

OFFICIAL STATEMENT DATED NOVEMBER 19, 2018

IN THE OPINION OF BOND COUNSEL, THE BONDS ARE VALID AND BINDING OBLIGATIONS OF THE DISTRICT AND INTEREST ON THE BONDS WILL BE EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER STATUTES, REGULATIONS, PUBLISHED RULINGS AND COURT DECISIONS EXISTING ON THE DATE THEREOF, SUBJECT TO THE MATTERS DESCRIBED UNDER "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

RATING: S&P Global Ratings (BAM Insured)..... "AA" (stable outlook)
S&P Global Ratings (Underlying) "A+" (stable outlook)
 (See "MUNICIPAL BOND INSURANCE" and "MUNICIPAL BOND RATINGS")

\$3,185,000

CORNERSTONES MUNICIPAL UTILITY DISTRICT

(A Political Subdivision of the State of Texas, located within Harris and Fort Bend Counties)

UNLIMITED TAX BONDS, SERIES 2018

Dated: December 1, 2018

Due: April 1, as shown below

The \$3,185,000 Cornerstones Municipal Utility District Unlimited Tax Bonds, Series 2018 (the "Bonds") are obligations of Cornerstones Municipal Utility District (the "District") and are not obligations of the State of Texas; Harris County, Texas; Fort Bend County, Texas; the City of Houston, Texas (the "City"); or any entity other than the District. Neither the faith and credit nor the taxing power of the State of Texas; Harris County, Texas; Fort Bend County, Texas; the City; nor any entity other than the District is pledged to the payment of the principal of or interest on the Bonds.

The Bonds will be initially registered and delivered only to Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Beneficial owners of the Bonds will not receive physical certificates representing the Bonds, but will receive a credit balance on the books of the nominees of such beneficial owners ("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 Bank of New York Mellon Trust Company, N.A., Dallas, Texas, or any successor Paying Agent/Registrar (the "Paying Agent/Registrar") directly to DTC, which will, in turn, remit such principal and interest to its participants for subsequent disbursement to the Beneficial Owners of the Bonds. See "THE BONDS – Book-Entry-Only System." Principal of the Bonds is payable to the Registered Owner(s) of the Bonds (the "Bondholder(s)") at the principal payment office of the Paying Agent/Registrar upon surrender of the Bonds for payment at maturity or upon prior redemption. Interest on the Bonds accrues from December 1, 2018, and is payable on April 1, 2019, and each October 1 and April 1 thereafter until maturity or prior redemption, to the person in whose name the Bonds are registered as of the 15th day of the calendar month next preceding each interest payment date (the "Record Date"). The Bonds are issuable in denominations of \$5,000 or any integral multiple thereof in fully registered form only.

The scheduled payment of principle 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**.



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

Maturity (April 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Nos. 219228 (b)	Maturity (April 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Nos. 219228 (b)
2019	\$30,000	2.25%	2.15%	FP3	2023	\$565,000	2.50%	2.65%	FT5
2020	5,000	2.50%	2.40%	FQ1	2024(c)	585,000	2.75%	2.75%	FU2
2021	225,000	2.50%	2.40%	FR9	2025(c)	605,000	3.00%	2.90%	FV0
2022	545,000	2.50%	2.50%	FS7	2026(c)	625,000	3.00%	3.00%	FW8

- (a) The initial reoffering yield has been provided by the Initial Purchaser (herein defined) and represents the initial offering price to the public of a substantial amount of the Bonds for each maturity. Such initial reoffering yield may subsequently be changed. The initial reoffering yields indicated above represent the lower of the yields resulting when priced to maturity or to the first call date. Accrued interest from December 1, 2018 is to be added to the price.
- (b) CUSIP numbers have been assigned to the Bonds by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association and are included solely for the convenience of the owners of the Bonds.
- (c) The Bonds maturing on April 1, 2024 and thereafter are subject to redemption prior to maturity at the option of the District, in whole or from time to time in part on April 1, 2023, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. In addition, the Initial Purchaser may designate one or more maturities as Term Bonds. See "THE BONDS – Redemption Provisions."

The Bonds constitute the sixth series of unlimited tax bonds issued by the District for the purpose of acquiring or constructing a water, sanitary sewer and drainage system (the "System") to serve the District. Voters in the District have authorized a total of \$22,545,000 principal amount of unlimited tax bonds for the System Facilities. Following the issuance of the Bonds, the District will have \$3,280,000 principal amount of unlimited tax bonds remaining authorized but unissued by the District's voters for System purposes. See "THE BONDS – Issuance of Additional Debt." The Bonds, when issued, will constitute valid and binding obligations of the District, payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. See "THE BONDS – Source of Payment."

The Bonds are offered when, as and if issued by the District and accepted by the Initial Purchaser, subject among other things to the approval of the initial Bonds by the Attorney General of Texas and the approval of certain legal matters by Young & Brooks, Houston, Texas, Bond Counsel. The Bonds in definitive form are expected to be available for delivery through the facilities of DTC, on or about December 19, 2018. See "LEGAL MATTERS."

USE OF INFORMATION IN OFFICIAL STATEMENT

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

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 Bond Counsel upon payment of duplication costs, for further information.

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

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.”

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

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SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Bonds, the District has accepted the bid resulting in the lowest net effective interest rate which was tendered by Raymond James & Associates, Inc. (referred to herein as the "Initial Purchaser") to purchase the Bonds bearing the interest rates shown under " PRINCIPAL AMOUNTS, MATURITIES, INTEREST RATES AND INITIAL REOFFERING YIELDS" at a price of 99.012620% of the principal amount thereof plus accrued interest to the date of delivery, which resulted in a net effective interest rate of 2.997489%, as calculated pursuant to Chapter 1204 of the Texas Government Code, as amended.

Prices and Marketability

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.

The prices and other terms with respect to the offering and sale of the Bonds may be changed from time-to-time by the Initial Purchaser after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Bonds into investment accounts. IN CONNECTION WITH THE OFFERING OF THE BONDS, THE INITIAL PURCHASER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Securities Laws

No registration statement relating to the Bonds has been filed with the United States Securities and Exchange Commission (the "SEC") under the Securities Act of 1933, as amended, in reliance upon exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities acts of any other jurisdictions. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be offered, sold, or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds should not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdiction.

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 an exhibit to this Official Statement.

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

Build America Mutual Assurance Company

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

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

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

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

Capitalization of BAM

BAM's total admitted assets, total liabilities, and total capital and surplus, as of September 30, 2018 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$524 million, \$104.1 million and \$419.9 million, respectively.

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

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

BAM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading "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/. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

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

Disclaimers. The Credit Profiles and the Credit Insights videos and the information contained therein are not recommendations to purchase, hold or sell securities or to make any investment decisions. Credit-related and other analyses and statements in the Credit Profiles and the Credit Insights videos are statements of opinion as of the date expressed, and BAM assumes no responsibility to update the content of such material. The Credit Profiles and Credit 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.

MUNICIPAL BOND RATINGS

S&P is located at 55 Water Street, New York, New York 10041, telephone number (212) 208-8000 and has engaged in providing ratings for corporate bonds since 1923 and municipal bonds since 1940. Long-term debt ratings assigned by S&P reflect its analysis of the overall level of credit risk involved in financings. At present S&P assigns long-term debt ratings with symbols "AAA" (the highest rating) through "D" (the lowest rating). The Bonds are expected to receive an insured rating of "AA" (stable outlook) from S&P solely in reliance upon the issuance of the municipal bond insurance policy issued by BAM at the time of the delivery of the Bonds. The Bonds received an underlying rating of "A+" (stable outlook) from S&P.

The District is not aware of any rating assigned the Bonds other than the ratings of S&P. The ratings reflect only the view of S&P and the District makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised or withdrawn entirely by S&P, if in its judgment, circumstances so warrant. Any such revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

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OFFICIAL STATEMENT SUMMARY

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

HURRICANE HARVEY

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 even was Hurricane Harvey ("Harvey"), which made landfall along the Texas Gulf Coast on August 26, 2017, and brought historic levels of rainfall during the successive four days.

Impact on the District..... During Harvey, land within the District sustained flooding due to historic rainfalls. According to IDS Engineering Group (the "Engineer"), the District's water and sewer system operated without interruption throughout the event. According to the Engineer, the flood waters caused structural flooding of approximately 90 occupied homes within the District during Harvey. The District's facilities are designed and constructed above the 100-year flood plain in accordance with all regulatory requirements. However, the District cannot predict if flooding were to occur in the event of another historic rain event that exceeded a 100-year event.

If a future weather event significantly damaged all of 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 in 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 – Factors Affecting Taxable Values and Tax Payments – Maximum Impact on District Tax Rate" and "- Extreme Weather Events."

THE BONDS

The Issuer Cornerstones Municipal Utility District (the "District"), a political subdivision of the State of Texas, is located in Harris and Fort Bend Counties, Texas. See "THE DISTRICT."

Description..... \$3,185,000 Unlimited Tax Bonds, Series 2018 (the "Bonds") mature on April 1 in each of the years and in the amounts shown on the cover hereof. Interest on the Bonds accrues from December 1, 2018, at the rates shown on the cover hereof. Interest is payable April 1, 2019, and on each October 1 and April 1 thereafter until maturity or prior redemption. The Bonds mature serially on April 1 of each year from

2019 through 2026, both inclusive. Bonds maturing on and after April 1, 2024, are subject to redemption prior to maturity at the option of the District, in whole or from time to time in part, on April 1, 2023, or on any date thereafter, at a price equal to the principal amount thereof plus accrued interest to the date fixed for redemption. See “THE BONDS – General,” and “– Redemption Provisions.”

Source of Payment.....	Principal of and interest on the Bonds are payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against taxable property located within the District. The Bonds are obligations solely of the District and are not obligations of the State of Texas, Harris County, Fort Bend County, the City of Houston, Texas (the “City”) or any entity other than the District. See “THE BONDS – Sources of Payment.”
Use of Proceeds.....	Proceeds from the sale of the Bonds will be used to pay for the costs related to the (1) construction and engineering of water well no. 2 to serve the District; and (2) construction of the collection line for water well no. 2. The remaining proceeds from the sale of the Bonds will be used to pay bond issuance costs and six (6) months of capitalized interest on the Bonds. See “USE AND DISTRIBUTION OF BOND PROCEEDS.”
Payment Record.....	The District has never defaulted on the timely payment of principal or interest on its outstanding indebtedness. See “THE BONDS – Payment Record.”
Municipal Bond Insurance	Build America Mutual Assurance Company (“BAM”). See “MUNICIPAL BOND INSURANCE.”
Municipal Bond Ratings	S&P (BAM Insured) – “AA” (stable outlook). S&P (Underlying) – “A+” (stable outlook). See “MUNICIPAL BOND INSURANCE” and “MUNICIPAL BOND RATINGS.”
Qualified Tax-Exempt Obligations.....	The District has designated the Bonds as “qualified tax-exempt obligations” pursuant to section 265(b) of the Internal Revenue Code of 1986, as amended (the “Code”), and has represented that the total amount of tax-exempt bonds (including the Bonds) issued by District during calendar year 2018 is not reasonably expected to exceed \$10,000,000. See “TAX MATTERS – Qualified Tax-Exempt Obligations.”
Authority for Issuance	The Bonds constitute the sixth series of bonds issued out of an aggregate of \$22,545,000 principal amount of unlimited tax bonds authorized for the purpose of acquiring or constructing a water, sanitary sewer and drainage system (the “System”) to serve the District. In addition, the District has authorized \$13,000,000 principal amount of unlimited tax bonds to refund such bonds. The Bonds are issued pursuant to an order of the Texas Commission on Environmental Quality (the “TCEQ”), the order authorizing the issuance of the Bonds (the “Bond Order”), Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54, Texas Water Code, an election held within the District on August 8, 1981, and the general laws of the State of Texas. See “INVESTMENT CONSIDERATIONS – Future Debt” and “THE BONDS – Authority for Issuance, and - Issuance of Additional Debt.”
Outstanding Bonds.....	The District has previously issued the following bonds: \$3,900,000 Unlimited Tax Bonds, Series 1978; \$5,250,000 Unlimited Tax Bonds, Series 1983; \$7,745,000 Unlimited Tax Refunding Bonds, Series 1994; \$3,180,000 Unlimited Tax Bonds, Series 1995; \$2,650,000 Unlimited

Tax Bonds, Series 1996; \$1,100,000 Unlimited Tax Bonds, Series 1999; \$8,375,000 Unlimited Tax Refunding Bonds, Series 2003; and \$3,695,000 Unlimited Tax Refunding Bonds, Series 2011. As of October 15, 2018, \$1,250,000 principal amount of such bonds previously issued remains outstanding (the "Outstanding Bonds"). See "THE BONDS – Outstanding Bonds."

Legal Opinion..... Young & Brooks, Houston, Texas, Bond Counsel. See "LEGAL MATTERS."

Financial Advisor..... Robert W. Baird & Co. Incorporated, Houston, Texas.

THE DISTRICT

Description..... Cornerstones Municipal Utility District, a political subdivision of the State of Texas, is located within Harris and Fort Bend Counties, Texas approximately 25 miles west of Houston’s central business district. The District contains approximately 585 acres and is located within the Katy Independent School District and the extraterritorial jurisdiction ("ETJ") of the City. See "THE DISTRICT – General" and "- Description."

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

Development within the District..... Approximately 280 acres of land (1,368 lots) within the District have been developed as the single-family residential subdivisions of Creekstone, Cornerstones Place, Chesterfield and North Lake Village. As of October 1, 2018, the District contained approximately 1,368 completed homes (1,358 occupied; 10 unoccupied). In addition, the District contains a 252-unit apartment complex located on approximately 14 acres. Approximately 52 acres have been developed for commercial reserves. Commercial development within the District includes an auto repair store, a daycare center, a 24-hour Fitness Center, a CVS Pharmacy, a Sonic Drive-in, a Mobile Car Care, a STORIT self-storage facility, an Auto Zone, a retail center, and two car washes. Additionally, the District contains an 18-hole golf course on approximately 90 acres. The remaining land within the District includes approximately 2.5 undeveloped but developable acres and 146.5 undevelopable acres. There is no current development activity within the District. See "DEVELOPMENT WITHIN THE DISTRICT."

INVESTMENT CONSIDERATIONS

The purchase and ownership of the Bonds involve certain investment considerations and all prospective purchasers are urged to examine carefully the Official Statement, including particularly the section captioned "INVESTMENT CONSIDERATIONS," with respect to the investment security of the Bonds.

SELECTED FINANCIAL INFORMATION
(UNAUDITED)

2018 Certified Assessed Valuation.....	\$ 432,875,719 (a)
(100% of market value as of January 1, 2018)	
Direct Debt:	
Outstanding Bonds (as of October 15, 2018)	<u>\$ 1,250,000</u>
The Bonds	<u>\$ 3,185,000</u>
Total	<u>\$ 4,435,000</u>
Estimated Overlapping Debt	<u>\$ 26,371,113 (b)</u>
Total Direct and Estimated Overlapping Debt	<u>\$ 30,806,113</u>
Ratio of Direct Debt:	
2018 Certified Assessed Valuation (\$432,875,719)	1.02%
Ratio of Direct and Estimated Overlapping Debt:	
2018 Certified Assessed Valuation (\$432,875,719)	7.12%
Debt Service Fund Balance (as of Closing of the Bonds)	\$ 43,435 (c)
Operating Fund Balance (as of September 17, 2018)	\$ 3,426,876
2018 Tax Rate	
Debt Service	\$0.15
Maintenance & Operation	<u>0.15</u>
Total	<u>\$0.30</u>
Average Annual Debt Service Requirements (2019-2026)	\$623,324
Maximum Annual Debt Service Requirements (2026)	\$634,375
Tax Rate per \$100 of Assessed Valuation Required to Pay Average Annual Debt Service Requirements on the Bonds and the Outstanding Bonds (2019-2026) at 95% Tax Collections Based Upon the 2018 Certified Assessed Valuation (\$432,875,719)	\$0.16
Tax Rate per \$100 of Assessed Valuation Required to Pay Maximum Annual Debt Service Requirements on the Bonds and the Outstanding Bonds (2026) at 95% Tax Collections Based Upon the 2018 Certified Assessed Valuation (\$432,875,719)	\$0.16
Single-Family Homes as of October 15, 2018	1,368

- (a) As certified by the Harris County Appraisal District ("HCAD") and the Fort Bend Central Appraisal District ("FBCAD"). See "TAXING PROCEDURES" and "TAX DATA."
(b) See "DISTRICT DEBT - Estimated Overlapping Debt."
(c) Upon closing, six (6) months of capitalized interest will be deposited into the Debt service Fund. Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the Debt Service Fund.

