masterson Advisors LLC has compiled and edited this OFFICIAL STATEMENT. The Financial Advisor has reviewed the information in this OFFICIAL STATEMENT in accordance with, and as a part of, its responsibilities to the District and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

### **Consultants**

In approving this OFFICIAL STATEMENT the District has relied upon the following consultants.

*Tax Assessor/Collector:* The information contained in this OFFICIAL STATEMENT relating to the breakdown of the District's historical assessed value and principal taxpayers, including particularly such information contained in the section entitled "TAX DATA" has been provided by Utility Tax Service, LLC, and is included herein in reliance upon the authority of such individual as an expert in assessing property values and collecting taxes.

*Engineer:* The information contained in this OFFICIAL STATEMENT relating to engineering and to the description of the System and, in particular that information included in the sections entitled "THE DISTRICT" and "THE SYSTEM" has been provided by Costello, Inc., Consulting Engineers and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

*Auditor:* The District's audited financial statements for the year ended July 31, 2017, were prepared by McGrath & Co. PLLC, Certified Public Accountants. See "APPENDIX A" for a copy of the District's July 31, 2017, financial statements.

*Bookkeeper:* The information related to the "unaudited" summary of the District's General Operating Fund as it appears in "THE SYSTEM—Water and Wastewater Operations" has been provided by McLennan & Associates, L.P., 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 Board has relied in part upon its examination of records of the District, and upon discussions with, or certificates or correspondence signed by, certain other officials, employees, consultants and representatives of the District.

## **CONTINUING DISCLOSURE OF INFORMATION**

In the Bond Order, the District has 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"). The MSRB has established the Electronic Municipal Market Access ("EMMA") system.

### **Annual Reports**

The District will provide certain financial information and operating data annually to the MSRB. The financial information and operating data which will be provided 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 "FINANCIAL INFORMATION CONCERNING THE DISTRICT," (except for Estimated Overlapping Debt), "TAX DATA," and in APPENDIX A (Financial Statements of the District and certain supplemental schedules). The District will update and provide this information to the MSRB within six months after the end of each of its fiscal years ending in or after 2018. Any financial statements provided by the District provided shall be prepared in accordance with generally accepted auditing standards or other such principles as the District may be required to employ from time to time pursuant to state law or regulation, and audited if the audit report is completed within the period during which it must be provided. If the audit report is not complete within such period, then the District shall provide unaudited financial statements for the applicable fiscal year to the MSRB within such six month period, and audited financial statements when the audit becomes available.

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

### **Specified Event Notices**

The District will provide timely notices of certain specified 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 events affecting the tax status of the Bonds; (7) modifications to rights of Beneficial Owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of CFR § 240.15c2-12 (the "Rule"); (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material to a decision to purchase or sell Bonds. The term "material" when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Order makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under "Annual Reports."

### **Availability of Information from the 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](http://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; nor has the District 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 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 the changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if but only if 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 either the Registered Owners of a majority in aggregate principal amount of the Outstanding Bonds consent to the amendment or any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the Registered and Beneficial Owners of the Bonds. The District may amend or repeal the agreement in the Bond Order 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 data so provided.

### **Compliance with Prior Undertakings**

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

## **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.

/s/ Janice Walker-Suchyta  
President, Board of Directors

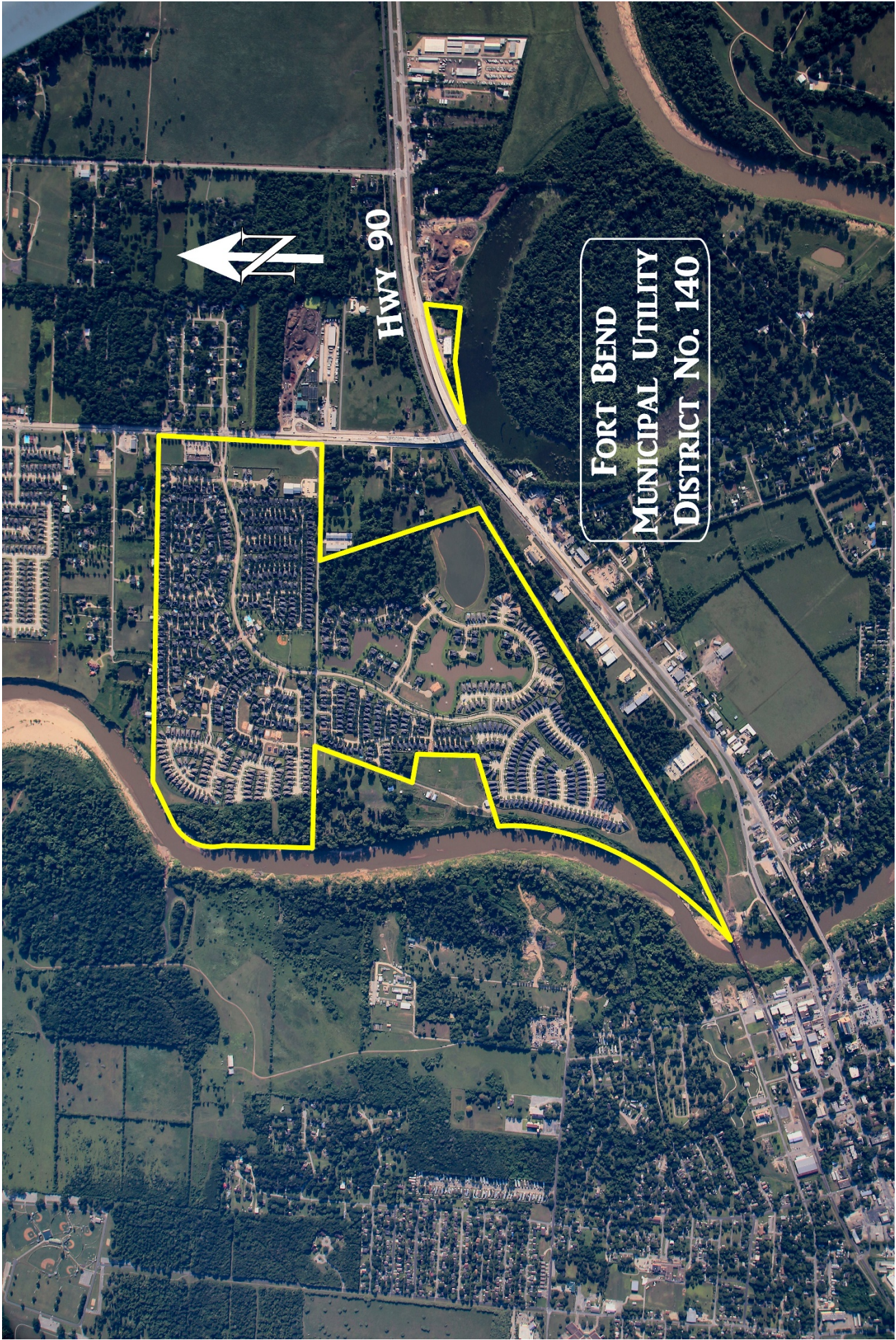
ATTEST:

/s/ Suzan C. Orr  
Secretary, Board of Directors



**AERIAL PHOTOGRAPH**  
**(As of August 2018)**





FORT BEND  
MUNICIPAL UTILITY  
DISTRICT NO. 140



**PHOTOGRAPHS OF THE DISTRICT**  
**(As of August 2018)**























## **APPENDIX A**

**Financial Statement of the District for the year ended July 31, 2017**

**Exhibit "B"**

**FORT BEND COUNTY MUNICIPAL  
UTILITY DISTRICT NO. 140**

**FORT BEND COUNTY, TEXAS**

**FINANCIAL REPORT**

**July 31, 2017**



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# McGrath & Co., PLLC

Certified Public Accountants

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Houston, Texas 77277

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## Independent Auditors' Report

Board of Directors  
Fort Bend County Municipal Utility District No. 140  
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. 140, as of and for the year ended July 31, 2017, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

***Board of Directors  
Fort Bend County Municipal Utility District No. 140  
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. 140, as of July 31, 2017, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**Other-Matters**

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

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

*McGuire & Co, P.C.*

Houston, Texas  
November 14, 2017



## **Management's Discussion and Analysis**

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***Fort Bend County Municipal Utility District No. 140  
Management's Discussion and Analysis  
July 31, 2017***

**Using this Annual Report**

Within this section of the financial report of Fort Bend County Municipal Utility District No. 140 (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 July 31, 2017. This analysis should be read in conjunction with the independent auditors' report and the basic financial statements that follow this section.