OFFICIAL STATEMENT
relating to
\$3,185,000

CORNERSTONES MUNICIPAL UTILITY DISTRICT
(A Political Subdivision of the State of Texas Located in Harris and Fort Bend Counties, Texas)

Unlimited Tax Bonds, Series 2018

INTRODUCTION

This Official Statement provides certain information in connection with the issuance by Cornerstones Municipal Utility District (the "District") of its \$3,185,000 Unlimited Tax Bonds, Series 2018 (the "Bonds").

The Bonds are issued pursuant to (i) an order (the "Bond Order") adopted by the Board of Directors of the District on the date of the sale of the Bonds, (ii) Article XVI, Section 59 of the Texas Constitution and general laws of the State of Texas, particularly Chapters 49 and 54, Texas Water Code, as amended, (iii) an election held within the District on August 8, 1981, and (iv) an order issued by the Texas Commission on Environmental Quality ("TCEQ").

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

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

THE BONDS

General

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

The Bonds will mature on April 1 in each of the years and in principal amounts, and will bear interest from December 1, 2018, at the rates per annum, set forth on the cover page of this Official Statement. Interest on the Bonds will be payable April 1, 2019, and semiannually thereafter on each October 1 and April 1 thereafter until maturity or redemption. Bonds maturing on and after April 1, 2024, are subject to redemption prior to maturity at the option of the District, in whole or from time to time in part, on April 1, 2023, or on any date thereafter, at a price equal to the principal amount thereof plus accrued interest to the date fixed for redemption. If fewer than all the Bonds are redeemed at any time, the particular maturities of Bonds to be redeemed shall be selected by the District. If fewer than all of the Bonds of a particular maturity are redeemed, the Paying Agent/Registrar (hereinafter defined) shall select the particular Bonds to be redeemed by such method of random selection it deems fair and appropriate.

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

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

preceding each interest payment date to the address of such Registered Owner as shown on the Register, or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and the Registered Owner at the risk and expense of such Registered Owner.

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

Book-Entry-Only System

This section describes how ownership of the Bonds is to be transferred and how the principal of and interest on the Bonds are to be paid to and credited by DTC while the Bonds are registered in its nominee's name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

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

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

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

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

receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

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

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

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

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

Use of Certain Terms in Other Sections of this Official Statement

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

Paying Agent/Registrar

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

Registration, Transfer and Exchange

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

Mutilated, Lost, Stolen or Destroyed Bonds

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

Authority for Issuance

At elections held within the District on April 1, 1978 and August 8, 1981, the voters of the District authorized an aggregate of \$22,545,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing a water, sanitary sewer and drainage system (the "System") to serve the District. At an election held within the District on May 2, 1992, the voters of the District authorized \$13,000,000 principal amount of unlimited tax bonds to refund such bonds.

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

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

Source of Payment

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

Redemption Provisions

Bonds maturing on April 1, 2024, and thereafter shall be subject to redemption at the option of the District, in whole or from time to time in part, on April 1, 2023, or on any date thereafter, at a price equal to the principal amount thereof plus accrued interest to the date fixed for redemption. Notice of the exercise of the reserved right of redemption will be given at least thirty (30) days prior to the redemption date by sending such notice by first class mail to the Registered Owner of each Bond to be redeemed in whole or in part at the address shown on the bond register. If fewer than all of the Bonds are redeemed at any time, the maturities of the Bonds to be redeemed shall be selected by the District. If fewer than all of the Bonds of a certain maturity are to be redeemed, the particular Bonds or portions thereof to be redeemed will be selected by the Paying Agent/Registrar prior to the redemption date by such method of random selection as the Paying Agent/Registrar deems fair and appropriate in integral multiples of \$5,000 within any one maturity. The Registered Owner of any Bond, all or a portion of which has been called for redemption, shall be required to present such Bond to the Paying Agent/Registrar for payment of the redemption price on the portion of the Bonds so called for redemption and issuance of a new Bond in the principal amount equal to the portion of such Bond not redeemed.

Outstanding Bonds

The District has previously issued the following bonds: \$3,900,000 Unlimited Tax Bonds, Series 1978; \$5,250,000 Unlimited Tax Bonds, Series 1983; \$7,745,000 Unlimited Tax Refunding Bonds, Series 1994; \$3,180,000 Unlimited Tax Bonds, Series 1995; \$2,650,000 Unlimited Tax Bonds, Series 1996; \$1,100,000 Unlimited Tax Bonds, Series 1999; \$8,375,000 Unlimited Tax Refunding Bonds, Series 2003; and \$3,695,000 Unlimited Tax Refunding Bonds, Series 2011. As of October 15, 2018, \$1,250,000 principal amount of such bonds previously issued remains outstanding (the "Outstanding Bonds").

Annexation and Consolidation

The District lies within the extraterritorial jurisdiction of the City. Under legislation effective as of December 1, 2017 ("Senate Bill 6"), the District may be annexed and dissolved by the City only if (i) such annexation has been approved by a majority of those voting in an election held for that purpose within the area to be annexed and (ii) if the registered voters in the area to be annexed do not own more than 50% of the land in the area, a petition has been signed by more than 50% of the land owners, consenting to annexation. Notwithstanding the preceding sentence, the described election and petition process does not apply during the term of a strategic partnership agreement between the City and the District specifying the procedures for full purpose annexation of all or a portion of the District. See "Strategic Partnership Agreement with City of Houston" below. If the District is annexed, the City must assume the assets, functions and obligations of the District, including the Bonds, and abolish the District within ninety (90) days of the date of annexation. Annexation of territory by the City is a policy-making matter within the discretion of the Mayor and City Council of the City, and therefore, the District makes no representation concerning the likelihood of annexation or the ability of the City to make debt service payments should annexation occur.

The District has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its assets (such as cash and the utility system), and liabilities (such as the Bonds), with the assets and liabilities of districts with which it is consolidating. Although no consolidation is

presently contemplated by the District, no representation is made concerning the likelihood of consolidation in the future.

Strategic Partnership Agreement with City of Houston

Effective May 14, 2013, the District entered into a Strategic Partnership Agreement (the "SPA") with the City as authorized by Texas Local Government Code Section 43.0751. During the thirty (30) year term of the SPA (i) the commercial portion of the District is annexed by the City for limited purposes of extending the City sales tax to the area made subject to the SPA, (ii) 50% of the City sales tax revenues generated within the area made subject to the SPA (the "SPA Sales Tax Revenues") will be distributed to the District, (iii) the City has agreed to not annex the District for full purposes without the District's consent, and (iv) the area made subject to the SPA will continue to receive water and wastewater treatment service from the District and will remain subject to District taxing authority. Pursuant to State law, the District is authorized to use the SPA Sales Tax Revenues for any lawful purpose. None of the anticipated SPA Sales Tax Revenues are pledged toward the payment of principal and interest on the Bonds.

Defeasance

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

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

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. Because the Bond Order does not contractually limit such investments, Registered Owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality of those currently permitted under Texas law.

Issuance of Additional Debt

Following the issuance of the Bonds, the District will have \$3,280,000 principal amount remaining in authorized but unissued unlimited tax bonds for the purpose of acquiring or constructing the System and \$4,210,000 principal amount remaining in authorized but unissued unlimited tax bonds to refund such bonds. The District reserves in the Bond Order the right to issue the remaining authorized but unissued bonds plus such additional bonds as may hereafter be authorized by voters in the District. In addition, the District has the right to issue obligations, other than the Bonds, including tax anticipation notes and bond anticipation notes, and to borrow money for any valid public purpose. According to the District's Engineer (hereinafter defined), the remaining authorized but unissued bonds is sufficient to fully develop the District.

Additional tax bonds may be authorized by District's voters in the future. The Board is further empowered to borrow money for any lawful purpose and pledge the revenues of the waterworks and sewer system therefor and to issue bond anticipation notes and tax anticipation notes.

The Bond Order imposes no limitation on the amount of additional bonds which may be issued by the District. Any additional bonds issued by the district may be on a parity with the Bonds.

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

The District is authorized by statute to develop parks and recreational facilities, including the issuing of bonds payable from taxes for such purpose. Before the District could issue park bonds payable from taxes, the following actions would be required: (a) preparation of a detailed park plan; (b) authorization of park bonds by the qualified voters in the District; (c) approval of the park projects and bonds by the Commission; and (d) approval of the bonds by the Attorney General of Texas. If the District does issue park bonds, the outstanding principal amount of such bonds may not exceed an amount equal to one percent of the value of the taxable property in the District. The Board has not considered authorizing the preparation of a park plan or calling a park bond election at this time.

The District is within the Fort Bend Subsidence District (the "Subsidence District"), which regulates the withdrawal of groundwater within its jurisdiction. The District's authority to pump ground water from its wells is subject to annual permits issued by the Subsidence District. The Subsidence District has ordered certain areas within its boundaries to convert most of their water supply to surface water under various schedules and has published a timetable that would require the District to convert to 60% surface water by the year 2025. The issuance of additional bonds by the District in the future in an undetermined amount may be necessary to meet these requirements. See "THE SYSTEM - Subsidence District Requirements - Conversion to Surface Water."

Amendments to the Bond Order

The District may, without the consent of or notice to any Registered Owners, amend the Bond Order in any manner not detrimental to the interests of the Registered Owners, including the curing of any ambiguity, inconsistency or formal defect or omission therein. In addition, provided that it has not failed to make a timely payment of principal of or interest on the Bonds, the District may, with the written consent of the Registered Owners of a majority in aggregate principal amount of the Bonds then outstanding affected thereby, amend, add to or rescind any of the provisions of the Bond Order, provided that, without the consent of the Registered Owners of all of the Bonds affected, no such amendment, addition or rescission may (1) change the date specified as the date on which the principal of or any installment of interest on any Bond is due and payable, reduce the principal amount thereof, the redemption price thereof, or the rate of interest thereon, change the place or places at, or the coin or currency in which any Bond or the interest thereon is payable, or in any other way modify the terms or sources of payment of the principal of or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) modify any of the provisions of the Bond Order relating to the amendment thereof, except to increase any percentage provided thereby or to

provide that certain other provisions of the Bond Order cannot be modified or waived without the consent of the holder of each Bond affected thereby. In addition, a state, consistent with federal law, may, in the exercise of its police power, make such modifications in the terms and conditions of contractual covenants relating to the payment of indebtedness of a political subdivision as are reasonable and necessary for attainment of an important public purpose.

Registered Owners' Remedies

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

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

Bankruptcy Limitation to Registered Owners' Rights

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

If the District decides in the future to proceed voluntarily under the Federal Bankruptcy Code, the District would develop and file a plan for the adjustment of its debts, and the Bankruptcy Court would confirm the District's plan if: (1) the plan complies with the applicable provisions of the Federal Bankruptcy Code; (2) all payments to be made in connection with the plan are fully disclosed and reasonable; (3) the District is not prohibited by law from taking any action necessary to carry out the plan; (4) administrative expenses are paid in full ; and (5) the plan is in the best interests of creditors and is feasible. If such a plan were confirmed by the bankruptcy court, it could, among other things, affect a Registered Owner by reducing or eliminating the amount of indebtedness, deferring or rearranging the debt service schedule, reducing or eliminating the interest rate, modifying or abrogating collateral or security arrangements, substituting (in whole or in part) other securities, and otherwise compromising and modifying the rights and remedies of such Registered Owner's claim against the District.

Legal Investment and Eligibility to Secure Public Funds in Texas

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

- a) All bonds, notes, and other obligations issued by a district shall be legal and authorized investments for all banks, trust companies, building and loan associations, savings and loan associations, insurance companies of all kinds and types, fiduciaries, and trustees, and for all interest and sinking funds and other public funds of the state, and all agencies, subdivisions, and instrumentalities of the state, including all counties, cities, towns, villages, school districts, and all other kinds and types of districts, public agencies, and bodies politic.
- b) A district's bonds, notes, and other obligations are eligible and lawful security for all deposits of public funds of the state, and all agencies, subdivisions, and instrumentalities of the state, including all counties, cities, towns, villages, school districts, and all other kinds and types of districts, public agencies, and bodies politic, to the extent of the market value of the bonds, notes, and other obligations when accompanied by any unmatured interest coupons attached to them."

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

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

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USE AND DISTRIBUTION OF BOND PROCEEDS

Proceeds from the sale of the Bonds will be used to pay for the costs related to the (1) construction and engineering of water well no. 2 to serve the District; and (2) construction of the collection line for water well no. 2. The remaining proceeds from the sale of the Bonds will be used to pay bond issuance costs and six (6) months of capitalized interest on the Bonds.

	Amount
<u>CONSTRUCTION COSTS</u>	
A. District Items	
1. Cornerstones MUD Water Well No. 2	\$ 1,750,000
2. Cornerstones MUD Water Well No. 2 Collection Line	725,000
3. Engineering – Construction Phase Services	78,675
4. Contingency	<u>247,500</u>
Total District Items	\$ 2,801,175
TOTAL CONSTRUCTION COSTS	\$2,801,175
<u>NON-CONSTRUCTION COSTS</u>	
A. Legal Fees	\$ 84,625
B. Fiscal Agent Fees	62,775
C. Capitalized Interest (6 months)	43,435
D. Bond Discount	31,448
E. Bond Issuance Expenses	39,452
F. TCEQ Bond Issuance Fee	7,963
G. Attorney General’s Fee	3,185
H. Bond Application Report Costs	42,500
I. Contingency (a)	<u>68,442</u>
TOTAL NON CONSTRUCTION COSTS	\$ 383,825
<u>TOTAL BOND ISSUE REQUIREMENT</u>	\$3,185,000

(a) Contingency represents the sum of the difference between the estimated and actual amounts of the discount on the Bonds (the “Bond Discount”) and capitalized interest on the Bonds.

In the instance that approved estimated amounts exceed actual costs, the difference comprises a surplus which may be expended for uses in accordance with the rules of the TCEQ. In the instance that actual costs exceed previously approved estimated amounts and contingencies, additional TCEQ approval and the issuance of additional bonds may be required.

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DISTRICT DEBT

General

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

2018 Certified Assessed Valuation.....	\$ 432,875,719 (a)
(100% of market value as of January 1, 2018)	
Direct Debt:	
Outstanding Bonds (as of October 15, 2018)	<u>\$ 1,250,000</u>
The Bonds	<u>\$ 3,185,000</u>
Total	\$ 4,435,000
Estimated Overlapping Debt	<u>\$ 26,371,113 (b)</u>
Total Direct and Estimated Overlapping Debt	<u>\$ 30,806,113</u>
Ratio of Direct Debt:	
2018 Certified Assessed Valuation (\$432,875,719)	1.02%
Ratio of Direct and Estimated Overlapping Debt:	
2018 Certified Assessed Valuation (\$432,875,719)	7.12%
Debt Service Fund Balance (as of Closing of the Bonds)	\$ 43,435 (c)
Operating Fund Balance (as of September 17, 2018)	\$ 3,426,876
2018 Tax Rate	
Debt Service	\$0.15
Maintenance & Operation	<u>0.15</u>
Total	<u>\$0.30</u>
Average Annual Debt Service Requirements (2019-2026)	\$623,324
Maximum Annual Debt Service Requirements (2026)	\$634,375
Tax Rate per \$100 of Assessed Valuation Required to Pay Average Annual	
Debt Service Requirements on the Bonds and the Outstanding Bonds	
(2019-2026) at 95% Tax Collections	
Based Upon the 2018 Certified Assessed Valuation (\$432,875,719)	\$0.16
Tax Rate per \$100 of Assessed Valuation Required to Pay Maximum Annual	
Debt Service Requirements on the Bonds and the Outstanding Bonds	
(2026) at 95% Tax Collections	
Based Upon the 2018 Certified Assessed Valuation (\$432,875,719)	\$0.16
Single-Family Homes as of October 15, 2018	1,368

(b) As certified by the Harris County Appraisal District ("HCAD") and the Fort Bend Central Appraisal District ("FBCAD"). See "TAXING PROCEDURES" and "TAX DATA."

(b) See "DISTRICT DEBT - Estimated Overlapping Debt."

(c) Upon closing, six (6) months of capitalized interest will be deposited into the Debt service Fund. Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the Debt Service Fund.

Estimated Overlapping Debt

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

Taxing Jurisdiction	Outstanding Debt as of October 31, 2018	Percent	Overlapping Amount
Fort Bend County	\$593,940,527	0.65%	\$ 3,885,560
Harris County	2,050,758,022	0.10%	1,969,943
Harris County Department of Education	6,555,000	0.10%	6,296
Harris County Flood Control District	83,075,000	0.10%	81,503
Harris County Hospital District	59,490,000	0.10%	58,356
Katy Independent School District	1,737,385,000	1.14%	19,786,881
Harris County Port of Houston Authority	593,754,397	0.10%	<u>582,575</u>
Total Estimated Overlapping Debt			\$26,371,113
The District			<u>\$ 4,435,000(a)</u>
Total Direct & Estimated Overlapping			<u>\$30,806,113</u>

(a) Includes the Bonds.

Debt Ratios

	2018 Certified Assessed Valuation
Direct Debt (a)	1.02%
Total Direct and Estimated Overlapping Debt (a)	7.12%

Debt Service Requirements

The following schedule sets forth the debt service requirements on the Outstanding Bonds, as well as the principal and interest requirements on the Bonds.

Year	Outstanding Debt Service	Plus: The Bonds		Total Debt Service
		Principal	Interest	
2019	\$515,000	\$30,000	\$72,298	\$617,298
2020	521,400	5,000	86,425	612,825
2021	306,800	225,000	83,550	615,350
2022	-	545,000	73,925	618,925
2023	-	565,000	60,050	625,050
2024	-	585,000	44,944	629,944
2025	-	605,000	27,825	632,825
2026	-	<u>625,000</u>	<u>9,375</u>	<u>634,375</u>
Total	<u>\$1,343,200</u>	<u>\$3,185,000</u>	<u>\$458,392</u>	<u>\$4,986,592</u>

Average Annual Debt Service Requirements on the Outstanding Bonds and the Bonds (2019-2026)	\$623,324
Maximum Annual Debt Service Requirement on the Outstanding Bonds and the Bonds (2026)	\$634,375

TAXING PROCEDURES

Authority to Levy Taxes

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in sufficient amount to pay the principal of and interest on the 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 above under “THE BONDS – Source of Payment.” Under Texas law, if approved by the voters within the District, the Board may also levy and collect annual ad valorem taxes for the operation and maintenance of the District and the District’s water distribution, wastewater collection and drainage facilities (the “System”) and for the payment of certain contractual obligations. See “TAX DATA – Maintenance Tax.”

Property Tax Code and County-Wide Appraisal District

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

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: property owned by the State of Texas or its political subdivisions, if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies and personal effects; certain goods, wares, and merchandise in transit; certain farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; travel trailers; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons 65 years of age or older and certain disabled persons, to the extent deemed advisable by the Board of Directors of the District. For the 2018 tax year, the District granted a \$50,000 exemption for residential homesteads of persons 65 years of age or older. The District may be required to offer such exemptions if a majority of voters approve the same at an election. The District would be required to call an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the preceding election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District's obligation to pay tax-supported debt incurred prior to adoption of the exemption by the District. Furthermore, the District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, but only to the maximum extent of between \$5,000 and \$12,000 depending upon the disability rating of the veteran claiming the exemption. A veteran who receives a disability rating of 100% is entitled to an exemption of full value of the veteran's residential homestead. Furthermore, qualifying surviving spouses of persons 65 years of age and older are entitled to receive a resident homestead exemption equal to the exemption received by the deceased spouse, and surviving spouses of a deceased veteran who had received a disability rating of 100% are entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries.

A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. As of January 1, 2018, this exemption will also apply to a residence homestead that was donated by a charitable organization at some cost to such veterans. Also, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

As of January 1, 2018, the surviving spouse of a first responder who is killed or fatally injured in the line of duty is entitled to an exemption of the total appraised value of the surviving spouse's residence homestead if the surviving spouse has not remarried since the first responder's death, and said property was the first responder's residence homestead at the time of death. Such exemption would be transferred to a subsequent residence homestead of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

Residential Homestead Exemptions: The Property Tax Code authorizes the governing body of each political subdivision in the State to exempt up to twenty percent (20%) of the appraised market value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of a homestead exemption may be considered each year, but must be adopted by before July 1. For the 2018 tax year, the District adopted an exemption of 20% of the appraised market value of residential homesteads in the District. See "TAX DATA - Exemptions."

Freeport Goods and Goods-in-Transit Exemption: A "Freeport Exemption" applies to goods, wares, ores, and merchandise other than oil, gas, and petroleum products (defined as liquid and gaseous materials

immediately derived from refining petroleum or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A "Goods-in-Transit" Exemption is applicable to the same categories of tangible personal property which are covered by the Freeport Exemption, if, for tax year 2013 and prior applicable years, such property is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation, and the location where said property is detained during that period is not directly or indirectly owned or under the control of the property owner. For tax year 2012 and subsequent years, such Goods-in-Transit Exemption includes tangible personal property acquired in or imported into Texas for storage purposes only if such property is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit property. A taxing unit must exercise its option to tax goods-in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law. The District has taken official action to allow taxation of all such goods-in-transit personal property for all prior and subsequent years.

Tax Abatement

Harris County or Fort Bend County may designate all or part of the area within the District as a reinvestment zone. Thereafter, Harris County or Fort Bend County and the District, at the option and discretion of each entity, may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the District, for a period of up to ten (10) years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed on the condition that the property owner make specified improvements or repairs to the property in conformity with the terms of the tax abatement. Each taxing jurisdiction has discretion to determine terms for its tax abatement agreements without regard to the terms approved by the other taxing jurisdictions. To date, Harris County and Fort Bend County have not designated any part of the area within the District as a reinvestment zone.

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal Districts 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, as such is defined in the Property Tax Code. The Texas Constitution limits increases in the appraised value of residence homesteads to 10 percent annually regardless of the market value of the property.

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

loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous three years for agricultural use and taxes for the previous five years for open space land and timberland. As of January 1, 2018, no acres within the District were valued on the basis of agricultural use.

The Property Tax Code requires the Appraisal Districts to implement a plan for periodic reappraisal of property to update appraisal values. The plan must provide for appraisal of all property in the Appraisal Districts at least once every three years. It is not known what frequency of reappraisals will be utilized by the Appraisal Districts 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 Districts 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 Districts choose to formally include such values on its appraisal roll.

District and Taxpayer Remedies

Under certain circumstances, taxpayers and taxing units, including the District, may appeal orders of the Appraisal Review Board by filing a timely petition for review in district court. In such event, the property value in question may be determined by the court, or by a jury, if requested by any party. Additionally, taxing units may bring suit against the Appraisal Districts 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 values, appraisals that are higher than renditions and appraisals of property not previously on an appraisal roll.

Levy and Collection of Taxes

The District is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. The rate of taxation is set by the Board of Directors, after the legally required notice has been given to owners of property within the District, based upon: a) the valuation of property within the District as of the preceding January 1, and b) the amount required to be raised for debt service, maintenance purposes, and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent if not paid before February 1 of the year following the year in which imposed. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. A delinquent tax on personal property incurs an additional penalty, in an amount established by the District and a delinquent tax attorney, 60 days after the date the taxes become delinquent. The delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, which may be rejected by taxing units. The District's tax collector is required to enter into an installment payment agreement with any person who is delinquent on the payment of tax on a residence homestead for payment of tax, penalties and interest, if the person requests an installment agreement and has not entered into an installment agreement with the collector in the preceding 24 months. The installment agreement must provide for payments to be made in monthly installments and must extend for a period of at least 12 months and no more than 36 months. Additionally, the owner of a residential homestead property who is (i) sixty-five (65) years of age or older, (ii) disabled, or (iii) a disabled veteran, is entitled by law to pay current taxes on a residential homestead in installments without penalty or to defer the payment of taxes during the time of ownership. In the instance of tax deferral, a tax lien remains on the property and interest continue to accrue during the period of deferral.

The Property Tax Code provides that the governing body of a taxing unit located within an area declared to be a disaster area by the governor of the State of Texas may authorize reappraisal of all property damaged in the disaster at its market value immediately after the disaster. For reappraised property, the taxes are pro-rated for the year in which the disaster occurred. The taxing unit assesses taxes prior to the date the disaster occurred based upon market value as of January 1 of that year. Beginning on the date of the disaster and for the remainder of the year, the taxing unit assesses taxes on the reappraised market value of the property.

Certain qualified taxpayers, including owners of residential homesteads, located within a natural disaster area and whose property has been damaged as a direct result of the disaster, are entitled to enter into a tax payment installment agreement with a taxing jurisdiction such as the District if the taxpayer 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.

District's Rights In The Event Of Tax Delinquencies

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

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

TAX DATA

General

Taxable property within the District is subject to the assessment, levy and collection by the District of a continuing direct, annual ad valorem tax, without legal limitation as to rate or amount, sufficient to pay principal of and interest on the Outstanding Bonds and the Bonds (and any future tax-supported bonds which may be issued from time to time as authorized). The Board covenants in the Bond Order to assess and levy for each year that all or any part of the Bonds remain outstanding and unpaid a tax ample and sufficient to produce funds to pay the principal of and interest on the Bonds. The actual rate of such tax will be determined from year to year as a function of the District's tax base, its debt service requirements and available funds. In addition, the District has the power and authority to assess, levy and collect ad valorem taxes, not to exceed \$0.25 per \$100 of assessed valuation without additional voter approval, for operation and maintenance purposes. The Board levied a 2018 tax rate of \$0.15 per \$100 of assessed valuation for operation and maintenance purposes and \$0.15 per \$100 of assessed valuation for debt service purposes.

Tax Rate Limitation

Debt Service:	Unlimited (no legal limit as to rate or amount)
Maintenance:	\$0.25 per \$100 Assessed Valuation

Historical Tax Collections

The following statement of tax collections reflects the historical tax collection experience of the District. Such summary has been prepared for inclusion herein based upon information from the records of the District Tax Assessor/Collector.

Tax Year	Assessed Valuation	Tax Rate/ \$100 (a)	Adjusted Tax Levy	Current Year	Period Ending 9/30	As of 8/31/18
2014	\$355,726,516	0.34	\$1,209,470	99.27	2015	99.86
2015	391,093,334	0.33	1,290,608	99.15	2016	99.87
2016	421,732,638	0.30	1,265,198	99.56	2017	99.86
2017	438,572,608	0.30	1,315,718	98.70	2018	98.70
2018	432,875,719	0.30	1,298,627	(b)	2019	(b)

(a) See "Tax Rate Distribution" below.

(b) In process of collection.

Tax Rate Distribution

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Debt Service	\$0.150	\$0.125	\$0.125	\$0.130	\$0.150
Maintenance	<u>0.150</u>	<u>0.175</u>	<u>0.175</u>	<u>0.200</u>	<u>0.190</u>
	<u>\$0.300</u>	<u>\$0.300</u>	<u>\$0.300</u>	<u>\$0.330</u>	<u>\$0.340</u>

Analysis of Tax Base

The following table illustrates the District's total taxable assessed value for tax years 2014-2018 by type of property.

Type of Property	2018 Taxable Assessed Valuation	2017 Taxable Assessed Valuation	2016 Taxable Assessed Valuation	2015 Taxable Assessed Valuation	2014 Taxable Assessed Valuation
Land	\$93,185,169	\$96,850,296	\$96,210,269	\$94,302,546	\$91,931,466
Improvements	406,582,127	418,772,024	406,601,203	394,932,510	336,004,740
Personal Property	11,441,073	14,464,108	15,851,966	15,990,839	15,560,575
Less: Exemptions	<u>(78,332,650)</u>	<u>(91,513,820)</u>	<u>(96,930,800)</u>	<u>(114,132,561)</u>	<u>(87,770,265)</u>
Total	<u>\$432,875,719</u>	<u>\$438,572,608</u>	<u>\$421,732,638</u>	<u>\$391,093,334</u>	<u>\$355,726,516</u>

Principal Taxpayers

The following represents the principal taxpayers, type of property, and their assessed values as of January 1, 2018:

Taxpayer	Type of Property	Assessed Valuation	% of Tax Roll
MBS-Cornerstone Ranch LTD	Land & Improvements	\$33,500,000	7.74%
SSS Highland Plaza LLC	Land & Improvements	13,799,160	3.19%
Y HR Mason Road Ptnrs LP	Land & Improvements	9,679,308	2.24%
Royal Montreal DST	Land & Improvements	7,700,121	1.78%
Dostovnian Hrant	Land & Improvements	5,264,341	1.22%
Public Storage Inc	Land & Improvements	4,208,450	0.97%
Boyert Shooting Center	Land & Improvements	4,029,771	0.93%
Tajian Fam Partnership LT	Land & Improvements	3,778,431	0.87%
Bellapalma LLC	Land & Improvements	2,563,443	0.59%
Homeowner	Land & Improvements	<u>2,236,110</u>	<u>0.52%</u>
Total		<u>\$86,759,135</u>	<u>20.04%</u>

Tax Rate Calculations

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 of Taxable Assessed Valuation that would be required to meet certain debt service requirements if no growth in the District occurs beyond the 2018 Certified Assessed Valuation (\$432,875,719). The foregoing further assumes collection of 95% of taxes levied and the sale of no additional bonds:

Average Annual Debt Service Requirements (2019-2026).....	\$623,324
Tax Rate of \$0.16 on the 2018 Certified Assessed Valuation at 95% collection produces	\$657,971
Maximum Annual Debt Service Requirement (2026).....	\$634,375
Tax Rate of \$0.16 on the 2018 Certified Assessed Valuation at 95% collection produces	\$657,971

Estimated Overlapping Taxes

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

Set forth below is a compilation of all 2018 taxes levied by such jurisdictions per \$100 of assessed valuation. Such levies do not include local assessments for community associations, fire department contributions, charges for solid waste disposal, or any other dues or charges made by entities other than political subdivisions.

<u>Taxing Jurisdiction</u>	<u>2018 Tax Rate Per \$100 of A.V.</u>	
	<u>Harris County</u>	<u>Fort Bend County</u>
The District	\$0.300000	\$0.300000
Fort Bend County	---	0.445000
Fort Bend County Drainage District	---	0.019000
Harris County	0.418580	---
Harris County Department of Education	0.005190	---
Harris County Flood Control District	0.028770	---
Harris County Hospital District	0.171080	---
Katy Independent School District	1.516600	1.516600
Port of Houston Authority	<u>0.012560</u>	---
Estimated Total Tax Rate	<u>\$2.452780</u>	<u>\$2.280600</u>

THE DISTRICT

General

The District is a limited-purpose political subdivision of the State of Texas operating as a municipal utility district pursuant to Article XVI, Section 59 of the Texas Constitution. The District was created by the Texas Water Commission (now the TCEQ) on February 23, 1978. The District is vested with all the rights, privileges, authority and functions conferred by the laws of the State of Texas applicable to municipal utility districts, including without limitation those conferred by Chapters 49 and 54, Texas Water Code, as amended. The District is empowered to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply of water; the collection, transportation and treatment of wastewater; and the control and diversion of storm water, among other things. The District may also provide solid waste collection and disposal service and operate and maintain recreational facilities. The District may purchase and operate park and recreational facilities within the District. The District may operate and maintain a fire department, independently or with one or more other conservation and reclamation districts, if approved by the voters and the TCEQ. The District does not operate and/or maintain a fire department. The District is subject to the continuing supervision of the TCEQ and is entirely within the extraterritorial jurisdiction of the City. The District also lies entirely within the boundaries of the Katy Independent School District.

Description

The District, a political subdivision of the State of Texas, is located within Harris and Fort Bend Counties, Texas, approximately 25 miles west of Houston's central business district. The District contains approximately 585 acres and is located within the Katy Independent School District and the ETJ of the City. Access to the District is afforded by Interstate Highway 10 and Mason Road.

Management of the District

The District is governed by a board of five directors which has control and management supervision over all affairs of the District. One director currently resides in the District, and four of the directors own property in the District. Directors are elected in even-numbered years for four-staggered terms. The present members and officers of the Board and their positions are listed below:

<u>Name</u>	<u>Position</u>	<u>Term Expires May</u>
Morgan Stagg	President	2022
Michael Chittwood	Vice President	2022
Virginia Lester	Secretary	2020
Stephen Talecki	Assistant Vice President	2020
Lionel Garza	Assistant Secretary	2020

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

Tax Assessor/Collector – The District’s Tax Assessor/Collector is Bob Leared Interests, Inc. Bob Leared Interests, Inc. serves more than 100 utility districts. The Tax Assessor/Collector applies the District’s tax levy to tax rolls prepared by the Harris County Appraisal District and the Fort Bend Central Appraisal District and bills and collects such levy.

Bookkeeper – The District’s contracts with Myrtle Cruz, Inc., for bookkeeping services.