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

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

**Overview of the Financial Statements**

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

**Government-Wide Financial Statements**

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

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

***Fort Bend County Municipal Utility District No. 140***  
***Management's Discussion and Analysis***  
***July 31, 2017***

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

**Fund Financial Statements**

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

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

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

The District's net position at July 31, 2017, was negative \$196,839. A comparative summary of the District's overall financial position, as of July 31, 2017 and 2016, is as follows:

	2017	2016
Current and other assets	\$ 5,445,683	\$ 3,645,214
Capital assets	14,405,610	13,261,725
Total assets	19,851,293	16,906,939
Total deferred outflows of resources	289,481	310,158
Current liabilities	1,422,714	980,751
Long-term liabilities	18,914,899	16,277,505
Total liabilities	20,337,613	17,258,256
Net position		
Net investment in capital assets	(4,309,731)	(3,244,809)
Restricted	2,066,332	1,377,722
Unrestricted	2,046,560	1,825,928
Total net position	\$ (196,839)	\$ (41,159)

***Fort Bend County Municipal Utility District No. 140  
Management's Discussion and Analysis  
July 31, 2017***

The total net position of the District decreased during the current fiscal year by \$155,680. A comparative summary of the District's *Statement of Activities* for the past two years is as follows:

	2017	2016
Revenues		
Water and sewer service	\$ 667,182	\$ 573,563
Property taxes, penalties and interest	2,152,886	1,711,980
Other	729,627	692,893
Total revenues	<u>3,549,695</u>	<u>2,978,436</u>
Expenses		
Current service operations	1,777,321	1,646,964
Interest and fees	1,116,898	449,807
Debt issuance costs	354,967	874
Depreciation and amortization	271,441	261,861
Intergovernmental	184,748	
Total expenses	<u>3,705,375</u>	<u>2,359,506</u>
Change in net position	(155,680)	618,930
Net position, beginning of year	(41,159)	(660,089)
Net position, end of year	<u>\$ (196,839)</u>	<u>\$ (41,159)</u>

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

The District's combined fund balances, as of July 31, 2017, were \$5,155,478, which consists of \$2,042,437 in the General Fund, \$2,312,964 in the Debt Service Fund and \$800,077 in the Capital Projects Fund.

*General Fund*

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

	2017	2016
Total assets	<u>\$ 2,319,360</u>	<u>\$ 2,126,668</u>
Total liabilities	\$ 272,800	\$ 300,740
Total deferred inflows	4,123	6,708
Total fund balance	2,042,437	1,819,220
Total liabilities, deferred inflows and fund balance	<u>\$ 2,319,360</u>	<u>\$ 2,126,668</u>

***Fort Bend County Municipal Utility District No. 140***  
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A comparative summary of the General Fund's activities for the current and prior fiscal year is as follows:

	2017	2016
Total revenues	\$ 2,004,008	\$ 2,028,882
Total expenditures	(1,780,791)	(1,588,831)
Revenues over expenditures	<u>\$ 223,217</u>	<u>\$ 440,051</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, the provision of water and sewer services to customers within the District and tap connection fees charged to homebuilders in the District. 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. 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.
- Water, sewer and groundwater reduction plan revenues are dependent upon customer usage, which fluctuates from year to year as a result of factors beyond the District's control.
- Revenues from providing fire protection services are based on the number of connections in the District and increases as the number of connections increases.
- Tap connection fees fluctuate with homebuilding activity within the District.

*Debt Service Fund*

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

	2017	2016
Total assets	<u>\$ 2,326,246</u>	<u>\$ 1,552,733</u>
Total liabilities	\$ 388	\$ 112
Total deferred inflows	12,894	12,195
Total fund balance	<u>2,312,964</u>	<u>1,540,426</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 2,326,246</u>	<u>\$ 1,552,733</u>

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

	2017	2016
Total revenues	\$ 1,552,770	\$ 951,514
Total expenditures	(998,295)	(931,756)
Revenues over expenditures	554,475	19,758
Other changes in fund balance	218,063	
Net change in fund balance	\$ 772,538	\$ 19,758

The District's financial resources in the Debt Service Fund in both the current year and prior year are from property tax revenues. During the current year, the District also received 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.

***Capital Projects Fund***

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

	2017	2016
Total assets	\$ 800,077	\$ (34,187)
Total fund balance	\$ 800,077	\$ (34,187)

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

	2017	2016
Total revenues	\$ 3,283	\$ -
Total expenditures	(6,363,081)	(34,196)
Revenues under expenditures	(6,359,798)	(34,196)
Other changes in fund balance	7,194,062	
Net change in fund balance	\$ 834,264	\$ (34,196)

The District had significant capital asset activity during the current year, which was financed with proceeds from the issuance of its Series 2016 and 2016A Unlimited Tax Bonds. The District did not have any significant capital asset activity in the prior year.

***Fort Bend County Municipal Utility District No. 140  
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**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 \$224,885 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 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 July 31, 2017 and 2016 are summarized as follows:

	<u>2017</u>	<u>2016</u>
Capital assets not being depreciated		
Land and improvements	<u>\$ 5,239,852</u>	<u>\$ 4,126,261</u>
Capital assets being depreciated/amortized		
Water, sewer and drainage systems	9,986,943	9,736,378
Parks	727,648	676,478
Equipment	41,127	41,127
Impact fees	848,874	848,874
	<u>11,604,592</u>	<u>11,302,857</u>
Less accumulated depreciation/amortization		
Water, sewer and drainage systems	(1,945,365)	(1,721,126)
Parks	(231,383)	(212,765)
Equipment	(16,448)	(14,392)
Impact fees	(245,638)	(219,110)
	<u>(2,438,834)</u>	<u>(2,167,393)</u>
Depreciable capital assets, net	<u>9,165,758</u>	<u>9,135,464</u>
Capital assets, net	<u>\$ 14,405,610</u>	<u>\$ 13,261,725</u>

Capital asset additions during the current year included the construction of an outfall flap gate.



***Fort Bend County Municipal Utility District No. 140  
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**Long-Term Debt and Related Liabilities**

As of July 31, 2017, the District owes \$1,552,027 to developers for completed projects. The District intends to reimburse the developers from proceeds of future bond issues or other lawfully available funds.

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

Series	2017	2016
2007	\$ 1,100,000	\$ 1,240,000
2007A	1,435,000	1,580,000
2011	1,870,000	1,970,000
2013 Refunding	1,750,000	1,835,000
2015 Refunding	4,835,000	4,870,000
2016	5,700,000	
2016A	1,825,000	
	<u>\$ 18,515,000</u>	<u>\$ 11,495,000</u>

During the year, the District issued \$7,525,000 in unlimited tax bonds. At July 31, 2017, the District had \$8,060,000 unlimited tax bonds authorized, but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District; \$6,175,000 for parks and recreational facilities and \$35,135,000 for 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 water/sewer services and the projected cost of operating the District and providing services to customers. 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	\$ 2,004,008	\$ 2,089,160
Total expenditures	(1,780,791)	(1,827,649)
Revenues over expenditures	223,217	261,511
Beginning fund balance	1,819,220	2,042,437
Ending fund balance	<u>\$ 2,042,437</u>	<u>\$ 2,303,948</u>

**Property Taxes**

The District's property tax base increased approximately \$20,474,000 for the 2017 tax year from \$171,535,718 to \$192,009,485. 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 \$0.75 per \$100 of assessed value and a debt service tax rate of \$0.50 per \$100 of assessed value, for a total combined tax rate of \$1.25 per \$100. Tax rates for the 2016 tax year were \$0.36 per \$100 for maintenance and operations and \$0.89 per \$100 for debt service.