Utility System Operator – The District’s operator is Si Environmental, LLC.

Auditor – The financial statements of the District as of September 30, 2017, and for the year then ended, included in this offering document, have been audited by BKD, LLP, independent auditors, as stated in their report appearing herein. A copy of the District’s financial statements for the fiscal year ended September 30, 2017, is included as “APPENDIX A” to this Official Statement. Such firm has been engaged to audit the financial statements of the District for the fiscal year ended September 30, 2018.

Engineer – The consulting engineer retained by the District in connection with the design and construction of the District’s facilities is IDS Engineering Group (the “Engineer”).

Legal Counsel – Young & Brooks (“Bond Counsel”) serves as bond counsel to the District. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered and, therefore, such fees are contingent on the sale and delivery of the Bonds. Young & Brooks also acts as general counsel for the District.

Financial Advisor – Robert W. Baird & Co. Incorporated serves as the District’s financial advisor (the “Financial Advisor”). The fee for services rendered in connection with the issuance of the Bonds is based on a percentage of the Bonds actually issued, sold and delivered and, therefore, such fee is contingent upon the sale and delivery of the Bonds.

PHOTOGRAPHS OF THE DISTRICT
(taken October 2018)



**AERIAL PHOTOGRAPH OF THE DISTRICT
(taken October 2018)**



DEVELOPMENT WITHIN THE DISTRICT

Approximately 280 acres of land (1,368 lots) within the District have been developed as the single-family residential subdivisions of Creekstone, Cornerstones Place, Chesterfield and North Lake Village. As of October 1, 2018, the District contained approximately 1,368 completed homes (1,358 occupied; 10 unoccupied). In addition, the District contains a 252-unit apartment complex located on approximately 14 acres. Approximately 52 acres have been developed for commercial reserves. Commercial development within the District includes an auto repair store, a daycare center, a 24-hour Fitness Center, a CVS Pharmacy, a Sonic Drive-in, a Mobile Car Care, a STORIT self-storage facility, an Auto Zone, a retail center, and two car washes. Additionally, the District contains an 18-hole golf course on approximately 90 acres. The remaining land within the District includes approximately 2.5 undeveloped but developable acres and 146.5 undevelopable acres. There is no current development activity within the District.

THE SYSTEM

Regulation

According to the Engineer, the District's water, sanitary sewer and drainage facilities (the "System") have been designed in accordance with accepted engineering practices and the requirements of all governmental agencies having regulatory or supervisory jurisdiction over the construction and operation of such facilities including, among others, the TCEQ, the City, Harris County and the Harris County Flood Control District. According to the District's Engineer, the design of all such facilities has been approved by all required governmental agencies, and the construction has been inspected by the TCEQ.

Operation of the System is subject to regulation by, among others, the United States Environmental Protection Agency and the TCEQ. In many cases, regulations promulgated by these agencies have become effective only recently and are subject to further development and revisions. The total number of connections currently estimated for full build out of the District's approximately 585 acres is 2,308 equivalent single-family connections ("ESFCs").

Description of the System

As stated under the caption "DEVELOPMENT WITHIN THE DISTRICT," the development of 1,368 single-family residential lots on approximately 280 acres within the District is complete. The District has financed the cost of construction of trunk underground water distribution and wastewater collection facilities to serve approximately 455 acres within the District. Certain components of the District's System are described below based upon information obtained from the District's Engineer.

-Water Supply and Distribution -

The District receives water directly from its own water well and plant facilities, which consists of a 1,500 gallons per minute ("gpm") water well ("Water Well No. 1"), 2-429,000 gallon storage tanks, 2-15,000 gallon hydropneumatic tanks with booster pumps, chlorination facilities and appurtenances. Water Well No.1 and the current plant facilities are adequate to serve 2,308 ESFCs, which is sufficient to serve the existing 1,761 ESFCs within the District. In addition, a second 1,500 gpm water well ("Water Well No. 2") is currently under construction and will provide a second source of water within the District boundaries. The District's Engineer anticipates that Water Well No. 2 will be completed by July 2019.

-Wastewater Treatment Facilities-

The District owns permanent capacity in the regional plant, the Cinco Regional Sewage Treatment Plant (the "Cinco Plan"), which was constructed by Memorial MUD and has a total capacity of 3 million gallons per day ("MGD"). The District has reserved capacity in the Cinco Plant of 1 MGD. According to the Engineer, 1 MGD is adequate to serve approximately 3,333 ESFCs, which is sufficient to serve the District's 1,761 ESFCs.

Subsidence and Conversion to Surface Water Supply

The District's water well is within the boundaries of the Fort Bend Subsidence District (the "Subsidence District"), which regulates groundwater withdrawal. Once completed, Water Well No. 2 will also be within the boundaries of the Subsidence District. The District's authority to pump groundwater is subject to an annual permit issued by the Subsidence District. The Subsidence District has adopted regulations requiring reduction

of groundwater withdrawals through conversion to alternate source water (e.g., surface water) in certain areas within the Subsidence District's jurisdiction, including the area within the District. In 2005, the Texas legislature created the North Fort Bend Water Authority (the "Authority") to, among other things, reduce groundwater usage in, and to provide surface water to, the northern portion of Fort Bend County (including the District) and a small portion of Harris County. The Authority has entered into a Water Supply Contract with the City to obtain treated surface water from the City which it then provides to the participating districts. The Authority has developed a groundwater reduction plan ("GRP") and obtained Subsidence District approval of its GRP. The Authority's GRP sets forth the Authority's plan to comply with Subsidence District regulations, construct surface water facilities, and convert users from groundwater to alternate source water (e.g., surface water). The District is included within the Authority's GRP.

The Authority, among other powers, has the power to: (i) issue debt supported by the revenues pledged for the payment of its obligations; (ii) establish fees (including fees imposed on the District for groundwater pumped by the District), user fees, rates, charges and special assessments as necessary to accomplish its purposes; and (iii) mandate water users, including the District, to convert from groundwater to surface water. The Authority currently charges the District, and other major groundwater users, \$3.35 per 1,000 gallons based on the amount of groundwater pumped. It is expected that the Authority will issue a substantial amount of bonds by the year 2025 to finance the Authority's project costs, and it is expected that the fees charged by the Authority will increase substantially over such period. The Authority has informed the District of its intent to increase the pumpage fee to \$3.65 per 1,000 gallons of groundwater pumped on January 1, 2019.

Under the Subsidence District regulations and the GRP, the Authority is required to: (i) limit groundwater withdrawals to no more than 70% of the total water demand of the water users within the Authority's GRP, beginning January 2013; and (ii) limit groundwater withdrawals to no more than 40% of the total water demand of the water users within the Authority's GRP, beginning January 2025. If the Authority fails to comply with the above Subsidence District regulations, the Authority is subject to a substantial disincentive fee penalty of \$6.50 per 1,000 gallons ("Disincentive Fees") imposed by the Subsidence District for any groundwater withdrawn in excess of 40% of the total water demand in the Authority's GRP. In the event of such Authority failure to comply, the Subsidence District may also seek to collect Disincentive Fees from the District. If the District failed to comply with surface water conversion requirements mandated by the Authority, the Authority would likely impose monetary or other penalties against the District.

The District cannot predict the amount or level of fees and charges, which may be due the Authority in the future, but anticipates the need to pass such fees through to its customers: (i) through higher water rates and/or (ii) with portions of maintenance tax proceeds, if any. In addition, conversion to surface water could necessitate improvements to the System which could require the issuance of additional bonds by the District. No representation is made that the Authority: (i) will build the necessary facilities to meet the requirements of the Subsidence District for conversion to surface water, (ii) will comply with the Subsidence District's surface water conversion requirements, or (iii) will comply with its GRP.

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Historical Operations of the System

The Bonds and the Outstanding Bonds are payable from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District. Net revenues, if any, derived from the operation of the District's water and sewer systems are not pledged to the payment of the Bonds and the Outstanding Bonds but are available for any lawful purpose including payment of debt service on the Bonds and the Outstanding Bonds, at the discretion and upon action of the Board. It is not anticipated that significant revenues, if any, will be available for the payment of debt service on the Bonds and the Outstanding Bonds.

The following statement sets forth in condensed form the historical results of operation of the District's System. Such summary has been prepared by the Financial Advisor for inclusion herein, based upon information obtained from the District's audited financial statements, for the fiscal years ended September 30, 2014 through 2017 and from an unaudited summary provided by the bookkeeper for the fiscal year ended September 30, 2018. Reference is made to such statement for further and more complete information. See "APPENDIX A."

	Fiscal Year Ended				
	2018 (a)	2017	2016	2015	2014
REVENUES					
Property taxes	\$764,360	\$737,483	\$767,032	\$682,981	\$634,546
Sales Tax Revenue	183,546	186,642	199,945	182,165	184,131
Water service	667,355	634,838	604,218	600,166	636,140
Sewer service	456,336	460,681	455,162	467,310	461,577
Regional Water Fee	727,681	681,618	590,545	516,978	491,125
Penalty and Interest	22,023	26,292	23,316	23,705	32,646
Tap connection and Inspection Fees	54,508	37,435	22,336	20,413	28,325
Investment Income	<u>39,598</u>	<u>20,366</u>	<u>12,114</u>	<u>9,434</u>	<u>9,101</u>
TOTAL REVENUES	\$2,915,407	\$2,785,355	\$2,674,668	\$2,503,152	\$2,477,591
EXPENDITURES					
Purchased Services	\$260,103	\$290,732	\$247,625	\$286,714	\$274,017
Regional Water Fees	794,411	750,157	641,109	561,126	709,992
Professional Services	125,162	137,356	135,725	132,620	122,807
Contracted Services	308,701	335,819	329,895	342,599	337,209
Utilities	91,860	81,041	78,875	88,584	109,286
Recreational Facilities	31,162	32,825	31,014	29,065	36,220
Repairs & Maintenance	257,988	303,666	317,497	312,795	256,035
Other Expenditures	103,070	75,519	72,122	69,754	75,902
Tap Connections	25,550	4,595	-	-	2,575
Capital Outlay	<u>577,346</u>	<u>677,566</u>	<u>226,362</u>	<u>352,081</u>	<u>1,394,716</u>
TOTAL EXPENDITURES	<u>\$2,575,354</u>	<u>\$2,689,276</u>	<u>\$2,080,224</u>	<u>\$2,175,338</u>	<u>\$3,318,759</u>
Excess Revenues (Expenditures)	\$340,053	\$96,079	\$594,444	\$327,814	\$(841,168)
Other Financing Sources (Uses)	-	-	-	-	41,982
Beginning Fund Balance	<u>\$3,359,403</u>	<u>\$3,263,324</u>	<u>\$2,668,880</u>	<u>\$2,341,066</u>	<u>\$3,140,252</u>
Ending Fund Balance	<u>\$3,699,456</u>	<u>\$3,359,403</u>	<u>\$3,263,324</u>	<u>\$2,668,880</u>	<u>\$2,341,066</u>
(a) Unaudited.					

INVESTMENT CONSIDERATIONS

General

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

Factors Affecting Taxable Values and Tax Payments

Economic Factors: The rate of development within the District is directly related to the vitality of the single-family housing industry in the Houston metropolitan area. New single-family construction can be significantly affected by factors such as interest rates, construction costs, and consumer demand. Decreased levels of such construction activity would restrict the growth of property values in the District. A further decline in the price of oil could adversely affect the demand for homes in the District as well as the value of existing homes. The District cannot predict the pace or magnitude of any future development in the District. See “DEVELOPMENT WITHIN THE DISTRICT.”

Dependence Upon Principal Taxpayers: The District’s tax base is concentrated in a small number of taxpayers. As reflected under the caption “TAX DATA – Principal Taxpayers,” the District’s ten principal taxpayers in 2018 owned property located in the District, the aggregate assessed valuation of which comprised approximately 20.04% of the District’s total assessed valuation. The District cannot represent that its tax base will in the future be (i) distributed among a significantly larger number of taxpayers, or (ii) less concentrated in property owned by a relatively small number of property owners, than it is currently. Failure by one or more of the District’s principal property owners to make full and timely payments of taxes due may have an adverse effect on the investment quality or security of the Bonds. If any one or more of the principal District taxpayers do not pay taxes due, the District might need to levy additional taxes or use other debt service funds available to meet its debt service requirements.

The District can make no representation that the taxable property values in the District will increase in the future or will maintain a value sufficient to support the proposed District tax rate or to justify continued payment of taxes by property owners.

Competition: The demand for and construction of taxable improvements in the District could be affected by competition from other developments near the District. In addition to competition for new single-family homes sales from other developments, there are numerous previously-owned single-family homes in more established neighborhoods closer to Houston that are for sale. Such existing developments could represent additional competition for new development and homebuilding proposed to be constructed within the District.

Maximum Impact on District Tax Rate: Assuming no further development within the District, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of property owners to pay their taxes. The 2018 Certified Assessed Valuation of property within the District (see “FINANCIAL STATEMENT”) is \$432,875,719. After issuance of the Bonds, the maximum annual debt service requirement will be \$634,375 (2026) and the average annual debt service requirement will be \$623,324 (2019 through 2026, inclusive). Assuming no increase or decrease from the 2018 Certified Assessed Valuation, a tax rate of \$0.16 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the maximum annual debt service requirement of \$634,375 and a tax rate of \$0.16 per \$100 assessed valuation at a 95%

collection rate would be necessary to pay the average annual debt service requirements of \$623,324 (see “DISTRICT DEBT – Pro-Forma Debt Service Requirements”).

The District can make no representation that the taxable property values in the District will increase in the future or will maintain a value sufficient to support the proposed District tax rate or to justify continued payment of taxes by property owners.

Increases in the District’s tax rate to rates substantially higher than the levels discussed above may have an adverse impact upon future development of the District, the sale and construction of property within the District, and the ability of the District to collect, and the willingness of owners of property located within the District to pay ad valorem taxes levied by the District.

Potential Impact of Natural Disaster

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 District is located approximately 80 miles from the Texas Gulf Coast and has been and could again be impacted by high winds, heavy rains, and flooding caused by a hurricane, tornado, tropical storm, or other adverse weather event. See “TAXING PROCEDURES – Property Tax Code and County-Wide Appraisal District” and “– Valuation of Property for Taxation.”

Hurricane Harvey

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 (“Harvey”), which made landfall along the Texas Gulf Coast on August 26, 2017, and brought historic levels of rainfall during the successive four days.

During Harvey, land within the District sustained flooding due to historic rainfalls. According to IDS Engineering Group (the “Engineer”), the District’s water and sewer system operated without interruption throughout the event. According to the Engineer, the flood waters caused structural flooding of approximately 90 occupied homes within the District during Harvey. The District’s facilities are designed and constructed above the 100-year flood plain in accordance with all regulatory requirements. However, the District cannot predict if flooding were to occur in the event of another historic rain event that exceeded a 100-year event.

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 in 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.

Tax Collections Limitations

The District’s ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other state and local taxing authorities on the property against which taxes are levied, and such lien may be enforced by foreclosure. The District’s ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time-consuming and expensive collection procedures, (b) a bankruptcy court’s stay of tax collection procedures against a taxpayer, (c) market conditions limiting the proceeds from a foreclosure sale of taxable property, or (d) the taxpayer’s right to redeem the property within two years of foreclosure for residential homestead and agricultural use property and within six (6) months of foreclosure for other property. While the District has a lien on taxable property within the District for taxes levied against such property, such lien can be foreclosed only in a

judicial proceeding. Moreover, the value of property to be sold for delinquent taxes and thereby the potential sales proceeds available to pay debt service on the Bonds, may be limited by among other factors, the existence of other tax liens on the property, by the current aggregate tax rate being levied against the property, or by the taxpayers' right to redeem residential or agricultural use property within two (2) years of foreclosure and all other property within six (6) months of foreclosure. Finally, a bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes assessed against such taxpayer. See "TAXING PROCEDURES."

Registered Owners' Remedies and Bankruptcy

In the event of default in the payment of principal of or interest on the Bonds, the Registered Owners of the Bonds have a right to seek a writ of mandamus requiring the District to levy sufficient taxes each year to make such payments. Except for mandamus, the Bond 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. Although the Registered Owners could obtain a judgment against the District, such a judgment could not be enforced by a direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District in order to pay the principal of and interest on the Bonds. Since there is no trust indenture or trustee, the Registered Owners would have to initiate and finance the legal process to enforce their remedies. The enforceability of the rights and remedies of the Registered Owners may be limited further by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. In this regard, should the District file a petition for protection from creditors under federal bankruptcy laws, the remedy of mandamus or the right of the District to seek judicial foreclosure of its tax lien would be automatically stayed and could not be pursued unless authorized by a federal bankruptcy judge. See "THE BONDS - Bankruptcy Limitation to Registered Owners' Rights."