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**Hurricane Harvey**

The Houston area, including Fort Bend County, sustained widespread wind and rain damage and flooding as a result of Hurricane Harvey's landfall along the Texas Gulf Coast on August 25, 2017, and historic levels of rainfall during the succeeding four days. Hurricane Harvey could have a short-term impact on the Houston region's economy, as well as an adverse long-term impact on business activity and development in the region. The District cannot predict what impact Hurricane Harvey will have on the assessed value of homes and commercial improvements, if any, within the District.

## **Basic Financial Statements**

**Fort Bend County Municipal Utility District No. 140**  
**Statement of Net Position and Governmental Funds Balance Sheet**  
**July 31, 2017**

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
<b>Assets</b>						
Cash	\$ 27,166	\$ 42,828	\$ 9,903	\$ 79,897	\$ -	\$ 79,897
Investments	1,970,403	2,274,309	790,174	5,034,886		5,034,886
Taxes receivable, net	4,123	12,894		17,017		17,017
Customer service receivables, net	66,698			66,698		66,698
Prepaid items	8,364			8,364		8,364
Internal balances	3,785	(3,785)				
Deposits held by City of Richmond	105,210			105,210		105,210
Due from City of Richmond	133,611			133,611		133,611
Capital assets not being depreciated					5,239,852	5,239,852
Capital assets, net					9,165,758	9,165,758
Total Assets	<u>\$ 2,319,360</u>	<u>\$ 2,326,246</u>	<u>\$ 800,077</u>	<u>\$ 5,445,683</u>	<u>14,405,610</u>	<u>19,851,293</u>
<b>Deferred Outflows of Resources</b>						
Deferred difference on refunding					289,481	289,481
<b>Liabilities</b>						
Accounts payable	\$ 165,718	\$ -	\$ -	\$ 165,718		165,718
Other payables	1,872	388		2,260		2,260
Customer deposits	105,210			105,210		105,210
Accrued interest payable					259,526	259,526
Due to developers					1,552,027	1,552,027
Long-term debt						
Due within one year					890,000	890,000
Due after one year					17,362,872	17,362,872
Total Liabilities	<u>272,800</u>	<u>388</u>	<u></u>	<u>273,188</u>	<u>20,064,425</u>	<u>20,337,613</u>
<b>Deferred Inflows of Resources</b>						
Deferred property taxes	<u>4,123</u>	<u>12,894</u>	<u></u>	<u>17,017</u>	<u>(17,017)</u>	
<b>Fund Balances/Net Position</b>						
<b>Fund Balances</b>						
Nonspendable	8,364			8,364	(8,364)	
Restricted		2,312,964		2,312,964	(2,312,964)	
Unassigned	2,034,073		800,077	2,834,150	(2,834,150)	
Total Fund Balances	<u>2,042,437</u>	<u>2,312,964</u>	<u>800,077</u>	<u>5,155,478</u>	<u>(5,155,478)</u>	
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 2,319,360</u>	<u>\$ 2,326,246</u>	<u>\$ 800,077</u>	<u>\$ 5,445,683</u>		
<b>Net Position</b>						
Net investment in capital assets					(4,309,731)	(4,309,731)
Restricted for debt service					2,066,332	2,066,332
Unrestricted					2,046,560	2,046,560
Total Net Position					<u>\$ (196,839)</u>	<u>\$ (196,839)</u>

See notes to basic financial statements.

**Fort Bend County Municipal Utility District No. 140**

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

**For the Year Ended July 31, 2017**

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
<b>Revenues</b>						
Water service	\$ 361,693	\$ -	\$ -	\$ 361,693	\$ -	\$ 361,693
Sewer service	305,489			305,489		305,489
Property taxes	620,096	1,525,923		2,146,019	(1,886)	2,144,133
Penalties and interest	883	7,870		8,753		8,753
Garbage service	187,191			187,191		187,191
Tap connection and inspection	115,729			115,729		115,729
Fire protection	243,300			243,300		243,300
Groundwater reduction plan	155,978			155,978		155,978
Accrued interest on bonds sold		8,480		8,480	(8,480)	
Miscellaneous	3,500			3,500		3,500
Investment earnings	10,149	10,497	3,283	23,929		23,929
<b>Total Revenues</b>	<b>2,004,008</b>	<b>1,552,770</b>	<b>3,283</b>	<b>3,560,061</b>	<b>(10,366)</b>	<b>3,549,695</b>
<b>Expenditures/Expenses</b>						
Current service operations						
Purchased services	629,874			629,874		629,874
Professional fees	185,356		48,079	233,435		233,435
Contracted services	528,042	26,774		554,816		554,816
Repairs and maintenance	138,910			138,910		138,910
Groundwater reduction plan	161,925			161,925		161,925
Utilities	7,794			7,794		7,794
Administrative	41,176	4,786	70	46,032		46,032
Other	4,535			4,535		4,535
Capital outlay	83,179		5,232,050	5,315,229	(5,315,229)	
Debt service						
Principal		505,000		505,000	(505,000)	
Interest and fees		461,735	543,167	1,004,902	111,996	1,116,898
Debt issuance costs			354,967	354,967		354,967
Depreciation and amortization					271,441	271,441
Intergovernmental						
Capital contribution			184,748	184,748		184,748
<b>Total Expenditures/Expenses</b>	<b>1,780,791</b>	<b>998,295</b>	<b>6,363,081</b>	<b>9,142,167</b>	<b>(5,436,792)</b>	<b>3,705,375</b>
<b>Revenues Over/(Under) Expenditures</b>	<b>223,217</b>	<b>554,475</b>	<b>(6,359,798)</b>	<b>(5,582,106)</b>	<b>5,582,106</b>	
<b>Other Financing Sources/(Uses)</b>						
Proceeds from sale of bonds		218,063	7,306,937	7,525,000	(7,525,000)	
Bond discount			(112,875)	(112,875)	112,875	
<b>Net Change in Fund Balances</b>	<b>223,217</b>	<b>772,538</b>	<b>834,264</b>	<b>1,830,019</b>	<b>(1,830,019)</b>	
<b>Change in Net Position</b>					<b>(155,680)</b>	<b>(155,680)</b>
Fund Balance/Net Position						
Beginning of the year	1,819,220	1,540,426	(34,187)	3,325,459	(3,366,618)	(41,159)
<b>End of the year</b>	<b>\$ 2,042,437</b>	<b>\$ 2,312,964</b>	<b>\$ 800,077</b>	<b>\$ 5,155,478</b>	<b>\$ (5,352,317)</b>	<b>\$ (196,839)</b>

See notes to basic financial statements.

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***Fort Bend County Municipal Utility District No. 140***  
***Notes to Basic Financial Statements***  
***July 31, 2017***

**Note 1 – Summary of Significant Accounting Policies**

The accounting policies of Fort Bend County Municipal Utility District No. 140 (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 July 15, 2003 and operates in accordance with the Texas Water Code, Chapters 49 and 54. The Board of Directors held its first meeting on July 21, 2003 and the first bonds were sold on May 8, 2006.

The District’s primary activities include construction, maintenance and operation of water, sewer and drainage facilities. The District has contracted with various consultants to provide services to operate and administer the affairs of the District. The District has no employees, related payroll or pension costs.

**Reporting Entity**

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

**Government-Wide and Fund Financial Statements**

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

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

**Note 1 – Summary of Significant Accounting Policies (continued)**

**Government-Wide and Fund Financial Statements (continued)**

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

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

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

**Measurement Focus and Basis of Accounting**

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

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

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

**Use of Restricted Resources**

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



***Fort Bend County Municipal Utility District No. 140***  
***Notes to Basic Financial Statements***  
***July 31, 2017***

**Note 1 – Summary of Significant Accounting Policies (continued)**

**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.

**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 July 31, 2017, allowances of \$3,793 and \$8,000 were provided for possible uncollectible property taxes and water/sewer accounts, respectively.

**Unbilled Service Revenues**

Utility revenue is recorded when earned. Customers are billed monthly. The estimated value of services provided but unbilled at year-end has been included in the accompanying 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.

Depreciable capital assets, which primarily consist of water, wastewater and drainage facilities and impact fees paid to the City of Richmond, are depreciated or amortized using the straight-line method as follows:

Assets	Useful Life
Water, sewer and drainage systems	45 years
Parks	30-40 years
Equipment	20 years
Impact fees	40 years [max]

**Note 1 – Summary of Significant Accounting Policies (continued)**

**Capital Assets (continued)**

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

**Deferred Inflows and Outflows of Financial Resources**

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

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

Deferred outflows of financial resources at the government-wide level are from refunding bond transactions previous years 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 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.

**Note 1 – Summary of Significant Accounting Policies (continued)**

**Fund Balances – Governmental Funds (continued)**

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 value of unbilled utility revenues and receivables; the useful lives and impairment of capital assets; the value of amounts due to developers and the value of capital assets for which the developers 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. 140***  
***Notes to Basic Financial Statements***  
***July 31, 2017***

**Note 2 – Adjustment from Governmental to Government-wide Basis**

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

Total fund balance, governmental funds	\$ 5,155,478
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

Historical cost	\$ 16,844,444	
Less accumulated depreciation/amortization	<u>(2,438,834)</u>	
Change due to capital assets		14,405,610

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 *Statement of Net Position* and amortized to interest expense. It is not recorded in the fund statements because it is not a financial resource.

289,481

Amounts due to the District's developers for prefunded construction are recorded as a liability in the *Statement of Net Position*.

(1,552,027)

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:

Bonds payable, net	(18,252,872)	
Interest payable on bonds	<u>(259,526)</u>	
Change due to long-term debt		(18,512,398)

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.

Property taxes receivable	13,882	
Penalty and interest receivable	<u>3,135</u>	
Change due to property taxes		17,017

Total net position - governmental activities	<u><u>\$ (196,839)</u></u>
--	----------------------------

***Fort Bend County Municipal Utility District No. 140***  
***Notes to Basic Financial Statements***  
***July 31, 2017***

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

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

Net change in fund balances - total governmental funds	\$ 1,830,019
--	--------------

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.	(1,886)
---	---------

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

Issuance of long term debt	\$ (7,525,000)	
Bond discount	112,875	
Principal payments	505,000	
Interest expense accrual	<u>(120,476)</u>	
		(7,027,601)

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.	5,043,788
--	-----------

Change in net position of governmental activities	<u><u>\$ (155,680)</u></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. 140**  
**Notes to Basic Financial Statements**  
**July 31, 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 of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies or instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (5) certain A rated or higher obligations of states and political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) insured or collateralized certificates of deposit, (8) certain fully collateralized repurchase agreements, (9) bankers' acceptances with limitations, (10) commercial paper rated A-1 or P-1 or higher and a maturity of 270 days or less, (11) no-load money market mutual funds and no-load mutual funds, with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools and (14) a qualified securities lending program.

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

As of July 31, 2017, the District's investments consist of the following:

Type	Fund	Carrying Value	Rating	Weighted Average Maturity
TexPool	General	\$ 1,970,403	AAAm	34 days
	Debt Service	2,274,309		
	Capital Projects	790,174		
		<u>\$ 5,034,886</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. 140***  
***Notes to Basic Financial Statements***  
***July 31, 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 July 31, 2017, consist of the following:

	Interfund	
	Receivable	Payable
General Fund	\$ 3,785	\$ -
Debt Service Fund		3,785
	<u>\$ 3,785</u>	<u>\$ 3,785</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. 140***  
***Notes to Basic Financial Statements***  
***July 31, 2017***

**Note 5 – Capital Assets**

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

	Beginning Balances	Additions/ Adjustments	Ending Balances
Capital assets not being depreciated			
Land and improvements	\$ 4,126,261	\$ 1,113,591	\$ 5,239,852
Capital assets being depreciated/amortized			
Water, Sewer and drainage systems	9,736,378		9,986,943
Parks	676,478	301,735	727,648
Equipment	41,127		41,127
Impact fees	848,874		848,874
	<u>11,302,857</u>	<u>301,735</u>	<u>11,604,592</u>
Less accumulated depreciation/amortization			
Water, Sewer and drainage systems	(1,721,126)	(224,239)	(1,945,365)
Parks	(212,765)	(18,618)	(231,383)
Equipment	(14,392)	(2,056)	(16,448)
Impact fees	(219,110)	(26,528)	(245,638)
	<u>(2,167,393)</u>	<u>(271,441)</u>	<u>(2,438,834)</u>
Subtotal depreciable capital assets, net	<u>9,135,464</u>	<u>30,294</u>	<u>9,165,758</u>
Capital assets, net	<u>\$ 13,261,725</u>	<u>\$ 1,143,885</u>	<u>\$ 14,405,610</u>

Depreciation/amortization expense for the current year was \$271,441.

**Note 6 – 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. 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	\$ 5,451,931
Developer reimbursements	(5,232,050)
Developer funded construction and adjustments	1,332,146
Due to developers, end of year	<u>\$ 1,552,027</u>



***Fort Bend County Municipal Utility District No. 140***  
***Notes to Basic Financial Statements***  
***July 31, 2017***

**Note 7 – Long-Term Debt**

Long-term debt is comprised of the following:

Bonds payable	\$ 18,515,000
Unamortized discounts	(262,128)
	<u>\$ 18,252,872</u>
Due within one year	<u>\$ 890,000</u>

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

Series	Amounts Outstanding	Original Issue	Interest Rates	Maturity Date, Serially, Beginning/ Ending	Interest Payment Dates	Call Dates
2007	\$ 1,100,000	\$ 4,620,000	4.00% to 6.00%	September 1, 2008/2032	September 1 March 1,	September 1, 2015
2007A	1,435,000	4,500,000	4.05% to 6.00%	September 1, 2009/2032	September 1 March 1,	September 1, 2016
2011	1,870,000	2,370,000	3.25% to 5.25%	September 1, 2012/2034	September 1 March 1,	September 1, 2019
2013 Refunding	1,750,000	2,000,000	2.00% to 4.00%	September 1, 2013/2031	September 1 March 1,	September 1, 2021
2015 Refunding	4,835,000	4,920,000	2.825%	September 1, 2015/2030	September 1 March 1,	September 1, 2019
2016	5,700,000	5,700,000	2.00% - 3.50%	September 1, 2017/2035	September 1 March 1,	September 1, 2024
2016A	1,825,000	1,825,000	2.00% - 3.50%	September 1, 2017/2035	September 1 March 1,	September 1, 2024
	<u>\$ 18,515,000</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 July 31, 2017, the District had authorized but unissued bonds in the amount of \$8,060,000 for water, sewer and drainage facilities; \$6,175,000 for park and recreational facilities; and \$35,135,000 for refunding purposes.

***Fort Bend County Municipal Utility District No. 140***  
***Notes to Basic Financial Statements***  
***July 31, 2017***

**Note 7 – Long-Term Debt (continued)**

On December 15, 2016, the District issued its \$5,700,000 Series 2016 Unlimited Tax Bonds at a net effective interest rate of 3.280812%. Proceeds of the bonds were used to reimburse developers for the cost of capital assets constructed within the District plus interest expense at the net effective interest rate of the bonds and to pay capitalized interest into the Debt Service Fund.