Environmental Regulations

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

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

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

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

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

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. 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 utility districts may discharge may have an impact on the utility district’s ability to obtain and maintain TPDES permits.

Operations of utility districts are also potentially subject to numerous stormwater discharge permitting requirements under the CWA, EPA and TCEQ regulations. The TCEQ reissued the Texas Pollutant Discharge Elimination System Construction General Permit (TXR150000) on February 7, 2018. The permit became effective on March 5, 2018, and is a general permit authorizing the discharge of stormwater runoff associated with small and large construction sites and certain non-stormwater discharges into surface water in the state.

The TCEQ renewed the General Permit (TXR040000) for Phase II (Small) Municipal Separate Storm Sewer Systems (the “MS4 Permit”) on December 13, 2013. The MS4 Permit authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems (“MS4s”). The MS4 Permit, as renewed on December 13, 2013, impacts a much greater number of MS4s than those subject to the prior general permit and contains more stringent requirements than the standards contained in the prior permit. The MS4 Permit dated effective December 13, 2013, expires on December 13, 2018, and, upon subsequent renewal by the TCEQ, the renewed form of general permit may again impact additional MS4s and impose more stringent requirements. Although the District is not subject to the MS4 Permit issued on December 13, 2013, should the District be required to obtain coverage under a renewed form of general permit in the future, then the District could incur substantial costs to develop and implement the required plans as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff in order to comply with the requirements of a renewed form of general permit authorizing discharge of stormwater from MS4s.

Operations of utility districts, including the District, are also potentially subject to requirements and restrictions under the Clean Water Act regarding the use and alteration of wetland areas that are within the “waters of the United States.” The District must obtain a permit from the U.S. Army Corps of Engineers if operations of the District require that wetlands be filled, dredged, or otherwise altered.

Future Debt

Following the issuance of the Bonds, the District will have \$3,280,000 principal amount remaining in authorized but unissued unlimited tax bonds for the purpose of acquiring or constructing the System and \$4,210,000 principal amount remaining in authorized but unissued unlimited tax bonds to refund such bonds. The District reserves in the Bond Order the right to issue the remaining authorized but unissued bonds plus such additional bonds as may hereafter be authorized by voters in the District. In addition, the District has the right to issue obligations, other than the Bonds, including tax anticipation notes and bond anticipation notes, and to borrow money for any valid public purpose. The issuance of additional obligations may increase the District’s tax rate and adversely affect the security for and the investment quality and value of the Bonds. The issuance of additional bonds is also subject to TCEQ authorization. See “THE DISTRICT – Issuance of Additional Debt.”

Additional tax bonds may be authorized by District’s voters in the future. The Board is further empowered to borrow money for any lawful purpose and pledge the revenues of the waterworks and sewer system therefor and to issue bond anticipation notes and tax anticipation notes.

Marketability of the Bonds

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

Bankruptcy Limitation to Registered Owners' Rights

Subject to the requirements of Texas law, the District may voluntarily proceed under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. Sections 901-946. Under Texas law, the District must obtain the approval of the TCEQ prior to filing bankruptcy. The rights and remedies of the Registered Owners could be adjusted in accordance with the confirmed plan of adjustment of the District's debt. The District may not be placed into bankruptcy involuntarily. See "THE BONDS – Bankruptcy Limitation to Registered Owner's Rights."

Continuing Compliance with Certain Covenants

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

Approval of the Bonds

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

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 tax purposes. Any proposed legislation, whether or not enacted, may also affect the value and liquidity of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed, pending or future legislation.

Bond Insurance Risk Factors

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

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

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

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

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

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

LEGAL MATTERS

Legal Opinions

The District will furnish the Initial Purchaser a transcript of certain certified proceedings incident to the authorization and issuance of the Bonds. Such transcript will include a certified copy of the approving opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Bonds are valid and binding obligations of the District. The District also will furnish the approving legal opinion of Young & Brooks, Houston, Texas, Bond Counsel ("Bond Counsel"), to the effect that, based upon an examination of such transcript, the Bonds are valid and binding obligations of the District under the Constitution and laws of the State of Texas. The legal opinion of Bond Counsel will further state that the Bonds, including principal of and interest thereon, are payable from the levy of ad valorem taxes, without legal limitation as to rate or amount, upon all taxable property located within the District. See "THE BONDS - Source of Payment." Bond Counsel's opinion will also address the matters described below under "TAX MATTERS."

In its capacity as Bond Counsel, Young & Brooks has reviewed the information appearing in this Official Statement under the captions "THE BONDS" (except for the subsection "Book-Entry-Only System"), "TAXING PROCEDURES," "THE DISTRICT - Management of the District - Legal Counsel", "LEGAL MATTERS - Legal Opinions", "TAX MATTERS" and "CONTINUING DISCLOSURE OF INFORMATION" (except for the subsection "Compliance with Prior Undertakings") to determine whether such information fairly summarizes the procedures, law and documents referred to therein. Bond Counsel has not, however, independently verified any of the other factual information contained in this Official Statement nor have they conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to the accuracy or completeness of any of the information contained herein. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered and, therefore, such fees are contingent on the sale and delivery of the Bonds. Bond Counsel acts as general counsel for the District on matters other than the issuance of bonds. Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the District described above. No ruling has been sought from the Internal Revenue Service (the "Service") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on tax-exempt obligations. If an audit of the Bonds is commenced, under current procedures the Service is likely to treat the District as the "taxpayer," and the Registered Owners would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the District may have different or conflicting interests from the Registered Owners. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

No Arbitrage

The District will certify on the date the Bonds are delivered and paid for that based upon all facts and estimates now known or reasonably expected to be in existence, the District reasonably expects that the

proceeds of the Bonds will not be used in a manner that would cause the Bonds, or any portion of the Bonds, to be “arbitrage bonds” under Section 148 of the Internal Revenue Code of 1986, as amended (the “Code”), and the regulations prescribed from time to time thereunder. Furthermore, all officers, employees and agents of the District have been authorized and directed to provide certifications of facts and estimates that are material to the reasonable expectations of the District as of the date the Bonds are delivered and paid for. In particular, all or any officers of the District have been authorized to certify to the facts, circumstances and reasonable expectations of the District on the date the Bonds are delivered and paid for regarding the amount and use of the proceeds of the Bonds. Moreover, the District will covenant in the Bond Order that it will make such use of the proceeds of the Bonds, regulate investments of proceeds of the Bonds and take such other and further actions and follow such procedures, including without limitation, calculation of the yield on the Bonds, as may be required so that the Bonds will not become “arbitrage bonds” under the Code and the regulations prescribed from time to time thereunder.

No-Litigation Certificate

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

No Material Adverse Change

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

TAX MATTERS

Opinion

On the date of initial delivery of the Bonds, Young & Brooks, Houston, Texas, Bond Counsel, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof (“Existing Law”), (1) interest on the Bonds for federal income tax purposes will be excludable from the “gross income” of the holders thereof and (2) the Bonds will not be treated as “specified private activity bonds” the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the “Code”). Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds.

In rendering its opinion, Bond Counsel will rely upon (a) certain information and representations of the District, including information and representations contained in the District's federal tax certificate, and (b) covenants of the District contained in the Bond documents relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the property financed or refinanced therewith. Failure by the District to comply with the aforementioned representations or covenants could cause the interest on the Bonds to become includable in gross income retroactively to the date of issuance.

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

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinion is not a

guarantee of a result. The Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that such Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds.

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

Federal Income Tax Accounting Treatment of Original Issue Discount

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

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

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

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

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

Collateral Federal Income Tax Consequences

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on existing statutes,

regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

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

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

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

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

State, Local and Foreign Taxes

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

Information Reporting and Backup Withholding

Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Bonds will be sent to each registered holder and to the Internal Revenue Service. Payments of interest and principal may be subject to backup withholding under section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates, and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

Qualified Tax-Exempt Obligations for Financial Institutions

Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer's taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a "financial institution" allocable to tax-exempt obligations, other than "private activity bonds," that are designated by a "qualified small issuer" as "qualified tax-exempt obligations." A "qualified small issuer" is any governmental issuer (together with any "on-behalf of" and "subordinate" issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of

the Code defines the term “financial institution” as any “bank” described in Section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to “qualified tax-exempt obligations” provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a “bank,” as defined in Section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase “qualified tax-exempt obligations” shall be reduced by twenty-percent (20%) as a “financial institution preference item.”

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

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

The District will provide certain updated financial information and operating data to the MSRB annually.

The information and operating data which will be provided with respect to the District is found in APPENDIX A – Audited Financial Statements of the District. The District will update and provide this information to EMMA within six (6) months after the end of each fiscal years ending in or after 2018. Any information so provided shall be prepared in accordance with generally accepted accounting principles or other such principles as the District may be required to employ from time to time pursuant to state law or regulation, and audited if the audit report is completed within the period during which it must be provided. If the audit report is not complete within such period, then the District shall provide unaudited financial statements for the applicable fiscal year to the MSRB within such six month period, and audited financial statements when the audit report becomes available.

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

Event Notices

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non- payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other events affecting the tax- exempt status of the Bonds; (7) modifications to rights of Beneficial Owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale or 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 SEC Rule 15c2-12; (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of SEC Rule 15c2-12 or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of SEC Rule 15c2-12, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material to a decision to purchase or sell Bonds. The term “material” when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Order makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under “Annual Reports.”

Availability of Information from EMMA

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 the EMMA internet portal at www.emma.msrb.org.

Limitations and Amendments

The District has agreed to update information and to provide notices of specified events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders or Beneficial Owners of the 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 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 SEC Rule 15c2-12, taking into account any amendments or interpretations of SEC Rule 15c2-12 to the date of such amendment, as well as such changed circumstances, and either the holders 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 holders 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 SEC Rule 15c2-12 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 Initial Purchaser from lawfully purchasing the Bonds in the initial offering. If the District amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described under “Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance with Prior Undertakings

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

SOURCES OF INFORMATION

General

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

Experts

The information contained in this Official Statement relating to engineering and to the description of the System generally and, in particular, the engineering information included in the sections captioned "THE DISTRICT" and "THE SYSTEM" has been provided by the Engineer and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

The information contained in this Official Statement relating to assessed valuations of property generally and, in particular, that information concerning valuations, analysis of the tax base and percentages of tax collections contained in the sections captioned "TAX DATA" has been provided by the Harris County Appraisal District, the Fort Bend Central Appraisal District and the District's Tax Assessor/Collector, and has been included herein in reliance upon the authority of such parties as experts in the field of tax assessing and collecting.

Updating of Official Statement

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

Certification as to Official Statement

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

Concluding Statement

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

This Official Statements was approved by the Board of Directors of Cornerstones Municipal Utility District as of the date shown on the first page thereof.

/s/ Morgan Stagg
President, Board of Directors
Cornerstones Municipal Utility District

ATTEST:

/s/ Virginia Lester
Secretary, Board of Directors
Cornerstones Municipal Utility District

APPENDIX A
AUDITED FINANCIAL STATEMENTS OF THE DISTRICT

Cornerstones Municipal Utility District

Fort Bend and Harris Counties, Texas

Independent Auditor's Report and Financial Statements

September 30, 2017



Cornerstones Municipal Utility District

September 30, 2017

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Independent Auditor's Report

Board of Directors
Cornerstones Municipal Utility District
Harris and Fort Bend Counties, Texas

We have audited the accompanying financial statements of the governmental activities of Cornerstones Municipal Utility District (the District), which are comprised of a statement of net position as of September 30, 2017, and a statement of activities for the year then ended; as well as the accompanying financial statements of each major fund, which for governmental funds are comprised of a balance sheet as of September 30, 2017, and a statement of revenues, expenditures and changes in fund balances for the year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of the District as of September 30, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the basic financial statements as a whole. The accompanying other information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Houston, Texas
February 4, 2018

Cornerstones Municipal Utility District

Management's Discussion and Analysis

September 30, 2017

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to financial statements. This report also contains supplementary information required by the Governmental Accounting Standards Board and other information required by the District's state oversight agency, the Texas Commission on Environmental Quality (the Commission).

In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program, such as the provision of water, sanitary sewer and drainage services. Other activities, such as the provision of recreation facilities and solid waste collection, are minor activities and are not budgeted or accounted for as separate programs. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented on the left side of the statements, a column for adjustments is to the right of the fund financial statements and the government-wide financial statements are presented to the right side of the adjustments column. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

Government-wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the District. The District's government-wide financial statements include the statement of net position and statement of activities, which are prepared using accounting principles that are similar to commercial enterprises. The purpose of the statement of net position is to attempt to report all of the assets, liabilities, and deferred inflows and outflows of resources of the District. The District reports all of its assets when it acquires or begins to maintain the assets and reports all of its liabilities when they are incurred.

The difference between the District's assets, liabilities, and deferred inflows and outflows of resources is labeled as net position and this difference is similar to the total stockholders' equity presented by a commercial enterprise.

The purpose of the statement of activities is to present the revenues and expenses of the District. Again, the items presented on the statement of activities are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied and expenses are reported when incurred by the District. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues are reported even when they may not be collected for several months or years after the end of the accounting period and expenses are recorded even though they may not have used cash during the current year.

Cornerstones Municipal Utility District

Management's Discussion and Analysis (Continued)

September 30, 2017

Although the statement of activities looks different from a commercial enterprise's statement of income, the financial statement is different only in format, not substance. Whereas the bottom line in a commercial enterprise is its net income, the District reports an amount described as change in net position, essentially the same thing.

Fund Financial Statements

Unlike government-wide financial statements, the focus of fund financial statements is directed to specific activities of the District rather than the District as a whole. Except for the general fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties or governmental statutes or regulations.

Governmental Funds

Governmental-fund financial statements consist of a balance sheet and a statement of revenues, expenditures and changes in fund balances and are prepared on an accounting basis that is significantly different from that used to prepare the government-wide financial statements.

In general, these financial statements have a short-term emphasis and, for the most part, measure and account for cash and other assets that can easily be converted into cash. For example, amounts reported on the balance sheet include items such as cash and receivables collectible within a very short period of time, but do not include capital assets such as land and water, sewer and drainage systems. Fund liabilities include amounts that are to be paid within a very short period after the end of the fiscal year. The difference between a fund's assets, liabilities, and deferred inflows and outflows of resources is labeled the fund balance and generally indicates the amount that can be used to finance the next fiscal year's activities. Likewise, the operating statement for governmental funds reports only those revenues and expenditures that were collected in cash or paid with cash, respectively, during the current period or very shortly after the end of the fiscal year.

Because the focus of the government-wide and fund financial statements is different, there are significant differences between the totals presented in these financial statements. For this reason, there is an analysis in the notes to financial statements that describes the adjustments to fund balances to arrive at net position presented in the governmental activities column on the statement of net position. Also, there is an analysis in the notes to financial statements that reconciles the total change in fund balances for all governmental funds to the change in net position, as reported in the governmental activities column in the statement of activities.

Notes to Financial Statements

The notes to financial statements provide additional information that is essential to a full understanding of the data found in the government-wide and fund financial statements.

Cornerstones Municipal Utility District
Management's Discussion and Analysis (Continued)
September 30, 2017

Financial Analysis of the District as a Whole

The District's overall financial position and activities for the past two years are summarized as follows, based on the information included in the government-wide financial statements.

Summary of Net Position

	2017	2016
Current and other assets	\$ 3,888,788	\$ 3,701,596
Capital assets	7,104,887	7,181,743
Total assets	10,993,675	10,883,339
Deferred outflows of resources	3,434	4,141
Total assets and deferred outflows of resources	\$ 10,997,109	\$ 10,887,480
Long-term liabilities	\$ 1,884,741	\$ 2,347,785
Other liabilities	306,555	214,729
Total liabilities	2,191,296	2,562,514
Net position:		
Net investment in capital assets	5,223,580	4,838,099
Restricted	194,432	194,038
Unrestricted	3,387,801	3,292,829
Total net position	\$ 8,805,813	\$ 8,324,966

The total net position of the District increased by \$480,847, or about 6 percent. The majority of the increase in net position is related to tax revenues intended to pay principal on the District's bonded indebtedness, which is shown as long-term liabilities in the government-wide financial statements.

Cornerstones Municipal Utility District
Management's Discussion and Analysis (Continued)
September 30, 2017

Summary of Changes in Net Position

	2017	2016
Revenues:		
Property taxes	\$ 1,263,178	\$ 1,263,756
Sales tax rebates	185,893	199,530
Charges for services	1,777,137	1,649,925
Other revenues	109,491	71,686
Total revenues	3,335,699	3,184,897
Expenses:		
Services	2,442,410	1,975,043
Depreciation	371,241	362,348
Debt service	41,201	62,475
Total expenses	2,854,852	2,399,866
Change in net position	480,847	785,031
Net position, beginning of year	8,324,966	7,539,935
Net position, end of year	\$ 8,805,813	\$ 8,324,966

Financial Analysis of the District's Funds

The District's combined fund balances as of the end of the fiscal year ended September 30, 2017, were \$3,532,252, an increase of \$97,288 from the prior year.

The general fund's fund balance increased by \$96,079 due to service, sales tax rebate and property tax revenues exceeding service operations and capital outlay expenditures.

The debt service fund's fund balance increased by \$1,209 due to property tax revenues exceeding principal and interest requirements.

Cornerstones Municipal Utility District
Management's Discussion and Analysis (Continued)
September 30, 2017

General Fund Budgetary Highlights

There were several differences between the final budgetary amounts and actual amounts. The major differences between budget and actual were due to water revenues, capital outlay and professional fees expenditures being lower than anticipated and regional water authority fees being greater than anticipated. In addition, sales tax rebates revenues were not budgeted. The fund balance as of September 30, 2017, was expected to be \$2,924,024 and the actual end-of-year fund balance was \$3,359,403.

Capital Assets and Related Debt

Capital Assets

Capital assets held by the District at the end of the current and previous fiscal years are summarized below:

Capital Assets (Net of Accumulated Depreciation)

	2017	2016
Land and improvements	\$ 460,190	\$ 460,190
Construction in progress	280,546	164,036
Water facilities	1,974,400	2,086,191
Wastewater facilities	3,339,160	3,347,511
Drainage facilities	1,050,591	1,123,815
Total capital assets	\$ 7,104,887	\$ 7,181,743

During the current year, additions to capital assets were as follows:

Construction in progress related to sanitary sewer cleaning and televising, Phase 2, water well No. 2, and well No. 2 discharge line	\$ 169,423
Sanitary sewer rehabilitation, Phase 1	128,212
Total additions to capital assets	\$ 297,635

Debt

The changes in the debt position of the District during the fiscal year ended September 30, 2017, are summarized as follows.

Cornerstones Municipal Utility District
Management's Discussion and Analysis (Continued)
September 30, 2017

Long-term debt payable, beginning of year	\$	2,347,785
Decreases in long-term debt		<u>(463,044)</u>
Long-term debt payable, end of year	\$	<u>1,884,741</u>

At September 30, 2017, the District had \$6,465,000 of unlimited tax bonds authorized, but unissued, for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District and \$4,210,000 authorized, but unissued, for refunding purposes.

The District's bonds carry an underlying rating of "A+" by Standard & Poor's. The Series 2011 refunding bonds carry a "AA" rating by virtue of insurance issued by Assured Guaranty Municipal Corp.

Other Relevant Factors

Relationship to the City of Houston

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston (the City), the District must conform to the City ordinance consenting to the creation of the District. In addition, the District may be annexed by the City without the District's consent, except as set forth below.

Strategic Partnership Agreement

Effective May 14, 2013, the District entered into a Strategic Partnership Agreement (the Agreement) with the City, which annexed certain portions of the District into the City for "limited purposes," as described therein. Under the terms of the Agreement, the City has agreed it will not annex the District as a whole for full purposes for 30 years following the date of the Agreement, at which time the City has the option to annex the District if it chooses to do so.

Cornerstones Municipal Utility District
Statement of Net Position and Governmental Funds Balance Sheet
September 30, 2017

	General Fund	Debt Service Fund	Total	Adjustments	Statement of Net Position
Assets					
Cash	\$ 771,930	\$ 62,750	\$ 834,680	\$ -	\$ 834,680
Certificates of deposit	586,894	-	586,894	-	586,894
Short-term investments	2,099,127	104,564	2,203,691	-	2,203,691
Receivables:					
Property taxes	12,603	10,240	22,843	-	22,843
Service accounts	149,733	-	149,733	-	149,733
Sales tax rebates	27,649	-	27,649	15,795	43,444
Accrued penalty and interest	-	-	-	11,343	11,343
Accrued interest	2,218	-	2,218	-	2,218
Interfund receivable	-	7,342	7,342	(7,342)	-
Operating reserve	30,000	-	30,000	-	30,000
Prepaid expenditures	3,942	-	3,942	-	3,942
Capital assets (net of accumulated depreciation):					
Land and improvements	-	-	-	460,190	460,190
Construction in progress	-	-	-	280,546	280,546
Infrastructure	-	-	-	6,364,151	6,364,151
Total assets	3,684,096	184,896	3,868,992	7,124,683	10,993,675
Deferred Outflows of Resources					
Deferred amount on debt refundings	0	0	0	3,434	3,434
Total assets and deferred outflows of resources	\$ 3,684,096	\$ 184,896	\$ 3,868,992	\$ 7,128,117	\$ 10,997,109

Cornerstones Municipal Utility District
Statement of Net Position and Governmental Funds Balance Sheet (Continued)
September 30, 2017

	General Fund	Debt Service Fund	Total	Adjustments	Statement of Net Position
Liabilities					
Accounts payable	\$ 248,254	\$ 1,807	\$ 250,061	\$ -	\$ 250,061
Customer deposits	48,100	-	48,100	-	48,100
Retainage payable	4,494	-	4,494	-	4,494
Due to others	3,900	-	3,900	-	3,900
Interfund payable	7,342	-	7,342	(7,342)	-
Long-term liabilities:					
Due within one year	-	-	-	450,000	450,000
Due after one year	-	-	-	1,434,741	1,434,741
Total liabilities	312,090	1,807	313,897	1,877,399	2,191,296
Deferred Inflows of Resources					
Deferred property tax revenues	12,603	10,240	22,843	(22,843)	0
Fund Balances/Net Position					
Fund balances:					
Nonspendable, prepaid expenditures	3,942	-	3,942	(3,942)	-
Restricted, unlimited tax bonds	-	172,849	172,849	(172,849)	-
Assigned:					
Operating reserve	30,000	-	30,000	(30,000)	-
Future expenditures	3,149,800	-	3,149,800	(3,149,800)	-
Unassigned	175,661	-	175,661	(175,661)	-
Total fund balances	3,359,403	172,849	3,532,252	(3,532,252)	0
Total liabilities, deferred inflows of resources and fund balances	\$ 3,684,096	\$ 184,896	\$ 3,868,992		
Net position:					
Net investment in capital assets				5,223,580	5,223,580
Restricted for debt service				194,432	194,432
Unrestricted				3,387,801	3,387,801
Total net position				\$ 8,805,813	\$ 8,805,813

Cornerstones Municipal Utility District
Statement of Activities and Governmental Funds Revenues,
Expenditures and Changes in Fund Balances
Year Ended September 30, 2017

	General Fund	Debt Service Fund	Total	Adjustments	Statement of Activities
Revenues					
Property taxes	\$ 737,483	\$ 526,610	\$ 1,264,093	\$ (915)	\$ 1,263,178
Sales tax rebates	186,642	-	186,642	(749)	185,893
Water service	634,838	-	634,838	-	634,838
Sewer service	460,681	-	460,681	-	460,681
Regional water fee	681,618	-	681,618	-	681,618
Penalty and interest	26,292	20,874	47,166	(258)	46,908
Tap connection and inspection fees	37,435	-	37,435	-	37,435
Investment income	20,366	2,806	23,172	-	23,172
Contractual payment	-	1,976	1,976	-	1,976
	<u>2,785,355</u>	<u>552,266</u>	<u>3,337,621</u>	<u>(1,922)</u>	<u>3,335,699</u>
Expenditures/Expenses					
Service operations:					
Purchased services	290,732	-	290,732	-	290,732
Regional water fee	750,157	-	750,157	-	750,157
Professional fees	137,356	3,478	140,834	-	140,834
Contracted services	335,819	29,877	365,696	-	365,696
Utilities	81,041	-	81,041	-	81,041
Recreational facilities	32,825	-	32,825	-	32,825
Repairs and maintenance	303,666	-	303,666	385,393	689,059
Other expenditures	75,519	6,952	82,471	5,000	87,471
Tap connections	4,595	-	4,595	-	4,595
Capital outlay	677,566	-	677,566	(677,566)	-
Depreciation	-	-	-	371,241	371,241
Debt service:					
Principal retirement	-	425,000	425,000	(425,000)	-
Interest and fees	-	85,750	85,750	(44,549)	41,201
	<u>2,689,276</u>	<u>551,057</u>	<u>3,240,333</u>	<u>(385,481)</u>	<u>2,854,852</u>
Excess of Revenues Over Expenditures	96,079	1,209	97,288	(97,288)	
Change in Net Position				480,847	480,847
Fund Balances/Net Position					
Beginning of year	3,263,324	171,640	3,434,964	-	8,324,966
End of year	<u>\$ 3,359,403</u>	<u>\$ 172,849</u>	<u>\$ 3,532,252</u>	<u>\$ 0</u>	<u>\$ 8,805,813</u>

Cornerstones Municipal Utility District

Notes to Financial Statements

September 30, 2017

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Cornerstones Municipal Utility District (the District) was created by an order of the Texas Water Rights Commission, now known as the Texas Commission on Environmental Quality (the Commission), effective February 23, 1978, in accordance with the Texas Water Code, Chapter 54. The District operates in accordance with Chapters 49 and 54 of the Texas Water Code and is subject to the continuing supervision of the Commission. The principal functions of the District are to finance, construct, own and operate waterworks, wastewater and drainage facilities and to provide such facilities and services to the customers of the District. The District also provides solid waste disposal service.

The District is governed by a Board of Directors (the Board) consisting of five individuals who are residents or owners of property within the District and are elected by voters within the District. The Board sets the policies of the District. The accounting and reporting policies of the District conform to accounting principles generally accepted in the United States of America for state and local governments, as defined by the Governmental Accounting Standards Board. The following is a summary of the significant accounting and reporting policies of the District:

Reporting Entity

The accompanying government-wide financial statements present the financial statements of the District. There are no component units that are legally separate entities for which the District is considered to be financially accountable. Accountability is defined as the District's substantive appointment of the voting majority of the component unit's governing board. Furthermore, to be financially accountable, the District must be able to impose its will upon the component unit or there must be a possibility that the component unit may provide specific financial benefits to, or impose specific financial burdens on, the District.

Government-wide and Fund Financial Statements

In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program, such as the provision of water, wastewater, drainage and other related services. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented with a column for adjustments to convert to the government-wide financial statements.

The government-wide financial statements report information on all of the activities of the District. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Governmental activities generally are financed through taxes, charges for services and intergovernmental revenues. The statement of activities reflects the revenues and expenses of the District.

Cornerstones Municipal Utility District

Notes to Financial Statements

September 30, 2017

The fund financial statements provide information about the District's governmental funds. Separate statements for each governmental fund are presented. The emphasis of fund financial statements is directed to specific activities of the District.

The District presents the following major governmental funds:

General Fund – The general fund is the primary operating fund of the District which accounts for all financial resources not accounted for in another fund. Revenues are derived primarily from property taxes, charges for services and interest income.

Debt Service Fund – The debt service fund is used to account for financial resources that are restricted, committed or assigned to expenditures for principal and interest related costs, as well as the financial resources being accumulated for future debt service.

Fund Balances – Governmental Funds

The fund balances for the District's governmental funds can be displayed in up to five components:

Nonspendable – Amounts that are not in a spendable form or are required to be maintained intact.

Restricted – Amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.

Committed – Amounts that can be used only for the specific purposes determined by resolution of the Board. Commitments may be changed or lifted only by issuance of a resolution by the District's Board.

Assigned – Amounts intended to be used by the District for specific purposes as determined by management. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

Unassigned – The residual classification for the general fund and includes all amounts not contained in the other classifications.

The District considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. The District applies committed amounts first, followed by assigned amounts, and then unassigned amounts when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Cornerstones Municipal Utility District

Notes to Financial Statements

September 30, 2017

Measurement Focus and Basis of Accounting

Government-wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Nonexchange transactions, in which the District receives (or gives) value without directly giving (or receiving) equal value in exchange, include property taxes and donations. Recognition standards are based on the characteristics and classes of nonexchange transactions. Revenues from property taxes are recognized in the period for which the taxes are levied. Intergovernmental revenues are recognized as revenues, net of estimated refunds and uncollectible amounts, in the accounting period when an enforceable legal claim to the assets arises and the use of resources is required or is first permitted. Donations are recognized as revenues, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met. Amounts received before all eligibility requirements have been met are reported as liabilities.

Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and liabilities are generally included on the balance sheet. The statement of governmental funds revenues, expenditures and changes in fund balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in spendable resources. General capital asset acquisitions are reported as expenditures and proceeds of long-term debt are reported as other financing sources. Under the modified accrual basis of accounting, revenues are recognized when both measurable and available. The District considers revenues reported in the governmental funds to be available if they are collectible within 60 days after year-end. Principal revenue sources considered susceptible to accrual include taxes, charges for services and investment income. Other revenues are considered to be measurable and available only when cash is received by the District. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, which are recognized as expenditures when payment is due.

Deferred Outflows and Inflows of Resources

A deferred outflow of resources is a consumption of net position that is applicable to a future reporting period and a deferred inflow of resources is an acquisition of net position that is applicable to a future reporting period.

Cornerstones Municipal Utility District

Notes to Financial Statements

September 30, 2017

Interfund Transactions

Transfers from one fund to another fund are reported as interfund receivables and payables if there is intent to repay the amount and if there is the ability to repay the advance on a timely basis.

Operating transfers represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

Pension Costs

The District does not participate in a pension plan and, therefore, has no pension costs.

Use of Estimates

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

Investments and Investment Income

Investments in certificates of deposit, mutual funds, U.S. Government and agency securities, and certain pooled funds, which have a remaining maturity of one year or less at the date of purchase, are recorded at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market values.

Investment income includes dividends and interest income and the net change for the year in the fair value of investments carried at fair value. Investment income is credited to the fund in which the investment is recorded.

Property Taxes

An appraisal district annually prepares appraisal records listing all property within the District and the appraised value of each parcel or item as of January 1. Additionally, on January 1, a tax lien attaches to property to secure the payment of all taxes, penalty and interest ultimately imposed for the year on the property. After the District receives its certified appraisal roll from the appraisal district, the rate of taxation is set by the Board of the District based upon the aggregate appraisal value. Taxes are due and payable October 1 or when billed, whichever is later, and become delinquent after January 31 of the following year.

Cornerstones Municipal Utility District
Notes to Financial Statements
September 30, 2017

In the governmental funds, property taxes are initially recorded as receivables and deferred inflows of resources at the time the tax levy is billed. Revenues recognized during the fiscal year ended September 30, 2017, include collections during the current period or within 60 days of year-end related to the 2016 and prior years' tax levies.

In the government-wide statement of net position, property taxes are considered earned in the budget year for which they are levied. For the District's fiscal year ended September 30, 2017, the 2016 tax levy is considered earned during the current fiscal year. In addition to property taxes levied, any delinquent taxes are recorded net of amounts considered uncollectible.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an individual cost of \$5,000 or more and an estimated useful life of two years or more. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over their estimated useful lives as follows:

	Years
Water production and distribution facilities	10-45
Wastewater collection and treatment facilities	10-45
Drainage facilities	10-45

Deferred Amount on Debt Refundings

In the government-wide financial statements, the difference between the reacquisition price and the net carrying amount of the old debt in a debt refunding is deferred and amortized to interest expense using the effective interest rate method over the remaining life of the old debt or the life of the new debt, whichever is shorter. Such amounts are classified as deferred outflows or inflows of resources.

Debt Issuance Costs

Debt issuance costs, other than prepaid insurance, do not meet the definition of an asset or deferred outflows of resources since the costs are not applicable to a future period and, therefore, are recognized as an expense/expenditure in the period incurred.

Cornerstones Municipal Utility District
Notes to Financial Statements
September 30, 2017

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Premiums and discounts on bonds are recognized as a component of long-term liabilities and amortized over the life of the related debt using the effective interest rate method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize premiums and discounts on bonds during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Position/Fund Balances

Fund balances and net position are reported as restricted when constraints placed on them are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or are imposed by law through constitutional provisions or enabling legislation.