On December 15, 2016, the District issued its \$1,825,000 Series 2016A Unlimited Tax Bonds at a net effective interest rate of 3.281159%. Proceeds of the bonds were used (1) to reimburse developers for the following: the construction of capital assets within the District; engineering and the acquisition of land for certain District facilities, (2) to pay developers interest at the net effective interest rate of the bonds 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	\$ 11,495,000
Bonds issued	7,525,000
Bonds retired	<u>(505,000)</u>
Bonds payable, end of year	<u><u>\$ 18,515,000</u></u>

***Fort Bend County Municipal Utility District No. 140***  
***Notes to Basic Financial Statements***  
***July 31, 2017***

**Note 7 – Long-Term Debt (continued)**

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

Year	Principal	Interest	Totals
2018	\$ 890,000	\$ 601,735	\$ 1,491,735
2019	915,000	575,285	1,490,285
2020	945,000	547,382	1,492,382
2021	980,000	518,843	1,498,843
2022	1,000,000	487,877	1,487,877
2023	1,020,000	455,253	1,475,253
2024	1,040,000	423,325	1,463,325
2025	1,060,000	390,539	1,450,539
2026	1,075,000	356,983	1,431,983
2027	1,095,000	322,762	1,417,762
2028	1,125,000	287,375	1,412,375
2029	1,145,000	250,791	1,395,791
2030	1,170,000	213,351	1,383,351
2031	1,190,000	175,215	1,365,215
2032	1,225,000	130,296	1,355,296
2033	1,140,000	80,657	1,220,657
2034	545,000	46,250	591,250
2035	545,000	25,069	570,069
2036	410,000	7,175	417,175
	<u>\$ 18,515,000</u>	<u>\$ 5,896,163</u>	<u>\$ 24,411,163</u>

**Note 8 – Property Taxes**

On September 13, 2003, the voters of the District authorized the District's Board of Directors to levy taxes annually for use in financing general operations limited to \$1.25 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.

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 \$1.25 per \$100 of assessed value, of which \$0.36 was allocated to maintenance and operations and \$0.89 was allocated to debt service. The resulting tax levy was \$2,144,197 on the adjusted taxable value of \$171,535,718.

***Fort Bend County Municipal Utility District No. 140***  
***Notes to Basic Financial Statements***  
***July 31, 2017***

**Note 8 – Property Taxes (continued)**

Net property taxes receivable, at July 31, 2017, consisted of the following:

Current year taxes receivable	\$ 12,467
Prior years taxes receivable	5,208
Less allowance for uncollectible accounts	(3,793)
	<hr/> 13,882
Penalty and interest receivable	3,135
Net property taxes receivable	<hr/> <u>\$ 17,017</u>

**Note 9 – Contracts with City of Richmond**

**Strategic Partnership Agreement**

On May 17, 2004, the District and the City of Richmond (the “City”) entered into a Strategic Partnership Agreement, which was revised and restated on September 19, 2005. Under the terms of the agreement, the City shall not fully annex the District until ninety percent of the District’s water, wastewater and drainage facilities have been constructed and its developer has been reimbursed as allowed by the Texas Commission on Environmental Quality. The City may annex any commercial portion of the District at any time for the purpose of imposing and collecting the City’s sale and use tax within the commercial area. The District continues to exercise all powers and functions of a municipal utility district.

**Fire Protection Agreement**

On September 16, 2003, The District entered into a Fire Protection Agreement with the City of Richmond. The City has agreed to provide fire protection services to the District in return for payment of monthly fire protection fees. The District shall pay the City \$13.95 per month for each residential and commercial connection. During the fiscal year, the District paid \$239,215 to the City under the terms of this agreement.

**Utility Agreement**

On July 21, 2003, the District approved a water supply and wastewater services contract with the City, pursuant to which the City agreed to provide water supply services to the District on an interim basis and sanitary sewer treatment services on a permanent basis. On September 21, 2004 the District approved an amended and restated water supply and wastewater services contract (which was subsequently amended September 19, 2005, June 7, 2006 and July 16, 2007) to allow for the City to provide water supply and wastewater services to the District for the entire forty year term of the contract. The City will act the operator for the District pursuant to this agreement.

The City imposes connection charges on users connecting to the City’s wastewater system. As of July 31, 2017, the District has paid \$848,874 for connection charges to the City.

**Note 9 – Contracts with City of Richmond (continued)**

**Utility Agreement (continued)**

The City will bill customers of the District in accordance with the District's rate order and is required to remit all amounts collected from the District's customers to the District on a monthly basis. The City will also invoice the District monthly for services provided to the District.

The City has determined that a new water plant is needed to supply water services at capacities needed by the District according to this contract. The District will pay a proportionate share of engineering and construction based upon reserved capacity. It is estimated the District's share of costs will be 19%. The City shall own operate and maintain the new water plant. During the prior fiscal year, the District paid the City \$652,711 for construction costs and engineering fees related to the water plant. During the current year, the District reimbursed the developer \$184,748 for fees related to the construction of the water plant.

**Note 10 – 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 11 – Subsequent Events**

**Sale of Refunding Bonds**

On August 29, 2017, the District issued its \$3,210,000 Unlimited Tax Refunding Bonds at a net effective interest rate of 3.466923% to advance refund \$3,130,000 of outstanding Series 2007, Series 2007A and Series 2011 bonds. The District advance refunded the bonds to reduce total debt service payments over future years by approximately \$261,380 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$192,078.

**Hurricane Harvey**

The Houston area, including Fort Bend County, sustained widespread wind and rain damage and flooding as a result of Hurricane Harvey's landfall along the Texas Gulf Coast on August 25, 2017, and historic levels of rainfall during the succeeding four days.

**Note 11 – Subsequent Events (continued)**

**Hurricane Harvey (continued)**

According to preliminary reports, approximately 157 homes within the District experienced flooding or other significant damage. The District cannot predict what impact Hurricane Harvey will have on the assessed value of homes within the District. Such determination will be made by the Fort Bend Central Appraisal District based on the market value of such homes as of the date of the reappraisal for damaged property, and as of January 1, 2018, for all property. The appraised market values will be affected by, among other things, the extent to which any damage has occurred and the extent to which it is repaired. Further, there is no assurance that casualty losses in the District will be covered by insurance. Flood casualties are usually excepted from coverage of home insurance unless specific flood insurance is separately purchased. The District cannot provide assurance that any insurance company will fulfill its obligation to pay insurance proceeds, or if paid that property owners will use insurance proceeds to rebuild or repair property damage. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the District would be adversely affected. Finally, it is not known at this time what impact the effects of Hurricane Harvey will have generally upon the value of properties that did not sustain damage.

Assessed values in property in the District could decrease because of flood damage reappraisals or in future appraisals because of the extent to which damage is repaired and the timing of repairs, or the effect Hurricane Harvey will have generally upon the value of homes in the District or the region. A substantial decrease in the assessed valuation in the District could result in a corresponding increase in the District's tax rate.

## **Required Supplementary Information**

**Fort Bend County Municipal Utility District No. 140**  
**Required Supplementary Information - Budgetary Comparison Schedule - General Fund**  
**For the Year Ended July 31, 2017**

	Original and Final Budget	Actual	Variance Positive (Negative)
<b>Revenues</b>			
Water service	\$ 324,000	\$ 361,693	\$ 37,693
Sewer service	252,000	305,489	53,489
Property taxes	721,000	620,096	(100,904)
Penalties and interest	28,800	883	(27,917)
Garbage service	144,000	187,191	43,191
Tap connection and inspection	164,520	115,729	(48,791)
Fire protection	204,000	243,300	39,300
Groundwater reduction plan	264,000	155,978	(108,022)
Miscellaneous	2,280	3,500	1,220
Investment earnings	2,700	10,149	7,449
Total Revenues	2,107,300	2,004,008	(103,292)
<b>Expenditures</b>			
Current service operations			
Purchased services	540,000	629,874	(89,874)
Professional fees	106,850	185,356	(78,506)
Contracted services	490,446	528,042	(37,596)
Repairs and maintenance	179,735	138,910	40,825
Groundwater reduction plan	291,900	161,925	129,975
Utilities	7,200	7,794	(594)
Administrative	41,867	41,176	691
Other	1,200	4,535	(3,335)
Capital outlay		83,179	(83,179)
Total Expenditures	1,659,198	1,780,791	(121,593)
<b>Revenues Over Expenditures</b>	448,102	223,217	(224,885)
<b>Fund Balance</b>			
Beginning of the year	1,819,220	1,819,220	
End of the year	\$ 2,267,322	\$ 2,042,437	\$ (224,885)



***Fort Bend County Municipal Utility District No. 140***  
***Notes to Required Supplementary Information***  
***July 31, 2017***

**Budgets and Budgetary Accounting**

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

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## **Texas Supplementary Information**

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**Fort Bend County Municipal Utility District No. 140**  
**TSI-1. Services and Rates**  
**July 31, 2017**

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

- |  |   |   |  |
|--|---|---|--|
| <input checked="" type="checkbox"/> Retail Water   | <input type="checkbox"/> Wholesale Water      | <input checked="" type="checkbox"/> Solid Waste / Garbage | <input checked="" type="checkbox"/> Drainage |
| <input checked="" 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 type="checkbox"/> Other (Specify): _____  |   |   |  |

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:	\$ 17.00	2,000	N	\$ 2.62	2,001	to	5,000
				\$ 2.87	5,001	to	10,000
				\$ 3.12	10,001	to	20,000
				\$ 3.37	20,001	to	50,000
				\$ 3.62	50,001	to	75,000
				\$ 3.87	75,000	to	no limit
Wastewater:	\$ 21.00	2,000	N	\$ 3.00	2,001	to	no limit
Surcharge:	\$ 2.10	N/A	N	N/A	1,000	to	no limit

District employs winter averaging for wastewater usage? ☒ Yes ☐ No

Total charges per 10,000 gallons usage: Water \$ 59.21 Wastewater \$ 45.00

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"	770	765	x 1.0	765
1"	13	13	x 2.5	33
1.5"			x 5.0	
2"	9	9	x 8.0	72
3"			x 15.0	
4"			x 25.0	
6"			x 50.0	
8"			x 80.0	
10"			x 115.0	
Total Water	792	787		870
Total Wastewater	761	761	x 1.0	761

See accompanying auditor's report.

**Fort Bend County Municipal Utility District No. 140**  
**TSI-1. Services and Rates**  
**July 31, 2017**

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

Gallons pumped into system:	<u>78,121,900</u>	Water Accountability Ratio:
Gallons billed to customers:	<u>78,121,900</u>	(Gallons billed / Gallons pumped)
		<u>100.00%</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: \_\_\_\_\_

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

Entirely ☒ Partly ☐ Not at all ☐

ETJs in which the District is located: City of Richmond

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. 140***  
***TSI-2 General Fund Expenditures***  
***For the Year Ended July 31, 2017***

Purchased services	<u>\$ 629,874</u>
Professional fees	
Legal	96,578
Audit	10,250
Engineering	<u>78,528</u>
	<u>185,356</u>
Contracted services	
Bookkeeping	18,650
Operator	22,465
Tap connection and inspection	60,972
Fire service contract	239,215
Garbage	<u>186,740</u>
	<u>528,042</u>
Repairs and maintenance	<u>138,910</u>
Groundwater reduction plan	<u>161,925</u>
Utilities	<u>7,794</u>
Administrative	
Directors fees	10,350
Printing and office supplies	4,750
Insurance	8,757
Other	<u>17,319</u>
	<u>41,176</u>
Other	<u>4,535</u>
Capital outlay	<u>83,179</u>
Total expenditures	<u><u>\$ 1,780,791</u></u>

See accompanying auditors' report.

*Fort Bend County Municipal Utility District No. 140*  
*TSI-3. Investments*  
*July 31, 2017*

Fund	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year
General				
TexPool	78899-00002	Variable	N/A	<u>\$ 1,970,403</u>
Debt Service				
TexPool	78899-00001	Variable	N/A	2,219,643
TexPool	78899-00009	Variable	N/A	<u>54,666</u>
				<u>2,274,309</u>
Capital Projects				
TexPool	78899-00003	Variable	N/A	725,361
TexPool	78899-00008	Variable	N/A	<u>64,813</u>
				<u>790,174</u>
Total - All Funds				<u><u>\$ 5,034,886</u></u>

See accompanying auditors' report.



**Fort Bend County Municipal Utility District No. 140**  
**TSI-4. Taxes Levied and Receivable**  
**July 31, 2017**

	Maintenance Taxes	Debt Service Taxes	Totals	
Taxes Receivable, Beginning of Year	\$ 6,708	\$ 8,991	\$ 15,699	
Adjustments	(19)	23	4	
Adjusted Receivable	6,689	9,014	15,703	
2016 Original Tax Levy	600,797	1,485,305	2,086,102	
Adjustments	16,732	41,363	58,095	
Adjusted Tax Levy	617,529	1,526,668	2,144,197	
Total to be accounted for	624,218	1,535,682	2,159,900	
Tax collections				
Current year	613,938	1,517,792	2,131,730	
Prior years	6,157	8,131	14,288	
Total Collections	620,095	1,525,923	2,146,018	
Taxes Receivable, End of Year	\$ 4,123	\$ 9,759	\$ 13,882	
Taxes Receivable, By Year				
2016	\$ 3,591	\$ 8,876	\$ 12,467	
2015	289	415	704	
2014	202	374	576	
2013	41	94	135	
Taxes Receivable, End of Year	\$ 4,123	\$ 9,759	\$ 13,882	
	2016	2015	2014	2013
Property Valuations				
Land	\$ 34,071,770	\$ 29,829,130	\$ 27,466,740	\$ 26,945,340
Improvements	139,012,750	104,983,350	83,980,070	76,757,050
Personal Property	1,478,610	1,275,950	1,780,050	1,424,120
Exemptions	(3,027,412)	(2,141,510)	(2,471,470)	(2,111,830)
Total Property Valuations	\$ 171,535,718	\$ 133,946,920	\$ 110,755,390	\$ 103,014,680
Tax Rates per \$100 Valuation				
Maintenance tax rates	\$ 0.36	\$ 0.55	\$ 0.47	\$ 0.41
Debt service tax rates	0.89	0.70	0.87	0.93
Total Tax Rates per \$100 Valuation	\$ 1.25	\$ 1.25	\$ 1.34	\$ 1.34
Adjusted Tax Levy	\$ 2,144,197	\$ 1,674,337	\$ 1,484,122	\$ 1,380,397
Percentage of Taxes Collected to Taxes Levied **	99.42%	99.96%	99.96%	99.99%

\* Maximum Maintenance Tax Rate Approved by Voters: \$1.25 on September 13, 2003

\*\* 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. 140*  
*TSI-5. Long-Term Debt Service Requirements*  
*Series 2007--by Years*  
*July 31, 2017*

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due September 1, March 1</u>	<u>Total</u>
2018	\$ 145,000	\$ 43,005	\$ 188,005
2019	155,000	37,005	192,005
2020	165,000	30,605	195,605
2021		27,305	27,305
2022		27,305	27,305
2023		27,305	27,305
2024		27,305	27,305
2025		27,305	27,305
2026		27,305	27,305
2027		27,305	27,305
2028		27,305	27,305
2029		27,305	27,305
2030		27,305	27,305
2031		27,305	27,305
2032	310,000	20,640	330,640
2033	325,000	6,988	331,988
	<u>\$ 1,100,000</u>	<u>\$ 438,598</u>	<u>\$ 1,538,598</u>

See accompanying auditors' report.

***Fort Bend County Municipal Utility District No. 140***  
***TSI-5. Long-Term Debt Service Requirements***  
***Series 2007A--by Years***  
***July 31, 2017***

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due September 1, March 1</u>	<u>Total</u>
2018	\$ 150,000	\$ 63,305	\$ 213,305
2019	160,000	56,718	216,718
2020	165,000	49,729	214,729
2021	175,000	42,290	217,290
2022	180,000	34,345	214,345
2023		30,250	30,250
2024		30,250	30,250
2025		30,250	30,250
2026		30,250	30,250
2027		30,250	30,250
2028		30,250	30,250
2029		30,250	30,250
2030		30,250	30,250
2031		30,250	30,250
2032	295,000	22,875	317,875
2033	310,000	7,750	317,750
	<u>\$ 1,435,000</u>	<u>\$ 549,262</u>	<u>\$ 1,984,262</u>

See accompanying auditors' report.

*Fort Bend County Municipal Utility District No. 140*  
*TSI-5. Long-Term Debt Service Requirements*  
*Series 2011--by Years*  
*July 31, 2017*

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
2018	\$ 100,000	\$ 86,825	\$ 186,825
2019	100,000	83,200	183,200
2020	100,000	79,325	179,325
2021	100,000	75,225	175,225
2022	100,000	71,025	171,025
2023	100,000	66,675	166,675
2024	100,000	62,175	162,175
2025	100,000	57,550	157,550
2026	100,000	52,800	152,800
2027	100,000	48,050	148,050
2028	100,000	43,050	143,050
2029	100,000	37,800	137,800
2030	100,000	32,550	132,550
2031	100,000	27,300	127,300
2032	100,000	22,050	122,050
2033	100,000	16,800	116,800
2034	135,000	10,631	145,631
2035	135,000	3,544	138,544
	<u>\$ 1,870,000</u>	<u>\$ 876,575</u>	<u>\$ 2,746,575</u>

See accompanying auditors' report.

***Fort Bend County Municipal Utility District No. 140***  
***TSI-5. Long-Term Debt Service Requirements***  
***Series 2013 Refunding--by Years***  
***July 31, 2017***

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
2018	\$ 90,000	\$ 58,143	\$ 148,143
2019	90,000	56,343	146,343
2020	95,000	54,315	149,315
2021	100,000	51,875	151,875
2022	105,000	48,987	153,987
2023	105,000	45,706	150,706
2024	110,000	42,214	152,214
2025	115,000	38,413	153,413
2026	115,000	34,389	149,389
2027	120,000	30,126	150,126
2028	130,000	25,439	155,439
2029	135,000	20,300	155,300
2030	140,000	14,800	154,800
2031	145,000	9,100	154,100
2032	155,000	3,100	158,100
	<u>\$ 1,750,000</u>	<u>\$ 533,250</u>	<u>\$ 2,283,250</u>

See accompanying auditors' report.

*Fort Bend County Municipal Utility District No. 140*  
*TSI-5. Long-Term Debt Service Requirements*  
*Series 2015 Refunding--by Years*  
*July 31, 2017*

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
2018	\$ 35,000	\$ 136,094	\$ 171,094
2019	35,000	135,106	170,106
2020	40,000	134,046	174,046
2021	205,000	130,586	335,586
2022	215,000	124,653	339,653
2023	415,000	115,754	530,754
2024	430,000	103,819	533,819
2025	445,000	91,459	536,459
2026	460,000	78,676	538,676
2027	475,000	65,469	540,469
2028	495,000	51,768	546,768
2029	510,000	37,573	547,573
2030	530,000	22,883	552,883
2031	545,000	7,698	552,698
	<u>\$ 4,835,000</u>	<u>\$ 1,235,584</u>	<u>\$ 6,070,584</u>

See accompanying auditors' report.

***Fort Bend County Municipal Utility District No. 140***  
***TSI-5. Long-Term Debt Service Requirements***  
***Series 2016--by Years***  
***July 31, 2017***

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
2018	\$ 300,000	\$ 161,688	\$ 461,688
2019	300,000	155,688	455,688
2020	300,000	149,687	449,687
2021	300,000	143,687	443,687
2022	300,000	136,187	436,187
2023	300,000	127,188	427,188
2024	300,000	118,187	418,187
2025	300,000	109,187	409,187
2026	300,000	100,188	400,188
2027	300,000	91,187	391,187
2028	300,000	82,188	382,188
2029	300,000	73,188	373,188
2030	300,000	64,188	364,188
2031	300,000	55,187	355,187
2032	265,000	46,381	311,381
2033	305,000	37,119	342,119
2034	310,000	26,931	336,931
2035	310,000	16,275	326,275
2036	310,000	5,425	315,425
	<u>\$ 5,700,000</u>	<u>\$ 1,699,756</u>	<u>\$ 7,399,756</u>

See accompanying auditors' report.

*Fort Bend County Municipal Utility District No. 140*  
*TSI-5. Long-Term Debt Service Requirements*  
*Series 2016A--by Years*  
*July 31, 2017*

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
2018	\$ 70,000	\$ 52,675	\$ 122,675
2019	75,000	51,225	126,225
2020	80,000	49,675	129,675
2021	100,000	47,875	147,875
2022	100,000	45,375	145,375
2023	100,000	42,375	142,375
2024	100,000	39,375	139,375
2025	100,000	36,375	136,375
2026	100,000	33,375	133,375
2027	100,000	30,375	130,375
2028	100,000	27,375	127,375
2029	100,000	24,375	124,375
2030	100,000	21,375	121,375
2031	100,000	18,375	118,375
2032	100,000	15,250	115,250
2033	100,000	12,000	112,000
2034	100,000	8,688	108,688
2035	100,000	5,250	105,250
2036	100,000	1,750	101,750
	<u>\$ 1,825,000</u>	<u>\$ 563,138</u>	<u>\$ 2,388,138</u>

See accompanying auditors' report.



***Fort Bend County Municipal Utility District No. 140***  
***TSI-5. Long-Term Debt Service Requirements***  
***All Bonded Debt Series--by Years***  
***July 31, 2017***

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
2018	\$ 890,000	\$ 601,735	\$ 1,491,735
2019	915,000	575,285	1,490,285
2020	945,000	547,382	1,492,382
2021	980,000	518,843	1,498,843
2022	1,000,000	487,877	1,487,877
2023	1,020,000	455,253	1,475,253
2024	1,040,000	423,325	1,463,325
2025	1,060,000	390,539	1,450,539
2026	1,075,000	356,983	1,431,983
2027	1,095,000	322,762	1,417,762
2028	1,125,000	287,375	1,412,375
2029	1,145,000	250,791	1,395,791
2030	1,170,000	213,351	1,383,351
2031	1,190,000	175,215	1,365,215
2032	1,225,000	130,296	1,355,296
2033	1,140,000	80,657	1,220,657
2034	545,000	46,250	591,250
2035	545,000	25,069	570,069
2036	410,000	7,175	417,175
	<u>\$ 18,515,000</u>	<u>\$ 5,896,163</u>	<u>\$ 24,411,163</u>

See accompanying auditors' report.

**Fort Bend County Municipal Utility District No. 140**  
**TSI-6. Change in Long-Term Bonded Debt**  
**July 31, 2017**

	Bond Issue			
	Series 2007	Series 2007A	Series 2011	Series 2013 Refunding
Interest rate	4.10% - 6.00%	4.05% - 6.00%	3.25% - 5.25%	2.00% - 4.00%
Dates interest payable	9/1; 3/1	9/1; 3/1	9/1; 3/1	9/1; 3/1
Maturity dates	9/1/08 - 9/1/32	9/1/09 - 9/1/32	9/1/12 - 9/1/34	9/1/13 - 9/1/31
Beginning bonds outstanding	\$ 1,240,000	\$ 1,580,000	\$ 1,970,000	\$ 1,835,000
Bonds issued				
Bonds retired	<u>(140,000)</u>	<u>(145,000)</u>	<u>(100,000)</u>	<u>(85,000)</u>
Ending bonds outstanding	<u>\$ 1,100,000</u>	<u>\$ 1,435,000</u>	<u>\$ 1,870,000</u>	<u>\$ 1,750,000</u>
Interest paid during fiscal year	<u>\$ 48,705</u>	<u>\$ 69,538</u>	<u>\$ 90,200</u>	<u>\$ 59,894</u>
Paying agent's name and city				
Series 2007 & 2007A	<u>Wells Fargo Bank, N.A., Houston, TX</u>			
Series 2011 & 2013R	<u>Wells Fargo Bank, N.A., Fort Worth, TX</u>			
Series 2015R	<u>Wells Fargo Bank, N.A., Dallas, TX</u>			
Series 2016 & 2016A	<u>Wells Fargo Bank, N.A., Minneapolis, MN</u>			
Bond Authority:	Water, Sewer and Drainage Bonds	Park Bonds	Refunding Bonds	
Amount Authorized by Voters	\$ 27,500,000	\$ 8,000,000	\$ 35,500,000	
Amount Issued	<u>(19,440,000)</u>	<u>(1,825,000)</u>	<u>(365,000)</u>	
Remaining To Be Issued	<u>\$ 8,060,000</u>	<u>\$ 6,175,000</u>	<u>\$ 35,135,000</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 July 31, 2017:	<u>\$ 2,317,137</u>
Average annual debt service payment (principal and interest) for remaining term of all debt:	<u>\$ 1,284,798</u>

See accompanying auditors' report.

Bond Issue			
Series 2015 Refunding	Series 2016	Series 2016A	Totals
2.825%	2.00% - 3.50%	2.00% - 3.50%	
9/1; 3/1	9/1; 3/1	9/1; 3/1	
9/1/15 - 9/1/30	9/1/17 - 9/1/35	9/1/17 - 9/1/35	
\$ 4,870,000	\$ -	\$ -	\$ 11,495,000
	5,700,000	1,825,000	7,525,000
(35,000)			(505,000)
<u>\$ 4,835,000</u>	<u>\$ 5,700,000</u>	<u>\$ 1,825,000</u>	<u>\$ 18,515,000</u>
<u>\$ 137,083</u>	<u>\$ 41,172</u>	<u>\$ 13,344</u>	<u>\$ 459,936</u>

**Fort Bend County Municipal Utility District No. 140****TSI-7a. Comparative Schedule of Revenues and Expenditures - General Fund  
For the Last Five Fiscal Years**

	Amounts				
	2017	2016	2015	2014	2013
Revenues					
Water service	\$ 361,693	\$ 316,414	\$ 250,121	\$ 255,262	\$ 245,542
Sewer service	305,489	257,149	226,347	216,725	193,905
Property taxes	620,096	735,974	519,158	421,339	387,313
Penalties and interest	883	28,972	23,167	4,953	10,591
Garbage service	187,191	156,513	143,617	136,613	140,411
Tap connection and inspection	115,729	187,563	168,838	78,305	37,310
Fire protection	243,300	208,148	179,928	151,719	111,457
Groundwater reduction plan	155,978	132,249	89,369	189,204	126,023
Miscellaneous	3,500	2,310	3,978	2,000	2,796
Investment earnings	10,149	3,590	1,328	1,428	1,854
Total Revenues	<u>2,004,008</u>	<u>2,028,882</u>	<u>1,605,851</u>	<u>1,457,548</u>	<u>1,257,202</u>
Expenditures					
Current service operations					
Purchased services	629,874	554,938	438,910	447,622	436,043
Professional fees	185,356	143,749	116,713	91,592	56,752
Contracted services	528,042	510,999	448,166	365,712	295,109
Repairs and maintenance	138,910	174,324	322,390	129,069	136,049
Groundwater reduction plan	161,925	158,615	76,207	168,704	102,773
Utilities	7,794	7,483	7,536	7,157	7,758
Administrative	41,176	37,158	31,282	31,660	29,347
Other	4,535	1,565	5,482	5,912	7,812
Capital outlay	83,179				
Interest				4,173	
Intergovernmental					
Capital contribution			3,476	110,263	
Total Expenditures	<u>1,780,791</u>	<u>1,588,831</u>	<u>1,450,162</u>	<u>1,361,864</u>	<u>1,071,643</u>
Revenues Over Expenditures	<u>\$ 223,217</u>	<u>\$ 440,051</u>	<u>\$ 155,689</u>	<u>\$ 95,684</u>	<u>\$ 185,559</u>

\*Percentage is negligible

See accompanying auditors' report.

Percent of Fund Total Revenues				
2017	2016	2015	2014	2013
18%	16%	16%	19%	20%
15%	13%	14%	15%	15%
31%	36%	32%	29%	31%
*	1%	1%	*	1%
9%	8%	9%	9%	11%
6%	9%	11%	5%	3%
12%	10%	11%	10%	9%
8%	7%	6%	13%	10%
*	*	*	*	*
1%	*	*	*	*
100%	100%	100%	100%	100%

31%	27%	27%	31%	35%
9%	7%	7%	6%	5%
26%	25%	28%	25%	23%
7%	9%	20%	9%	11%
8%	8%	5%	12%	8%
*	*	*	*	1%
2%	2%	2%	2%	2%
*	*	*	*	1%
4%				
			*	
		*	8%	
87%	78%	89%	93%	86%
13%	22%	11%	7%	14%

**Fort Bend County Municipal Utility District No. 140**

**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	\$ 1,525,923	\$ 939,716	\$ 963,012	\$ 955,969	\$ 944,474
Penalties and interest	7,870	9,278	6,929	5,893	2,994
Accrued interest on bonds sold	8,480				1,067
Miscellaneous					
Investment earnings	10,497	2,520	1,624	1,862	2,274
Total Revenues	1,552,770	951,514	971,565	963,724	950,809
Expenditures					
Tax collection services	31,560	23,937	23,484	21,212	19,792
Debt service					
Principal	505,000	495,000	440,000	345,000	380,000
Interest and fees	461,735	411,945	511,219	516,441	592,457
Debt issuance cost		874	122,847		67,024
Total Expenditures	998,295	931,756	1,097,550	882,653	1,059,273
Revenues Over (Under) Expenditures	\$ 554,475	\$ 19,758	\$ (125,985)	\$ 81,071	\$ (108,464)
Total Active Retail Water Connections	787	727	611	539	511
Total Active Retail Wastewater Connections	761	711	578	526	479

\*Percentage is negligible

See accompanying auditors' report.

Percent of Fund Total Revenues				
2017	2016	2015	2014	2013
98%	99%	99%	99%	100%
1%	1%	1%	1%	*
*				*
1%	*	*	*	*
100%	100%	100%	100%	100%
2%	3%	2%	2%	2%
33%	52%	45%	36%	40%
30%	43%	53%	54%	62%
	*	13%		7%
65%	98%	113%	92%	111%
35%	2%	(13%)	8%	(11%)

**Fort Bend County Municipal Utility District No. 140**  
**TSI-8. Board Members, Key Personnel and Consultants**  
**For the Year Ended July 31, 2017**

Complete District Mailing Address: 2277 Plaza Drive, Suite 280, Sugar Land, Texas 77479  
District Business Telephone Number: (281) 313-2213  
Submission Date of the most recent District Registration Form  
(TWC Sections 36.054 and 49.054): May 17, 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
<b>Board Members</b>				
Jack Morgan Brady	05/16 to 05/20	\$ 3,300	\$ 2,153	President
Rosa Coward	05/14 to 05/17	1,500		Vice President
Harry Murray	05/17 to 05/20	300		Assistant Vice President
Arden Myers	05/16 to 05/17	2,700	1,714	Secretary
John Braswell	05/14 to 05/18	1,800		Assistant Secretary
Gordon Yeatts	05/16 to 05/17	750		Former Director
<b>Consultants</b>				
Jeanne H. McDonald, P.C.	07/03	\$ 231,077		Attorney
City of Richmond		1,505,148		Operator
McLennan & Associates, LP	04/04	25,503		Bookkeeper
Utility Tax Service	04/04	12,509		Tax Collector
Fort Bend Central Appraisal District	Legislation	12,844		Property Valuation
Perdue, Brandon, Fielder, Collins, & Mott, LLP	03/05	4,744		Delinquent Tax Attorney
Costello, Inc.	07/03	145,655		Engineer
McGrath & Co., PLLC	Annually	23,250		Auditor
FirstSouthwest, a Division of Hilltop Securities	07/03	147,434		Financial Advisor

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



## **APPENDIX B**

### **Specimen Municipal Bond Insurance Policy**



## MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: \_\_\_\_\_

MEMBER: [NAME OF MEMBER]

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

Effective Date: \_\_\_\_\_

Risk Premium: \$ \_\_\_\_\_

Member Surplus Contribution: \$ \_\_\_\_\_

Total Insurance Payment: \$ \_\_\_\_\_

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

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

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

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

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

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

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

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

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

Email:

[claims@buildamerica.com](mailto:claims@buildamerica.com)

Address:

200 Liberty Street, 27th floor  
New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

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