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

Reconciliation of Government-wide and Fund Financial Statements

Amounts reported for net position of governmental activities in the statement of net position and fund balances in the governmental funds balance sheet are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds.	\$ 7,104,887
Property tax revenue recognition and the related reduction of deferred inflows of resources are subject to availability of funds in the fund financial statements.	22,843
Penalty and interest on delinquent taxes is not receivable in the current period and is not reported in the funds.	11,343
Sales tax rebates are not receivable in the current period and are not reported in the funds.	15,795

Cornerstones Municipal Utility District
Notes to Financial Statements
September 30, 2017

Deferred amount on debt refundings for governmental activities are not financial resources and are not reported in the funds.	\$ 3,434
Long-term debt obligations are not due and payable in the current period and are not reported in the funds.	<u>(1,884,741)</u>
Adjustment to fund balances to arrive at net position.	<u>\$ 5,273,561</u>

Amounts reported for change in net position of governmental activities in the statement of activities are different from change in fund balances in the governmental funds statement of revenues, expenditures and changes in fund balances because:

Change in fund balances.	\$ 97,288
Governmental funds report capital outlays as expenditures. However, for government-wide financial statements, the cost of capitalized assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation and noncapitalized costs exceeded capital outlay expenditures in the current year.	(84,068)
Governmental funds report principal payments on debt as expenditures. For the statement of activities, these transactions do not have any effect on net position.	425,000
Revenues collected in the current year, which have previously been reported in the statement of activities, are reported as revenues in the governmental funds.	(1,922)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>44,549</u>
Change in net position of governmental activities.	<u>\$ 480,847</u>

Note 2: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

Cornerstones Municipal Utility District
Notes to Financial Statements
September 30, 2017

State law requires collateralization of all deposits with federal depository insurance; a surety bond; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities of the State of Texas; or certain collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States.

At September 30, 2017, none of the District's bank balances were exposed to custodial credit risk.

Investments

The District may legally invest in obligations of the United States or its agencies and instrumentalities, direct obligations of Texas or its agencies or instrumentalities, collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, other obligations guaranteed as to principal and interest by the State of Texas or the United States or their agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, obligations of states, agencies and counties and other political subdivisions with an investment rating not less than "A," insured or collateralized certificates of deposit, and certain bankers' acceptances, repurchase agreements, mutual funds, commercial paper, guaranteed investment contracts and investment pools.

The District's investment policy may be more restrictive than the Public Funds Investment Act.

The District invests in TexPool, an external investment pool that is not registered with the Securities and Exchange Commission. The State Comptroller of Public Accounts of the State of Texas has oversight of TexPool.

At September 30, 2017, the District had the following investments and maturities:

Type	Fair Value	Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
TexPool	<u>\$ 2,203,691</u>	<u>\$ 2,203,691</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy does not allow investments in certain mortgage-backed securities, collateralized mortgage obligations with a final maturity date in excess of 10 years and interest rate indexed collateralized mortgage obligations. The external investment pool is presented as an investment with a maturity of less than one year because it is redeemable in full immediately.

Cornerstones Municipal Utility District
Notes to Financial Statements
September 30, 2017

Credit Risk. Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At September 30, 2017, the District's investments in TexPool were rated "AAAm" by Standard & Poor's.

Summary of Carrying Values

The carrying values of deposits and investments shown previously are included in the balance sheet at September 30, 2017, as follows:

Carrying value:		
Deposits	\$	1,421,574
Investments		2,203,691
Total	\$	3,625,265

Included in the following statement of net position captions:

Cash	\$	834,680
Certificates of deposit		586,894
Short-term investments		2,203,691
Total	\$	3,625,265

Investment Income

Investment income of \$23,172 for the year ended September 30, 2017, consisted of interest income.

Note 3: Capital Assets

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

Governmental Activities	Balances, Beginning of Year	Additions	Reclassi- fications	Balances, End of Year
Capital assets, non-depreciable:				
Land and improvements	\$ 460,190	\$ -	\$ -	\$ 460,190
Construction in progress	164,036	169,423	(52,913)	280,546
Total capital assets, non-depreciable	624,226	169,423	(52,913)	740,736

Cornerstones Municipal Utility District
Notes to Financial Statements
September 30, 2017

Governmental Activities (Continued)	Balances, Beginning of Year	Additions	Reclassi- fications	Balances, End of Year
Capital assets, depreciable:				
Water production and distribution facilities	\$ 4,470,814	\$ -	\$ -	\$ 4,470,814
Wastewater collection and treatment facilities	7,291,583	128,212	49,663	7,469,458
Drainage facilities	3,284,971	-	-	3,284,971
Total capital assets, depreciable	<u>15,047,368</u>	<u>128,212</u>	<u>49,663</u>	<u>15,225,243</u>
Less accumulated depreciation:				
Water production and distribution facilities	(2,384,623)	(111,791)	-	(2,496,414)
Wastewater collection and treatment facilities	(3,944,072)	(186,226)	-	(4,130,298)
Drainage facilities	(2,161,156)	(73,224)	-	(2,234,380)
Total accumulated depreciation	<u>(8,489,851)</u>	<u>(371,241)</u>	<u>0</u>	<u>(8,861,092)</u>
Total governmental activities, net	<u>\$ 7,181,743</u>	<u>\$ (73,606)</u>	<u>\$ (3,250)</u>	<u>\$ 7,104,887</u>

Note 4: Long-term Liabilities

Changes in long-term liabilities for the year ended September 30, 2017, were as follows:

Governmental Activities	Balances, Beginning of Year	Decreases	Balances, End of Year	Amounts Due in One Year
Bonds payable:				
General obligation bonds	\$ 2,125,000	\$ 425,000	\$ 1,700,000	\$ 450,000
Add premiums on bonds	222,785	38,044	184,741	-
Total governmental activities long-term liabilities	<u>\$ 2,347,785</u>	<u>\$ 463,044</u>	<u>\$ 1,884,741</u>	<u>\$ 450,000</u>

Cornerstones Municipal Utility District
Notes to Financial Statements
September 30, 2017

General Obligation Bonds

	Refunding Series 2011
Amount outstanding, September 30, 2017	\$1,700,000
Interest rates	4.00%
Maturity dates, serially beginning/ending	October 1, 2018/2021
Interest payment dates	April 1/ October 1
Callable date	N/A

Annual Debt Service Requirements

The District has been paying the amount due October 1 within the fiscal year preceding this due date, and the following schedule has been prepared assuming that this practice will be followed in future years. The schedule shows the annual debt service requirements to pay principal and interest on general obligation bonds outstanding at September 30, 2017.

Year	Principal	Interest	Total
2018	\$ 450,000	\$ 68,000	\$ 518,000
2019	465,000	50,000	515,000
2020	490,000	31,400	521,400
2021	295,000	11,800	306,800
Total	\$ 1,700,000	\$ 161,200	\$ 1,861,200

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

Cornerstones Municipal Utility District
Notes to Financial Statements
September 30, 2017

Bonds voted	\$ 22,545,000
Bonds sold	16,080,000
Refunding bonds voted	13,000,000
Refunding bond authorization used	8,790,000

Note 5: Significant Bond Resolution and Commission Requirements

The Bond Resolution requires that the District levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due. During the year ended September 30, 2017, the District levied an ad valorem debt service tax at the rate of \$0.1250 per \$100 of assessed valuation, which resulted in a tax levy of \$527,221 on the taxable valuation of \$421,776,901 for the 2016 tax year. The interest and principal requirements paid from the tax revenues and available resources are \$510,000.

Note 6: Maintenance Taxes

At an election held April 1, 1978, voters authorized a maintenance tax not to exceed \$0.25 per \$100 valuation on all property within the District subject to taxation. During the year ended September 30, 2017, the District levied an ad valorem maintenance tax at the rate of \$0.1750 per \$100 of assessed valuation, which resulted in a tax levy of \$738,110 on the taxable valuation of \$421,776,901 for the 2016 tax year. The maintenance tax is being used by the general fund to pay expenditures of operating the District.

Note 7: Regional Water Authority

The District is within the boundaries of the North Fort Bend Water Authority (the Authority), which was created by the Texas Legislature. The Authority was created to provide a regional entity to acquire surface water and build the necessary facilities to convert from groundwater to surface water in order to meet conversion requirements mandated by the Fort Bend Subsidence District, which regulates groundwater withdrawal. As of September 30, 2017, the Authority was billing the District \$3.05 per 1,000 gallons of water pumped from its wells. This amount is subject to future increases.

Note 8: Water Supply Agreements

On September 15, 1986, the District and Memorial Municipal Utility District (Memorial) entered into a cost-sharing agreement for the construction and financing of an extension to the waterline system on Mason Road. The District was responsible for the design and construction of the waterline and has paid all construction and related costs. The waterline is owned 50 percent by each district.

Cornerstones Municipal Utility District
Notes to Financial Statements
September 30, 2017

The District has also entered into an emergency water agreement with Cinco Municipal Utility District No. 1 (Cinco No. 1) dated September 11, 1986. Under the agreement, as amended, the using district will pay the supplying district \$1.25 per 1,000 gallons of water.

On January 20, 1997, amended August 25, 2016, the District entered into an emergency water supply agreement with Harris County Municipal Utility District No. 81 (District No. 81). The supplying district will receive payment on an "in-kind" basis or at the rate of \$0.75 per 1,000 gallons of water supplied.

The District has also entered into an amended and restated water supply contract with Memorial dated September 1, 2000, which was amended June 9, 2004, March 1, 2007, June 2, 2008, and August 4, 2008. Under the agreement, the receiving district will pay at the same rate charged to commercial customers of the District pursuant to the District's rates in effect at the time interim water service is supplied.

The District incurred no costs under these agreements during the current year.

Note 9: Regional Sewage Treatment Plant

On May 15, 1978, the District, Memorial, Mason Creek Utility District (Mason Creek) and District No. 81 entered into a 40-year agreement to construct and operate the Cinco Regional Sewage Treatment Plant (the Plant) and trunk sewer lines. This agreement has been amended on August 25, 1978, June 14, 1979, and September 13, 1982. On July 31, 1987, this agreement was amended to include Cinco No. 1, whereby Cinco No. 1 will lease temporary excess capacity in the Plant from Memorial. A sixth amendment was made to the contract on August 18, 1987. In addition, Cinco No. 1 has purchased a pro rata share of excess capacity in the trunk sewer conveyance line from each of the original participants.

On December 11, 1997, the participants in the Plant entered into a restated agreement and was extended for a 40-year term from that date. The restated agreement amended the manner in which monthly operating costs are shared. The restatement also redefined the participants' responsibility for the maintenance of joint conveyance lines whereby costs are shared based on capacity in the lines owned by the participants. On May 1, 2005, the restated agreement was amended to remove Cinco No. 1 as a party to the agreement.

Construction and related costs were shared based on the pro rata share of capacity acquired by each participant. The District's share of construction and related costs was \$1,957,772.

Cornerstones Municipal Utility District
Notes to Financial Statements
September 30, 2017

Each participant's capacity and percent of ownership are as follows:

Participants	Gallons-per-day Capacity	Percentage
The District	1,000,000	33.33
Memorial	940,000	31.33
Mason Creek	500,000	16.67
District No. 81	560,000	18.67
Totals	<u>3,000,000</u>	<u>100.00</u>

Memorial holds title for the benefit of the participants. During 1993, District No. 81 became the operator of the Plant. Participants are billed monthly for the fixed and variable operating costs of the Plant based on each participant's percentage of ownership in the Plant and number of pro rata connections, respectively. During the current year, the District was billed \$290,732 for its share of operating costs. The District has paid \$30,000 as its share of the operating and maintenance reserve.

The following schedule is condensed audited financial information of the Plant as of and for the year ended December 31, 2016:

	General Fund
Total assets	<u>\$ 200,438</u>
Total liabilities	\$ 80,438
Total fund balance	<u>120,000</u>
Total liabilities and fund balance	<u>\$ 200,438</u>
Total revenues	\$ 769,819
Total expenditures	<u>769,819</u>
Excess revenues	<u>\$ 0</u>

Cornerstones Municipal Utility District
Notes to Financial Statements
September 30, 2017

Note 10: Strategic Partnership Agreement

Effective May 14, 2013, the District and the City of Houston (the City) entered into a Strategic Partnership Agreement (the Agreement) under which the City annexed a tract of land (the tract) within the boundaries of the District for limited purposes. The District continues to exercise all powers and functions of a municipal utility district as provided by law. As consideration for the District providing services as detailed in the Agreement, the City agrees to remit one-half of all City sales and use tax revenues generated within the boundaries of the tract. As consideration for the sales tax payments by the City, the District agrees to continue to provide and develop water, sewer and drainage services within the District in lieu of full-purpose annexation. The City agrees it will not annex the District for full purposes or commence any action to annex the District during the term of the Agreement, which is 30 years. During the current year, the District recorded \$185,893 in revenues related to the Agreement.

Note 11: Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. The District has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts in the past three fiscal years.

Required Supplementary Information

Cornerstones Municipal Utility District
Budgetary Comparison Schedule – General Fund
Year Ended September 30, 2017

	Original Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Property taxes	\$ 720,000	\$ 737,483	\$ 17,483
Sales tax rebates	-	186,642	186,642
Water service	691,800	634,838	(56,962)
Sewer service	460,000	460,681	681
Regional water fee	680,000	681,618	1,618
Penalty and interest	25,500	26,292	792
Tap connection and inspection fees	24,000	37,435	13,435
Investment income	6,500	20,366	13,866
	<u>2,607,800</u>	<u>2,785,355</u>	<u>177,555</u>
Expenditures			
Service operations:			
Purchased services	310,000	290,732	19,268
Regional water fee	700,000	750,157	(50,157)
Professional fees	191,100	137,356	53,744
Contracted services	341,400	335,819	5,581
Utilities	98,500	81,041	17,459
Recreational facilities	43,000	32,825	10,175
Repairs and maintenance	327,500	303,666	23,834
Other expenditures	95,600	75,519	20,081
Tap connections	-	4,595	(4,595)
Capital outlay	840,000	677,566	162,434
	<u>2,947,100</u>	<u>2,689,276</u>	<u>257,824</u>
Excess (Deficiency) of Revenues Over Expenditures	(339,300)	96,079	435,379
Fund Balance, Beginning of Year	<u>3,263,324</u>	<u>3,263,324</u>	<u>-</u>
Fund Balance, End of Year	<u><u>\$ 2,924,024</u></u>	<u><u>\$ 3,359,403</u></u>	<u><u>\$ 435,379</u></u>

Cornerstones Municipal Utility District
Notes to Required Supplementary Information
September 30, 2017

Budgets and Budgetary Accounting

An annual operating budget is prepared for the general fund by the District's consultants. The budget reflects resources expected to be received during the year and expenditures expected to be incurred. The Board of Directors is required to adopt the budget prior to the start of its fiscal year. The budget is not a spending limitation (a legally restricted appropriation). The original budget of the general fund was not amended during fiscal 2017.

The District prepares its annual operating budget on a basis consistent with accounting principles generally accepted in the United States of America. The Budgetary Comparison Schedule – General Fund presents the original and revised budget amounts, if revised, compared to the actual amounts of revenues and expenditures for the current year.

Other Information

Cornerstones Municipal Utility District
Other Schedules Included Within This Report
September 30, 2017

(Schedules included are checked or explanatory notes provided for omitted schedules.)

- [X] Notes Required by the Water District Accounting Manual
See "Notes to Financial Statements," Pages 12-26
- [X] Schedule of Services and Rates
- [X] Schedule of General Fund Expenditures
- [X] Schedule of Temporary Investments
- [X] Analysis of Taxes Levied and Receivable
- [X] Schedule of Long-term Debt Service Requirements by Years
- [X] Changes in Long-term Bonded Debt
- [X] Comparative Schedule of Revenues and Expenditures – General Fund and Debt Service Fund –
Five Years
- [X] Board Members, Key Personnel and Consultants

Cornerstones Municipal Utility District

Schedule of Services and Rates

Year Ended September 30, 2017

1. Services provided by the District:

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

2. Retail service providers

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

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate Per 1,000 Gallons Over Minimum</u>	<u>Usage Levels</u>
Water:	\$ 18.00	10,000	N	\$ 2.00	10,001 to 20,000
				\$ 3.00	20,001 to 30,000
				\$ 4.00	30,001 to No Limit
Wastewater:	\$ 23.10	30,000	N	\$ 1.00	30,001 to No Limit
Regional water fee:	\$ 3.05	1,000	N	\$ 3.05	1 to No Limit

Does the District employ winter averaging for wastewater usage?

Yes No

Total charges per 10,000 gallons usage (including fees):

	Water	\$ 48.50		Wastewater	\$ 23.10
--	-------	----------	--	------------	----------

b. Water and wastewater retail connections:

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFC*</u>
Unmetered	-	-	x1.0	-
≤ 3/4"	1,088	1,075	x1.0	1,075
1"	340	338	x2.5	845
1 1/2"	21	21	x5.0	105
2"	58	58	x8.0	464
3"	-	-	x15.0	-
4"	1	1	x25.0	25
6"	1	1	x50.0	50
8"	-	-	x80.0	-
10"	-	-	x115.0	-
Total water	1,509	1,494		2,564
Total wastewater	1,445	1,432	x1.0	1,432

3. Total water consumption (in thousands) during the fiscal year:

Gallons pumped into the system:	246,869
Gallons billed to customers:	232,669
Water accountability ratio (gallons billed/gallons pumped):	94.25%

*"ESFC" means equivalent single-family connections

Cornerstones Municipal Utility District
Schedule of General Fund Expenditures
Year Ended September 30, 2017

Personnel (including benefits)		\$	-
Professional Fees			
Auditing	\$	15,000	
Legal		62,496	
Engineering		59,860	
Financial advisor		-	137,356
		<hr/>	
Purchased Services for Resale			
Bulk water and wastewater service purchases			290,732
Regional Water Fee			750,157
Contracted Services			
Bookkeeping		22,200	
General manager		-	
Appraisal district		-	
Tax collector		-	
Secretary		1,800	
Other contracted services		89,997	113,997
		<hr/>	
Utilities			81,041
Repairs and Maintenance			303,666
Administrative Expenditures			
Directors' fees		23,550	
Office supplies		16,222	
Insurance		11,543	
Other administrative expenditures		24,204	75,519
		<hr/>	
Capital Outlay			
Capitalized assets		290,423	
Expenditures not capitalized		387,143	677,566
		<hr/>	
Tap Connection Expenditures			4,595
Solid Waste Disposal			221,822
Fire Fighting			-
Parks and Recreation			32,825
Other Expenditures			<hr/>
			-
Total expenditures			<hr/> <hr/> <u>\$ 2,689,276</u>

Cornerstones Municipal Utility District
Schedule of Temporary Investments
September 30, 2017

	Interest Rate	Maturity Date	Face Amount	Accrued Interest Receivable
General Fund				
Certificates of Deposit				
No. 1852002435	0.75%	03/06/18	\$ 96,437	\$ 412
No. 5598	1.16%	03/22/18	244,232	1,490
No. 2559000003	1.30%	08/25/18	246,225	316
TexPool	1.02%	Demand	<u>2,099,127</u>	<u>-</u>
			2,686,021	2,218
Debt Service Fund				
TexPool	1.02%	Demand	<u>104,564</u>	<u>-</u>
Totals			<u><u>\$ 2,790,585</u></u>	<u><u>\$ 2,218</u></u>

Cornerstones Municipal Utility District
Analysis of Taxes Levied and Receivable
Year Ended September 30, 2017

	Maintenance Taxes	Debt Service Taxes
Receivable, Beginning of Year	\$ 12,961	\$ 10,797
Additions and corrections to prior years' taxes	(985)	(1,168)
Adjusted receivable, beginning of year	11,976	9,629
 2016 Original Tax Levy	 698,648	 499,034
Additions and corrections	39,462	28,187
Adjusted tax levy	738,110	527,221
Total to be accounted for	750,086	536,850
Tax collections: Current year	(732,906)	(523,505)
Prior years	(4,577)	(3,105)
Receivable, end of year	\$ 12,603	\$ 10,240
 Receivable, by Years		
2016	\$ 5,203	\$ 3,717
2015	1,684	1,095
2014	1,309	1,034
2013	993	840
2012	781	660
2011	780	698
2010	551	551
2009	516	545
2008	523	581
2007	153	211
2006	110	308
Receivable, end of year	\$ 12,603	\$ 10,240

Cornerstones Municipal Utility District
Analysis of Taxes Levied and Receivable (Continued)
Year Ended September 30, 2017

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Property Valuations				
Land	\$ 101,226,456	\$ 94,302,546	\$ 91,931,466	\$ 84,229,635
Improvements	425,994,670	394,932,510	340,619,042	294,566,689
Personal property	16,871,076	15,989,242	14,939,518	13,319,204
Exemptions	<u>(122,315,301)</u>	<u>(114,088,986)</u>	<u>(87,251,996)</u>	<u>(63,579,352)</u>
 Total property valuations	 <u>\$ 421,776,901</u>	 <u>\$ 391,135,312</u>	 <u>\$ 360,238,030</u>	 <u>\$ 328,536,176</u>
 Tax Rates per \$100 Valuation				
Debt service tax rates	\$ 0.1250	\$ 0.1300	\$ 0.1500	\$ 0.1650
Maintenance tax rates*	<u>0.1750</u>	<u>0.2000</u>	<u>0.1900</u>	<u>0.1950</u>
 Total tax rates per \$100 valuation	 <u>\$ 0.3000</u>	 <u>\$ 0.3300</u>	 <u>\$ 0.3400</u>	 <u>\$ 0.3600</u>
 Tax Levy	 <u>\$ 1,265,331</u>	 <u>\$ 1,290,747</u>	 <u>\$ 1,224,809</u>	 <u>\$ 1,182,730</u>
 Percent of Taxes Collected to Taxes Levied**	 <u>99%</u>	 <u>99%</u>	 <u>99%</u>	 <u>99%</u>

*Maximum tax rate approved by voters: \$0.25 on April 1, 1978

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

Cornerstones Municipal Utility District
Schedule of Long-term Service Requirements by Years
September 30, 2017

Due During Fiscal Years Ending September 30	Refunding Series 2011		
	Principal Due October 1	Interest Due April 1, October 1	Total
2018	\$ 450,000	\$ 68,000	\$ 518,000
2019	465,000	50,000	515,000
2020	490,000	31,400	521,400
2021	295,000	11,800	306,800
Totals	\$ 1,700,000	\$ 161,200	\$ 1,861,200

The District pays the amount due October 1 and this schedule has been prepared assuming this practice will continue in the future.

Cornerstones Municipal Utility District
Changes in Long-term Bonded Debt
Year Ended September 30, 2017

	Bond Issue
	Refunding Series 2011
Interest rates	4.00%
Dates interest payable	April 1/October 1
Maturity dates	October 1, 2018/2021
Bonds outstanding, beginning of current year	\$ 2,125,000
Retirements, principal	425,000
Bonds outstanding, end of current year	\$ 1,700,000
Interest paid during current year	\$ 85,000

Paying agent's name and address:

Series 2011 - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

Bond authority:	Tax Bonds	Other Bonds	Refunding Bonds
Amount authorized by voters	\$ 22,545,000	0	\$ 13,000,000
Amount authorization used	\$ 16,080,000	0	\$ 8,790,000
Remaining to be issued	\$ 6,465,000	0	\$ 4,210,000
Debt service fund cash and temporary investment balances as of September 30, 2017:			\$ 167,314
Average annual debt service payment (principal and interest) for remaining term of all debt:			\$ 465,300

Cornerstones Municipal Utility District
Comparative Schedule of Revenues and Expenditures – General Fund
Five Years Ended September 30,

	Amounts				
	2017	2016	2015	2014	2013
General Fund					
Revenues					
Property taxes	\$ 737,483	\$ 767,032	\$ 682,981	\$ 634,546	\$ 601,724
Sales tax rebates	186,642	199,945	182,165	184,131	-
Water service	634,838	604,218	600,166	636,140	654,973
Sewer service	460,681	455,162	467,310	461,577	440,786
Regional water fee	681,618	590,545	516,978	491,125	467,153
Penalty and interest	26,292	23,316	23,705	23,646	29,733
Tap connection and inspection fees	37,435	22,336	20,413	28,325	67,279
Investment income	20,366	12,114	9,434	9,101	11,525
Total revenues	<u>2,785,355</u>	<u>2,674,668</u>	<u>2,503,152</u>	<u>2,477,591</u>	<u>2,273,173</u>
Expenditures					
Service operations:					
Purchased services	290,732	247,625	286,714	274,017	314,466
Regional water fees	750,157	641,109	561,126	709,992	512,952
Professional fees	137,356	135,725	132,620	122,807	92,734
Contracted services	335,819	329,895	342,599	337,209	306,782
Utilities	81,041	78,875	88,584	109,286	87,920
Recreational facilities	32,825	31,014	29,065	36,220	51,274
Repairs and maintenance	303,666	317,497	312,795	256,035	279,508
Other expenditures	75,519	72,122	69,754	75,902	67,572
Tap connections	4,595	-	-	2,575	20,392
Capital outlay	677,566	226,362	352,081	1,394,716	280,525
Total expenditures	<u>2,689,276</u>	<u>2,080,224</u>	<u>2,175,338</u>	<u>3,318,759</u>	<u>2,014,125</u>
Excess (Deficiency) of Revenues Over Expenditures	96,079	594,444	327,814	(841,168)	259,048
Other Financing Sources					
Interfund transfers in	-	-	-	41,982	-
Excess (Deficiency) of Revenues and Transfers In Over Expenditures and Transfers Out	96,079	594,444	327,814	(799,186)	259,048
Fund Balance, Beginning of Year	<u>3,263,324</u>	<u>2,668,880</u>	<u>2,341,066</u>	<u>3,140,252</u>	<u>2,881,204</u>
Fund Balance, End of Year	<u>\$ 3,359,403</u>	<u>\$ 3,263,324</u>	<u>\$ 2,668,880</u>	<u>\$ 2,341,066</u>	<u>\$ 3,140,252</u>
Total Active Retail Water Connections	<u>1,494</u>	<u>1,499</u>	<u>1,500</u>	<u>1,498</u>	<u>1,497</u>
Total Active Retail Wastewater Connections	<u>1,432</u>	<u>1,437</u>	<u>1,440</u>	<u>1,416</u>	<u>1,407</u>

Percent of Fund Total Revenues

2017	2016	2015	2014	2013
26.5 %	28.7 %	27.3 %	25.6 %	26.5 %
6.7	7.5	7.3	7.4	-
22.8	22.6	23.9	25.7	29.8
16.5	17.0	18.7	18.6	19.4
24.5	22.1	20.7	19.8	20.6
1.0	0.9	0.9	1.3	1.1
1.3	0.8	0.8	1.2	2.1
0.7	0.4	0.4	0.4	0.5
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
10.4	9.3	11.5	11.1	13.8
26.9	24.0	22.4	28.7	22.6
4.9	5.1	5.3	5.0	4.1
12.1	12.3	13.7	13.6	13.5
2.9	2.9	3.5	4.4	3.9
1.2	1.2	1.2	1.5	2.3
10.9	11.9	12.5	10.3	12.3
2.7	2.7	2.8	3.1	2.9
0.2	-	-	0.1	0.9
24.3	8.5	14.1	56.2	12.3
<u>96.5</u>	<u>77.9</u>	<u>87.0</u>	<u>134.0</u>	<u>88.6</u>
<u><u>3.5 %</u></u>	<u><u>22.1 %</u></u>	<u><u>13.0 %</u></u>	<u><u>(34.0) %</u></u>	<u><u>11.4 %</u></u>

Cornerstones Municipal Utility District
Comparative Schedule of Revenues and Expenditures – Debt Service Fund
Five Years Ended September 30,

	Amounts				
	2017	2016	2015	2014	2013
Debt Service Fund					
Revenues					
Property taxes	\$ 526,610	\$ 497,091	\$ 539,399	\$ 537,080	\$ 509,364
Penalty and interest	20,874	9,945	17,932	12,733	6,537
Investment income	2,806	1,158	1,162	828	1,006
Contractual payment	1,976	1,953	1,923	1,955	2,035
Total revenues	<u>552,266</u>	<u>510,147</u>	<u>560,416</u>	<u>552,596</u>	<u>518,942</u>
Expenditures					
Current:					
Professional fees	3,478	4,793	2,318	2,516	2,749
Contracted services	29,877	30,278	30,599	29,627	28,610
Other expenditures	6,952	3,330	3,528	2,790	6,645
Debt service:					
Principal retirement	425,000	410,000	400,000	380,000	380,000
Interest and fees	85,750	98,800	110,050	121,200	128,800
Total expenditures	<u>551,057</u>	<u>547,201</u>	<u>546,495</u>	<u>536,133</u>	<u>546,804</u>
Excess (Deficiency) of Revenues Over Expenditures	1,209	(37,054)	13,921	16,463	(27,862)
Other Financing Uses					
Interfund transfers out	-	-	-	(41,982)	-
Excess (Deficiency) of Revenues and Transfers In Over Expenditures and Transfers Out	1,209	(37,054)	13,921	(25,519)	(27,862)
Fund Balance, Beginning of Year	<u>171,640</u>	<u>208,694</u>	<u>194,773</u>	<u>220,292</u>	<u>248,154</u>
Fund Balance, End of Year	<u>\$ 172,849</u>	<u>\$ 171,640</u>	<u>\$ 208,694</u>	<u>\$ 194,773</u>	<u>\$ 220,292</u>

Percent of Fund Total Revenues

2017	2016	2015	2014	2013
95.4 %	97.4 %	96.3 %	97.2 %	98.2 %
3.7	2.0	3.2	2.3	1.3
0.5	0.2	0.2	0.2	0.2
0.4	0.4	0.3	0.3	0.3
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
0.6	0.9	0.4	0.5	0.5
5.4	5.9	5.5	5.4	5.5
1.3	0.7	0.6	0.5	1.3
77.0	80.4	71.4	68.7	73.3
<u>15.5</u>	<u>19.4</u>	<u>19.6</u>	<u>21.9</u>	<u>24.8</u>
<u>99.8</u>	<u>107.3</u>	<u>97.5</u>	<u>97.0</u>	<u>105.4</u>
<u><u>0.2 %</u></u>	<u><u>(7.3) %</u></u>	<u><u>2.5 %</u></u>	<u><u>3.0 %</u></u>	<u><u>(5.4) %</u></u>

Cornerstones Municipal Utility District
Board Members, Key Personnel and Consultants
Year Ended September 30, 2017

Complete District mailing address:	Cornerstones Municipal Utility District c/o Young & Brooks 10000 Memorial Drive, Suite 260 Houston, Texas 77024
District business telephone number:	713.951.0800
Submission date of the most recent District Registration Form (TWC Sections 36.054 and 49.054):	January 17, 2017
Limit on fees of office that a director may receive during a fiscal year:	\$ 7,200

Board Members	Term of Office Elected & Expires	Fees*	Expense Reimbursements	Title at Year-end
Morgan Rene Stagg	Elected 05/14- 05/18	\$ 7,050	\$ 1,403	President
Michael D. Chittwood	Elected 05/14- 05/18	3,150	422	Vice President
Caleb T. Burson	Elected 05/16- 05/20	3,300	0	Secretary
Stephen A. Talecki	Elected 05/16- 05/20	4,800	758	Assistant Vice President
Lionel A. (Tony) Garza	Elected 05/16- 05/20	5,250	595	Assistant Secretary

*Fees are the amounts actually paid to a director during the District's fiscal year.

Cornerstones Municipal Utility District
Board Members, Key Personnel and Consultants (Continued)
Year Ended September 30, 2017

Consultants	Date Hired	Fees and Expense Reimbursements	Title
BKD, LLP	09/18/85	\$ 15,000	Auditor
Robert W. Baird & Co.	05/18/15	0	Financial Advisor
Fort Bend Central Appraisal District	Legislative Action	992	Appraiser
Harris County Appraisal District	Legislative Action	5,981	Appraiser
IDS	12/12/16	165,194	Engineer
Landev Engineers, Inc.	10/23/89	44,068	Former Engineer
Bob Leared	03/06/78	23,936	Tax Assessor/ Collector
Myrtle Cruz, Inc.	02/01/93	25,236	Bookkeeper
Perdue, Brandon, Fielder, Collins & Mott, L.L.P.	05/23/84	3,478	Delinquent Tax Attorney
Si Environmental, LLC	05/01/12	363,578	Operator
Young & Brooks	09/08/92	62,083	Attorney
Investment Officers			
Mary Jarmon and Tony Garza	06/21/10 and 08/15/16	N/A	Bookkeeper and Director

APPENDIX B
SPECIMEN MUNICIPAL BOND INSURANCE POLICY



BAM

**MUNICIPAL BOND
INSURANCE POLICY**

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

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

Effective Date: _____

Risk Premium: \$ _____
Member Surplus Contribution: \$ _____
Total Insurance Payment: \$ _____

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

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

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

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

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

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

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

SPECIAL MEMBER

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

1 World Financial Center, 27th floor
200 Liberty Street
New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN