OFFICIAL STATEMENT DATED NOVEMBER 10, 2016

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

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

NEW ISSUE-Book-Entry-Only

Insured Ratings (MAC): S&P "AA" (stable outlook)
Kroll "AA+" (stable outlook)
Underlying Rating: Moody's "Baa2"
See "MUNICIPAL BOND RATING" and "MUNICIPAL BOND INSURANCE" herein.

$7,830,000

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 165

(A political subdivision of the State of Texas located within Fort Bend County)

UNLIMITED TAX BONDS
SERIES 2016

The bonds described above (the "Bonds") are obligations solely of Fort Bend County Municipal Utility District No. 165 (the "District") and are not obligations of the State of Texas, Fort Bend County, the City of Houston or any entity other than the District.

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

Dated Date: December 1, 2016 | Due: September 1, as shown below

Principal of the Bonds is payable at maturity or earlier redemption at the principal payment office of the paying agent/registrar, initially The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Paying Agent/Registrar") upon surrender of the Bonds for payment. Interest on the Bonds accrues from December 1, 2016, and is payable each March 1 and September 1, commencing March 1, 2017, until maturity or prior redemption. The Bonds will be issued only in fully registered form in denominations of $5,000 each or integral multiples thereof. The Bonds are subject to redemption prior to their maturity, as shown below.

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

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by MUNICIPAL ASSURANCE CORP. ("MAC" or the "Insurer").

MATURITY SCHEDULE

Maturity (September 1)	Principal Amount	CUSIP Number (b)	Interest Rate	Initial Reoffering Yield (c)	Maturity (September 1)	Principal Amount	CUSIP Number (b)	Interest Rate	Initial Reoffering Yield (c)
2017	$ 325,000	34682W HB2	2.000 %	1.000 %	2027	$ 325,000 (a)	34682W HM8	3.000 %	2.800 %
2018	330,000	34682W HC0	2.000	1.250	2028	325,000 (a)	34682W HN6	3.000	2.900
2019	330,000	34682W HD8	2.000	1.500	2029	325,000 (a)	34682W HP1	3.000	3.000
2020	330,000	34682W HE6	2.000	1.750	2030	325,000 (a)	34682W HQ9	3.000	3.100
2021	330,000	34682W HF3	2.000	2.000	2031	325,000 (a)	34682W HR7	3.125	3.200
2022	330,000	34682W HG1	2.000	2.150	2032	325,000 (a)	34682W HS5	3.250	3.300
2023	330,000	34682W HH9	3.000	2.300	2033	325,000 (a)	34682W HT3	3.375	3.400
2024	325,000	34682W HJ5	3.000	2.450	2034	325,000 (a)	34682W HU0	3.500	3.500
2025	325,000 (a)	34682W HK2	3.000	2.600	2035	325,000 (a)	34682W HV8	3.500	3.550
2026	325,000 (a)	34682W HL0	3.000	2.700	2036	325,000 (a)	34682W HW6	3.500	3.600

$1,300,000 Term Bonds due September 1, 2040 (a), CUSIP 34682W JA2 (b), 3.625% Interest Rate, 3.750% Yield (c)

(a) Bonds maturing on or after September 1, 2025, are subject to redemption at the option of the District prior to their maturity dates in whole, or from time to time in part, on September 1, 2024, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. The Term Bonds (as defined herein) are also subject to mandatory sinking fund redemption as described herein. See "THE BONDS—Redemption Provisions."

(b) CUSIP Numbers have been assigned to the Bonds by CUSIP Service Bureau and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Underwriter shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.

(c) Initial reoffering yield represents the initial offering yield to the public, which has been established by the Underwriter for offers to the public and which subsequently may be changed.

The Bonds are offered by the Underwriter subject to prior sale, when, as and if issued by the District and accepted by the Underwriter, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Allen Boone Humphries Robinson LLP, Houston, Texas, Bond Counsel. See "LEGAL MATTERS." Delivery of the Bonds in book-entry form through the facilities of DTC is expected on or about December 13, 2016.

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USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

All of the summaries of the statutes, resolutions, orders, contracts, audited financial statements, engineering and other related reports set forth in this OFFICIAL STATEMENT are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from Allen Boone Humphries Robinson LLP, Bond Counsel, 3200 Southwest Freeway, Suite 2600, Houston, Texas, 77027, for further information.

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

Municipal Assurance Corp. ("MAC") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, MAC 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 MAC supplied by MAC and presented under the heading "MUNICIPAL BOND INSURANCE" and in "APPENDIX B—Specimen Municipal Bond Insurance Policy."

SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Bonds, the District accepted the bid resulting in the lowest net effective interest rate, which bid was tendered by RBC Capital Markets, LLC (the "Underwriter") bearing the interest rates shown on the cover page hereof, at a price of 97.00% of the par value thereof plus accrued interest to the date of delivery which resulted in a net effective interest rate of 3.503753% as calculated pursuant to Chapter 1204 of the Texas Government Code, as amended.

Prices and Marketability

The delivery of the Bonds is conditioned upon the receipt by the District of a certificate executed and delivered by the Underwriter on or before the date of delivery of the Bonds, stating the prices at which the Bonds have been offered for sale to the public. For this purpose, the term "public" shall not include any person who is a bond house, broker or similar person acting in the capacity of underwriter or wholesaler. Otherwise, the District has no understanding with the Underwriter regarding the reoffering yields or prices of the Bonds. Information concerning reoffering yields or prices is the responsibility of the Underwriter.

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

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

Securities Laws

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

OFFICIAL STATEMENT SUMMARY

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

THE DISTRICT

Description... The District is a political subdivision of the State of Texas, created by order of the Texas Commission on Environmental Quality ("TCEQ"), on July 28, 2005, and operates pursuant to Chapters 49 and 54 of the Texas Water Code. The District contains approximately 385 acres of land. See "THE DISTRICT."

Location... The District is located approximately 25 miles southwest of the central downtown business district of the City of Houston and lies wholly within the extraterritorial jurisdiction of the City of Houston. The District is within the boundaries of the Fort Bend Independent School District. The District is located north of the intersection of West Bellfort Street and Mason Road, approximately one-half mile northeast of the Grand Parkway (Texas State Highway 99). See "THE DISTRICT" and "AERIAL LOCATION MAP."

The Developer… The developer of the land within the District is Fieldstone (Houston) ASLI VI, L.L.L.P., a Delaware limited liability limited partnership (the "Developer"). The Developer has engaged a development manager, Fieldstone Lot Partners, LLC, a Texas limited liability company, to oversee development in the District. See "THE DEVELOPER."

Status of Development... The District is being developed as Fieldstone. As of October 1, 2016, 1,254 single-family residential lots on approximately 331 acres had been completed, 1,029 homes were constructed (1,023 occupied), 123 homes were in various stages of construction or in a homebuilder's name and 102 vacant developed lots were available for home construction. Approximately 42 additional developable acres within the District have not been provided with water distribution, wastewater collection and storm drainage facilities and approximately 12 acres are not developable (rights-of-way, detention, open spaces, easements and utility sites). See "THE DISTRICT."

Builders… Homebuilders actively conducting building programs within the District include K. Hovnanian Homes, Meritage Homes and Ashton Woods Homes. New homes are being marketed at prices ranging from approximately $155,000 to over $415,000. See "THE DISTRICT—Status of Development."

Payment Record... The District has previously sold $25,090,000 principal amount of unlimited tax bonds in six series and $4,940,000 principal amount of unlimited tax refunding bonds in one series, $23,090,000 of which is currently outstanding (the "Outstanding Bonds"). See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds." The District has never defaulted in the payment of principal and interest on the Outstanding Bonds.

THE BONDS

Description...	$7,830,000 Unlimited Tax Bonds, Series 2016 (the "Bonds") are being issued pursuant to a resolution authorizing the issuance of the Bonds adopted by the District's Board of Directors (the "Board") as fully registered bonds. The Bonds are scheduled to mature serially on September 1 in each of the years 2017 through 2036, both inclusive, and as term bonds on September 1, 2040 (the "Term Bonds") in the principal amounts and accrue interest at the rates shown on the cover page hereof. The Bonds will be issued in denominations of $5,000 or integral multiples of $5,000. Interest on the Bonds accrues from December 1, 2016, and is payable March 1, 2017, and each September 1 and March 1 thereafter, until the earlier of maturity or redemption at the rates shown on the cover page hereof. See "THE BONDS."
Book-Entry-Only System…	The Depository Trust Company (defined as "DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds and will be deposited with DTC. See "BOOK-ENTRY-ONLY SYSTEM."
Redemption...	Bonds maturing on or after September 1, 2025, are subject to redemption in whole, or from time to time in part, at the option of the District prior to their maturity dates on September 1, 2024, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. The Term Bonds are also subject to mandatory sinking fund redemption as more fully described herein. See "THE BONDS—Redemption Provisions."
Use of Proceeds...	Proceeds of the Bonds will be used to pay for the items shown herein under "USE AND DISTRIBUTION OF BOND PROCEEDS", including to capitalize six (6) months of interest on the Bonds and to pay interest to the Developer for funds advanced for utility construction, administrative costs and certain other costs and engineering fees related to the issuance of the Bonds.
Authority for Issuance...	The Bonds are the seventh series of bonds issued out of an aggregate of $60,000,000 principal amount of unlimited tax bonds authorized by the District's voters for the purpose of purchasing and constructing a water, wastewater and/or storm drainage system. The Bonds are issued by the District pursuant to an Order of the TCEQ, the terms and conditions of the Bond Resolution, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, and general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas. See "THE BONDS—Authority for Issuance," "—Issuance of Additional Debt" and "INVESTMENT CONSIDERATIONS—Future Debt."
Source of Payment...	Principal of and interest on the Bonds are payable from the proceeds of a continuing, direct, annual ad valorem tax, without legal limitation as to rate or amount, levied against taxable property within the District. The Bonds are obligations of the District and are not obligations of the City of Houston, Fort Bend County, the State of Texas or any entity other than the District. See "THE BONDS—Source of Payment."
Municipal Bond Rating...	It is expected that S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P") and Kroll Bond Rating Agency, Inc. ("KBRA") will assign a municipal bond ratings of "AA" (stable outlook) and "AA+" (stable outlook), respectively, to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Municipal Assurance Corp. Moody's Investors Service ("Moody's") has assigned an underlying rating of "Baa2" on the Bonds. See "INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance," "MUNICIPAL BOND RATING," "MUNICIPAL BOND INSURANCE" and "APPENDIX B."
Qualified Tax-Exempt Obligations...	The District has designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b) of the Internal Revenue Code of 1986 and will represent that the total amount of tax-exempt bonds (including the Bonds) issued by it during calendar year 2016 is not expected to exceed $10,000,000. See "TAX MATTERS—Qualified Tax-Exempt Obligations."

Bond Counsel...	Allen Boone Humphries Robinson LLP, Houston, Texas. See "MANAGEMENT OF THE DISTRICT" and "LEGAL MATTERS."
Financial Advisor...	FirstSouthwest, a Division of Hilltop Securities Inc., Houston, Texas. See "MANAGEMENT OF THE DISTRICT."
Disclosure Counsel...	Norton Rose Fulbright US LLP, Houston, Texas.
Paying Agent/Registrar...	The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. See "THE BONDS—Method of Payment of Principal and Interest."

INVESTMENT CONSIDERATIONS

The purchase and ownership of the Bonds are subject to special investment considerations and all prospective purchasers are urged to examine carefully this entire OFFICIAL STATEMENT with respect to the investment security of the Bonds, including particularly the section captioned "INVESTMENT CONSIDERATIONS."

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SELECTED FINANCIAL INFORMATION (UNAUDITED)

2016 Taxable Assessed Valuation	$251,026,755	(a)
Estimated Taxable Assessed Valuation as of September 15, 2016	$272,631,499	(b)
Gross Direct Debt Outstanding	$31,005,000	(c)
Estimated Overlapping Debt	9,941,598	(d)
Gross Direct Debt and Estimated Overlapping Debt	$40,946,598	
Ratios of Gross Direct Debt to:		
2016 Taxable Assessed Valuation	12.35%	
Estimated Taxable Assessed Valuation as of September 15, 2016	11.37%	
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:		
2016 Taxable Assessed Valuation	16.31%	
Estimated Taxable Assessed Valuation as of September 15, 2016	15.02%	
Funds Available for Debt Service:		
Debt Service Fund Balance as of October 13, 2016	$866,529	
Capitalized Interest from proceeds of the Bonds (Six (6) Months)	115,294	(e)
Total Funds Available for Debt Service	$981,823	
Operating Funds Available as of October 13, 2016	$1,669,530	
Capital Projects Funds Available as of October 13, 2016	$644,161	
2016 Debt Service Tax Rate	$0.87	
2016 Maintenance Tax Rate	0.38	
2016 Total Tax Rate	$1.25	
Average Annual Debt Service Requirement (2017-2040)	$1,836,690	(f)
Maximum Annual Debt Service Requirement (2018)	$2,264,646	(f)
Tax Rates Required to Pay Average Annual Debt Service (2017-2040) at a 95% Collection Rate		
Based upon the 2016 Taxable Assessed Valuation	$0.78	(g)
Based upon Estimated Taxable Assessed Valuation as of September 15, 2016	$0.71	(g)
Tax Rates Required to Pay Maximum Annual Debt Service (2018) at a 95% Collection Rate		
Based upon the 2016 Taxable Assessed Valuation	$0.95	(g)
Based upon Estimated Taxable Assessed Valuation as of September 15, 2016	$0.88	(g)
Status of Development as of October 1, 2016 (h):		
Total Developed Lots	1,254	
Homes Completed	1,029	
Homes Under Construction or in a Homebuilder's Name	123	
Lots Available for Construction	102	
Estimated Population	3,581	(i)

(a) The 2016 Taxable Assessed Valuation shown herein includes $241,840,485 of certified value and $9,186,270 of uncertified value. The uncertified value represents Fort Bend Central Appraisal District's (the "Appraisal District") opinion of the value; however, such value is subject to review and downward revision prior to certification. No tax will be levied on said uncertified value until it is certified by the Appraisal District. See "TAXING PROCEDURES."

(b) Provided by the Appraisal District for informational purposes only. Such amount reflects an estimate of the taxable assessed value within the District on September 15, 2016. No tax will be levied on such amount until it is certified. Increases in value occurring between January 1, 2016 and September 15, 2016 will be certified as of January 1, 2017, and provided for purposes of taxation in the fall of 2017. See "TAXING PROCEDURES."

(c) After the issuance of the Bonds. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds."

(d) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt" and "—Overlapping Taxes."

(e) The District will capitalize six (6) months of interest from Bond proceeds. See "USE AND DISTRIBUTION OF BOND PROCEEDS."

(f) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements."

(g) See "TAX DATA—Tax Adequacy for Debt Service" and INVESTMENT CONSIDERATIONS—Possible Impact on District Tax Rates."

(h) See "THE DISTRICT—Land Use" and "—Status of Development."

(i) Based upon 3.5 persons per occupied single-family residence.

OFFICIAL STATEMENT

$7,830,000

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 165
(A political subdivision of the State of Texas located within Fort Bend County)

UNLIMITED TAX BONDS
SERIES 2016

This OFFICIAL STATEMENT provides certain information in connection with the issuance by Fort Bend County Municipal Utility District No. 165 (the "District") of its $7,830,000 Unlimited Tax Bonds, Series 2016 (the "Bonds").

The Bonds are issued pursuant to the Texas Constitution, the general laws of the State of Texas, a resolution authorizing the issuance of the Bonds (the "Bond Resolution") adopted by the Board of Directors of the District (the "Board"), an order of the Texas Commission on Environmental Quality (the "TCEQ") and elections held within the District.

This OFFICIAL STATEMENT includes descriptions, among others, of the Bonds and the Bond Resolution, and certain other information about the District, Fieldstone (Houston) ASLI VI, L.L.L.P. (the "Developer") and development activity in the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of documents may be obtained from Allen Boone Humphries Robinson LLP, Bond Counsel, 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027, upon payment of duplication costs.

THE BONDS

Description

The Bonds will be dated and accrue interest at the rates shown on the cover page from December 1, 2016, with interest payable each March 1 and September 1, beginning March 1, 2017 (the "Interest Payment Date"), and will mature on the dates and in the amounts and accrue interest at the rates shown on the cover page hereof. The Bonds are issued in fully registered form, in denominations of $5,000 or any integral multiple of $5,000. Interest calculations are based on a 360-day year comprised of twelve 30-day months.

Transfer, Exchange and Registration

In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Registrar only upon presentation and surrender thereof to the Registrar or its principal payment office and such transfer or exchange shall be without expenses or service charge to the Registered Owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. A Bond may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Registrar. A new Bond or Bonds will be delivered by the Registrar, in lieu of the Bonds being transferred or exchanged, at the principal payment office of the Registrar, or sent by the United States mail, first class, postage prepaid, to the new Registered Owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the Registered Owner or assignee of the Registered Owner in not more than three business days after the receipt of the Bonds to be cancelled, and the written instrument of transfer or request for exchange duly executed by the Registered Owner or his duly authorized agent, in form satisfactory to the Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of $5,000 for any one maturity and for a like aggregate principal amount as the Bond or Bonds surrendered for exchange or transfer. See "BOOK-ENTRY-ONLY SYSTEM" herein defined for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

Method of Payment of Principal and Interest

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

If the date for payment of the principal of or interest on any Bond is not a business day, then the date for such payment shall be the next succeeding business day, as defined in the Bond Resolution.

Source of Payment

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

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

Funds

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

Accrued interest on the Bonds and six (6) months of capitalized interest shall be deposited into the Debt Service Fund upon receipt. The remaining proceeds of sale of the Bonds shall be deposited into the Capital Projects Fund, to be used for the purpose of reimbursing the Developer for certain construction costs and for paying the costs of issuance of the Bonds. Any monies remaining in the Capital Projects Fund will be used as described in the Bond Resolution or ultimately transferred to the Debt Service Fund. See "USE AND DISTRIBUTION OF BOND PROCEEDS" for a complete description of the use of Bond proceeds and the projects related thereto.

Redemption Provisions

Optional Redemption: The District reserves the right, at its option, to redeem the Bonds (including any Term Bonds) maturing on or after September 1, 2025, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of $5,000, on September 1, 2024, or any date thereafter, at a price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption. If fewer than all of the Bonds are to be redeemed, the particular maturity or maturities and the amounts thereof to be redeemed shall be determined by the District. If fewer than all of the serial Bonds of the same maturity are to be redeemed, the particular Bonds shall be selected by DTC in accordance with its procedures, so long as the Bonds are registered in accordance with the Book-Entry-Only System. See "BOOK-ENTRY-ONLY SYSTEM." If less than all of the entire outstanding principal amount of a Term Bond is to be redeemed, the District will notify the Paying Agent/Registrar of the reductions in the remaining mandatory redemption amounts to result from the optional redemption. Notice of each exercise of the reserved right of optional redemption shall be given at least thirty (30) calendar days prior to the date fixed for redemption, in the manner specified in the Bond Resolution.

Mandatory Redemption: The Bonds due on September 1, 2040 (the "Term Bonds"), shall be redeemed, at a price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption (the "Mandatory Redemption Date"), on September 1 in each of the years and in the principal amounts set forth in the following schedule (with each such scheduled principal amount reduced by the principal amount as may have been previously redeemed through the exercise of the District's reserved right of optional redemption, as provided under "Optional Redemption" below):

$1,300,000 Term Bonds
Due September 1, 2040

Mandatory Redemption Date	Principal Amount
2037	$ 325,000
2038	325,000
2039	325,000
2040 (maturity)	325,000

Notice of the mandatory redemption of Term Bonds will be provided at least thirty (30) calendar days prior to the date fixed for redemption, with the particular portions of the Term Bonds to be redeemed to be selected by lot or other customary method in accordance with the procedures of DTC so long as the Bonds are registered in accordance with the Book-Entry-Only System. See "BOOK-ENTRY-ONLY SYSTEM".

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

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

When Bonds have been called for redemption in whole or in part and due provision has been made to redeem the same as herein provided, the Bonds or portions thereof so redeemed shall no longer be regarded as outstanding except for the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the registered owners to collect interest which would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

Authority for Issuance

At bond elections held within the District, voters of the District authorized the issuance of $60,000,000 principal amount of unlimited tax bonds for the purpose of purchasing and constructing a water, wastewater and storm drainage system. The Bonds are being issued pursuant to such authorization.

The TCEQ has approved the sale of the Bonds subject to certain restrictions, including the use of Bond proceeds as summarized in "USE AND DISTRIBUTION OF BOND PROCEEDS."

The Bonds are issued by the District pursuant to an order of the TCEQ, the terms and conditions of the Bond Resolution, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, and general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas.

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

Lost, Stolen or Destroyed Bonds

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

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

Replacement of Paying Agent/Registrar

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

Issuance of Additional Debt

The District's voters have authorized the issuance of $60,000,000 principal amount of unlimited tax bonds for the purpose of purchasing and constructing a water, wastewater and storm drainage system (the "Facilities") and $22,000,000 principal amount of unlimited tax bonds for refunding purposes and could authorize additional amounts. After the issuance of the Bonds, $27,080,000 principal amount of unlimited tax bonds for purchasing and constructing the Facilities and $21,225,000 principal amount of unlimited tax refunding bonds will remain authorized but unissued.

The District is authorized by statute to develop parks and recreational facilities, including the issuing of bonds payable from taxes for such purpose. The District has prepared and adopted a detailed park plan and at an election held on November 8, 2005, the voters of the District authorized the issuance of $5,000,000 principal amount of unlimited tax bonds for construction of parks and recreational facilities, all of which remains authorized but unissued. Additional bonds could be authorized in the future. Before the District could issue park bonds payable from taxes, the following actions would be required: (a) approval of the bonds by the TCEQ; and (b) 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 District also is authorized by statute to engage in fire-fighting activities, including the issuing of bonds payable from taxes for such purpose. The District has prepared a detailed fire plan which has been approved by the TCEQ. The fire plan does not call for the issuance of bonds but for a mandatory fee and monetary contribution to the City of Richmond, Texas. The Board held a successful election to approve the fire plan and Fire Protection Services Agreement on November 6, 2007. Fire protection is currently provided to property in the District by the City of Richmond, Texas Fire Station No. 3 located one-half mile south of the District. The Agreement with the City of Richmond requires residents of the District to pay a mandatory fire fee. The Agreement will remain in effect until 2021 and shall renew automatically for one year terms until the District is annexed and dissolved by the City of Houston.

Pursuant to Chapter 54 of the Water Code, a municipal utility district may petition the TCEQ for the power to issue bonds supported by property taxes to finance roads. Before the District could issue such bonds, the District would be required to receive a grant of such power from the TCEQ, authorization from the District's voters to issue such bonds, and approval of the bonds by the Attorney General of Texas. The District has not considered filing an application to the TCEQ for "road powers" nor calling such an election at this time.

The Bond Resolution imposes no limitation on the amount of additional parity bonds which may be authorized for issuance by the District's voters or the amount ultimately issued by the District. The District expects to issue additional bonds in order to reimburse the Developers for the cost of waterworks, wastewater and drainage facilities, and parks and recreational facilities constructed within the District. Issuance of additional bonds could dilute the investment security of the Bonds.

Annexation by the City of Houston

Chapter 42, Local Government Code, provides that, within the limits described therein, the unincorporated area contiguous to the corporate limits of any city comprises that city's extraterritorial jurisdiction. The size of extraterritorial jurisdiction depends in part on the city's population. For the City of Houston, the extraterritorial jurisdiction consists of all the contiguous unincorporated areas, not a part of any other city limits or city's extraterritorial jurisdiction, within five (5) miles of the corporate limits of the City of Houston. With certain exceptions, a city may annex territory only within the confines of its extraterritorial jurisdiction. When a city annexes additional territory, the city's extraterritorial jurisdiction expands in conformity with such annexation.

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston, the District must conform to a City of Houston consent ordinance. In addition, the District may be annexed by the City of Houston without the District's consent; however, under Texas law, the City of Houston cannot annex territory within the District unless it annexes the entire District. If the District is annexed, the City of Houston will assume the District's assets and obligations (including the Bonds) and dissolve the District. Annexation of territory by the City of Houston is a policy-making matter within the discretion of the Mayor and City Council of the City of Houston, and therefore, the District makes no representation that the City of Houston will ever annex the District and assume its debt. Moreover, no representation is made concerning the ability of the City of Houston to make debt service payments should annexation occur.

Strategic Partnership

The District is authorized to enter into a strategic partnership agreement with the City of Houston to provide the terms and conditions under which the services would be provided and funded by the parties and under which the District would continue to exist for an extended period if the land within the District were annexed for full or limited purposes by the City. The terms of any such agreement would be determined by the City and the District. Although the City has negotiated and entered into such an agreement with other districts in its extraterritorial jurisdiction, none is currently contemplated with respect to the District, although no representation can be made regarding the future likelihood of an agreement or the terms thereof.

Consolidation

The District has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its assets (such as cash and the utility system) and liabilities (such as the Bonds) with the assets and liabilities of the district(s) with which it is consolidating. Although no consolidation is presently contemplated by the District, no representation is made concerning the likelihood of consolidation in the future.

Remedies in Event of Default

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Resolution, or defaults in the observance or performance of any other covenants, conditions, or obligations set forth in the Bond Resolution, the Registered Owners have the statutory right of a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Resolution. Except for mandamus, the Bond Resolution does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners. Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages, so that in the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Resolution may not be reduced to a judgment for money damages. If such a judgment against the District were obtained, it could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the District. See "INVESTMENT CONSIDERATIONS—Registered Owners' Remedies and Bankruptcy Limitations."

Legal Investment and Eligibility to Secure Public Funds in Texas

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

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

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

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

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

Defeasance

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

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

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

BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

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

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

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

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

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

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

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

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

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USE AND DISTRIBUTION OF BOND PROCEEDS

The construction costs below were compiled by Jones & Carter, Inc., the District's engineer (the "Engineer") and were submitted to the TCEQ in the District's Bond Application. Non-construction costs are based upon either contract amounts or estimates of various costs by the Engineer and FirstSouthwest, a Division of Hilltop Securities Inc. (the "Financial Advisor"). The actual amounts to be reimbursed by the District and the non-construction costs will be finalized after the sale of the Bonds and completion of agreed-upon procedures by the District's auditor. The surplus funds may be expended for any lawful purpose for which surplus construction funds may be used, if approved by the TCEQ, where required.

<u>CONSTRUCTION COSTS</u>		
• Water, Wastewater and Drainage to Serve:		
Fieldstone Section Ten	$	1,705,922
Fieldstone Section Eleven		936,875
Fieldstone Section Twelve		1,195,688
• Grand Mission Regional Detention Basin		1,100,963
• Grand Mission Wastewater Treatment Plant Expansion		875,027
• Contingencies		87,502
• Engineering		886,412
• Less: Surplus Construction Funds		(200,000)
Total Construction Costs	$	6,588,389
<u>NON-CONSTRUCTION COSTS</u>		
• Legal Fees	$	196,600
• Financial Advisory Fees		142,450
• Developer Interest		386,279
• Capitalized Interest (a)		115,294
• Underwriter's Discount		234,900
• Bond Issuance Expenses		33,014
• Bond Application Report		35,000
• Attorney General Fee (0.10%)		7,830
• TCEQ Fee (0.25%)		19,575
• Contingency (a)		70,669
Total Non-Construction Costs	$	1,241,611
TOTAL BOND ISSUE REQUIREMENT	**$**	**7,830,000**

(a) The TCEQ approved a maximum of $185,963 of capitalized interest, which equals six (6) months of interest at an estimated 4.75% per annum. Contingency represents the difference between the estimated and actual amount of capitalized interest.

THE DISTRICT

General

The District is a municipal utility district created by an order of the TCEQ dated July 28, 2005, after a hearing on a petition for creation submitted by the Developer. The rights, powers, privileges, authority and functions of the District are established by the general laws of the State of Texas pertaining to utility districts, particularly Article XVI, Section 59 of the Texas Constitution, and Chapters 49 and 54 of the Texas Water Code, as amended.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District is also authorized to develop parks and recreation facilities, including the issuance of bonds payable from taxes for such purposes and may also, subject to the granting of road powers by the TCEQ and certain limitations, develop and finance roads. The District is also empowered to establish, operate, and maintain fire-fighting facilities, independently or with one or more conservation and reclamation districts, after approval by the voters of the District.

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

Description and Location

The District contains approximately 385 acres of land. The District is located approximately 25 miles southwest of the central downtown business district of the City of Houston and lies wholly within the extraterritorial jurisdiction of the City of Houston. The District is within the boundaries of the Fort Bend Independent School District. The District is located north of the intersection of West Bellfort Street and Mason Road, approximately one-half mile northeast of the Grand Parkway (Texas State Highway 99). See "AERIAL LOCATION MAP."

Land Use

The District currently includes approximately 331 developed acres of single-family residential development (1,254 lots), approximately 12 undevelopable acres (rights-of-way, detention, open spaces, easements and utility sites) and approximately 42 developable acres that have not been fully provided with water distribution, wastewater collection and storm drainage facilities. The table below represents a detailed breakdown of the current acreage and development in the District.

	Approximate Acres	Lots
Field Stone:		
Section One	37	123
Section Two	37	150
Section Three (a)	43	100
Section Four	37	148
Section Five A	16	72
Section Five B	15	59
Section Six A	16	86
Section Six B	14	58
Section Seven	16	58
Section Eight A	9	45
Section Eight B	9	58
Section Ten	24	94
Section Eleven	29	85
Section Twelve	29	118
Subtotal	331	1,254
Future Development	42	---
Non-Developable (b)	12	---
Subtotal	54	1,254
Total	385	1,254

(a) Includes a recreation facility developed on approximately 6 acres within the District.
(b) Includes public rights-of-way, detention, open spaces, easements and two utility sites.

Status of Development

The District is being developed as Fieldstone. As of October 1, 2016, 1,029 homes were constructed (1,023 occupied), 123 homes were in various stages of construction or in a homebuilder's name and 102 vacant developed lots were available for home construction. Homes within the District range in price from approximately $155,000 to over $415,000. The estimated population in the District (based upon 3.5 persons per occupied single-family residence) is 3,581. See "Land Use" above.

Builders: Homebuilders actively conducting building programs within the District include K. Hovnanian Homes, Meritage Homes and Ashton Woods Homes. New homes are being marketed at prices ranging from approximately $155,000 to $415,000.

Future Development

The District is currently planned as a primarily single-family residential development. Approximately 42 developable acres of land currently within the District are not yet fully served with water distribution and supply, wastewater collection and treatment or storm drainage. While the Developer anticipates future development of this acreage as business conditions warrant, there can be no assurances if and when any of such undeveloped land will ultimately be developed. The District anticipates issuing additional bonds to accomplish full development of the District. See "INVESTMENT CONSIDERATIONS—Undeveloped Acreage and Vacant Developed Lots" and "—Future Debt." The Engineer has stated that under current development plans, the remaining authorized but unissued bonds ($27,080,000 principal amount for water, wastewater, and storm drainage facilities and $5,000,000 principal amount for recreational facilities) should be sufficient to finance the construction of facilities to complete the District's water, wastewater, storm drainage, and park and recreational facilities for full development of the District. See 'THE BONDS—Issuance of Additional Debt" and "INVESTMENT CONSIDERATIONS—Future Debt."

THE DEVELOPER

Role of a Developer

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

Prospective Bond purchasers should note that the prior real estate experience of the Developer should not be construed as an indication that further development within the District will occur, or that construction of taxable improvements upon property within the District will occur, or that marketing of taxable improvements constructed upon property within the District will be successful. See "INVESTMENT CONSIDERATIONS—Factors Affecting Taxable Values and Tax Payments" and "—Dependence on Major Taxpayers and the Developer."

The Developer has no legal commitment to the District or owners of the Bonds to continue development of land within the District and may sell or otherwise dispose of its property within the District, or any other assets, at any time. Further, the Developer's financial conditions are subject to change at any time. Neither the Developer nor any affiliate of the Developer, if any, is obligated to pay principal of or interest on the Bonds. Furthermore, the Developer has no binding commitment to the District to carry out any plan of development, and the furnishing of information relating to the proposed development by the Developer should not be interpreted as such a commitment. Prospective purchasers are encouraged to inspect the District in order to acquaint themselves with the nature of development that has occurred or is occurring within the District's boundaries.

The Developer

The developer of the land within the District is Fieldstone (Houston) ASLI VI, L.L.L.P., a Delaware limited liability limited partnership (the "Developer"). The sole general partner of the Developer is Avanti Properties Group II, L.L.L.P., a Delaware limited liability limited partnership. The Developer has engaged a development manager, Fieldstone Lot Partners, LLC, a Texas limited liability company, to oversee development in the District.

The Fieldstone property is wholly owned by an affiliate of the Developer known as Avanti Strategic Land Investors, VI ("ASLI VI"), a $238 million land investment fund capitalized mainly by university endowments, pension funds, and charitable foundations.

The Developer is not responsible for, liable for, and has not made any commitment for payment of the Bonds or other obligations of the District. The Developer has no legal commitment to the District or owners of the bonds to continue development of land within the District and may sell or otherwise dispose of its property within the District, or any other assets, at any time. Further, the Developer's financial condition is subject to change at any time.

MANAGEMENT OF THE DISTRICT

Board of Directors

The District is governed by the Board, consisting of five (5) directors, which has control over and management supervision of all affairs of the District. Directors are elected to staggered four-year terms and elections are held in May in even numbered years only. One of the Board members resides within the District and each of the four remaining Board members owns land within the District subject to a note and deed of trust in favor of the Developer. The current members and officers of the Board along with their titles and terms, are listed as follows:

Name	District Board Title	Term Expires
William David "Mac" McKinnie IV	President	May 2020
Angela Gutowsky	Vice President	May 2020
Melinda Garza Salazar	Secretary	May 2018
Matt Moake	Assistant Secretary	May 2020
Richard Van den Bosch	Assistant Vice President/ Assistant Secretary	May 2018

District Consultants

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

Bond Counsel/Attorney: The District has engaged Allen Boone Humphries Robinson LLP as general counsel to the District and as Bond Counsel in connection with the issuance of the District's bonds. The fees of the attorneys in their capacity as Bond Counsel are contingent upon the sale and delivery of the Bonds. Compensation to the attorneys for other services to the District is based on time charges actually incurred.

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

Auditor: As required by the Texas Water Code, the District retains an independent auditor to audit the District's financial statements annually, which audit is filed with the TCEQ. The District's financial statements for the year ended May 31, 2016, were audited by McCall Gibson Swedlund Barfoot, PLLC, Certified Public Accountants. See "APPENDIX A" for a copy of the District's May 31, 2016, financial statements. On June 9, 2016, the District changed its fiscal year end to June 30. The District's next audit period will cover May 31, 2016 to June 30, 2017.

Engineer: The District's engineer is Jones & Carter, Inc.

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

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

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

Utility System Operator: The operator of the District's internal water and wastewater system is Municipal District Services, LLC.

THE SYSTEM

Regulation

Construction and operation of the District's water, wastewater and storm drainage system as it now exists or as it may be expanded from time to time is subject to regulatory jurisdiction of federal, state and local authorities. The TCEQ exercises continuing, supervisory authority over the District. Discharge of treated sewage into Texas waters, if any, is also subject to the regulatory authority of the TCEQ and the United States Environmental Protection Agency. Construction of drainage facilities is subject to the regulatory authority of the Fort Bend County Drainage District. Fort Bend County, Fort Bend County Levee Improvement District No. 12 ("LID 12"), the City of Houston, and the Texas Department of Health also exercise regulatory jurisdiction over the District's system.

Water Supply

The District is a participant in the regional water supply system serving four districts (the "Grand Mission Regional Water Supply System") and operated by Grand Mission Municipal Utility District No. 1 ("Grand Mission MUD 1") pursuant to an agreement among the participating districts. The Grand Mission Regional Water Supply System is owned by the District, Grand Mission MUD 1, Grand Mission Municipal Utility District No. 2 ("Grand Mission MUD 2") and Fort Bend County Municipal Utility District No. 143 ("MUD 143"). The Grand Mission Regional Water Supply System (Water Plant No. 1 and Water Plant No. 2) currently consists of two (2) 1,500 gallons per minute ("gpm") water wells, 2,665,000 gallons of ground storage tank capacity, 11,500 gpm of booster pump capacity, 120,000 gallons of pressure tank capacity and related appurtenances. Additionally, Grand Mission MUD 1 has an agreement in place with the North Fort Bend Water Authority (the "Authority") for surface water supply to the system. Per the agreement, the Authority is to supply the Grand Mission Regional Water Supply System with at least 1,500,000 gallons of surface water per day. Currently, a majority of the water used by the Grand Mission Water Supply System is surface water and the groundwater wells are used to mitigate the peak usage demands. The District owns adequate capacity in the Grand Mission Regional Water Supply System to serve 1,104 equivalent single-family connections. As of March 1, 2016, the District was serving 1,040 active connections (including 123 homes under construction or in a builder's name). Improvements to Water Plant No. 3 that include a 20,000 gallon pressure tank, a 350,000 gallon ground storage tank and 2,000 gpm of booster pump capacity, will be complete in November 2016. After completion of Water Plant No. 3, the Grand Mission Regional Water Supply System will have capacity to serve 7,436 equivalent single-family connections, of which 1,428 will be allocated to the District.

Subsidence and Conversion to Surface Water Supply

The District is within the boundaries of the Fort Bend Subsidence District (the "Subsidence District"), which regulates groundwater withdrawal. Grand Mission Regional Water Supply System'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 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 of Houston, Texas ("Houston") to obtain treated surface water from Houston. The Authority has developed a groundwater reduction plan ("GRP") and obtained Subsidence District approval of its GRP. The Authority's GRP sets forth the Authority's plan to comply with Subsidence District regulations, construct surface water facilities, and convert users from groundwater to alternate source water (e.g., surface water). The District is included within the Authority's GRP and is now receiving surface water from the North Fort Bend Water Authority through the Grand Mission Regional Water Supply System.

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, user fees, rates, charges and special assessments as necessary to accomplish its purposes; and (iii) mandate water users, including the Grand Mission Regional Water Supply System, to convert from groundwater to surface water. The Authority currently charges its participants a fee per 1,000 gallons of surface water received and a fee per 1,000 gallons of groundwater pumped. The Authority has issued revenue bonds to fund, among other things, Authority surface water project costs. It is expected that the Authority will continue to issue a substantial amount of bonds by the year 2025 to finance the Authority's project costs, and it is expected that the fees charged by the Authority will increase substantially over such period.

Under the Subsidence District regulations and the GRP, the Authority is required to: (i) limit groundwater withdrawals to no more than 70% of the total annual water demand of the water users within the Authority's GRP, beginning in the year 2014; and (ii) limit groundwater withdrawals to no more than 40% of the total annual water demand of the water users within the Authority's GRP, beginning in the year 2025. If the Authority fails to comply with the above Subsidence District regulations, the Authority is subject to a disincentive fee penalty 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 annual water demand in the Authority's GRP. In the event of such Authority failure to comply, the Subsidence District may also seek to collect Disincentive Fees from participants, including the District. If the District failed to comply with surface water conversion requirements mandated by the Authority, the Authority would likely seek monetary or other penalties against the participants in the System.

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 continue passing such fees through to its customers: (i) through higher water rates and/or (ii) with portions of maintenance tax proceeds, if any. 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.

Wastewater Treatment

Wastewater treatment capacity for the District is currently provided by a 1,600,000 gallon per day ("gpd") wastewater treatment plant jointly owned and operated by the District, Grand Mission MUD 1, Grand Mission MUD 2 and MUD 143. The District owns an aggregate of 271,120 gpd of wastewater treatment capacity in such plant. The District's capacity will adequately serve 1,043 equivalent single-family connections. As of March 1, 2016, the District was serving 1,040 active connections (including 123 homes under construction or in a builder's name). Design of a 600,000 gpd expansion to the wastewater treatment plant is currently underway. Grand Mission MUD 1 is actively monitoring the hydraulic flow, ammonia loading and organic loading at the wastewater treatment plant. As of September 2016, the current plant was operating at an average flow of 750,000 gpd or approximately 63% of the plant's capacity. Grand Mission MUD 1 will begin construction of the plant when flows reach 90% of the current plant's capacity. The projected construction start date for the expansion is fall 2017 with an estimated completion in late 2018.

Water Distribution, Wastewater Collection and Storm Drainage Facilities

Water distribution, wastewater collection and storm drainage facilities have been constructed to serve 1,254 lots in the District. See "THE DISTRICT—Land Use."

100-Year Flood Plain

According to the District's Engineer, none of the developable acreage within the District is located within the 100-year flood plain as designated by the most recent Federal Emergency Management Agency ("FEMA") Flood Insurance Rate Map that was approved by FEMA on April 2, 2014. Flood protection for the land within the District's boundaries is provided by LID 12 through a series of channels and ditches. According to Jones & Carter, Inc., the District's engineer, none of the developable acreage within the District is currently located within the 100-year flood plain.

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General Operating Fund

The Outstanding Bonds and the Bonds are payable solely from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District. Net revenue from operations of the District's system, if any, are available for any legal purpose, including, upon Board action, the payment of debt service on the Bonds and the Outstanding Bonds. It is anticipated that no significant operation revenues will be used for debt service on the Bonds or the Outstanding Bonds in the foreseeable future.

The following statement sets forth in condensed form the General Operating Fund as shown in the District's audited financial statements for the fiscal years ended May 31, 2012, through May 31, 2016. The District has changed its fiscal year to June 30 for future years, effective for the 13 month period ending June 30, 2017. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Reference is made to "APPENDIX A" for further and complete information.

	Fiscal Year Ended May 31				
	2016	2015	2014	2013	2012
Revenues:					
Property Taxes	805,860	$ 616,151	$ 473,301	$ 392,112	$ 398,332
Water and Sewer Service	700,552	593,185	462,169	361,725	250,858
Regional Water Fee	318,065	233,990	178,896	112,315	102,977
Fire Protection	134,885	111,031	78,465	55,193	42,327
Penalty and Interest	25,505	20,272	17,890	13,179	7,318
Tap Connection and Inspection	204,015	229,685	262,605	161,465	98,822
Miscellaneous	15,470	13,510	4,057	3,883	2,176
Total Revenue	2,204,352	$ 1,817,824	$ 1,477,383	$ 1,099,872	$ 902,810
Expenditures:					
Purchased Services	176,216	$ 143,201	$ 347,461	$ 238,494	$ 206,771
Professional Fees	509,560	398,465	108,601	107,862	104,730
Contracted Services	457,152	460,134	350,538	209,760	163,418
Detention Costs	20,182				
Utilities	24,916	27,758	49,893	48,053	41,692
Repairs and Maintenance	191,583	198,739	131,257	122,825	188,168
Other	178,098	192,974	146,889	92,807	65,680
Capital Outlay	276,997	-	403,700	-	-
Total Expenditures	1,834,704	$ 1,421,271	$ 1,538,339	$ 819,801	$ 770,459
NET REVENUES	$ 369,648	$ 396,553	$ (60,956)	$ 280,071	$ 132,351
General Operating Fund Balance (Beginning of Year)	$ 1,385,773	$ 989,220	$ 1,050,176	$ 770,105	$ 637,754
General Operating Fund Balance (End of Year)	$ 1,755,421	$ 1,385,773	$ 989,220	$ 1,050,176	$ 770,105

FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)

2016 Taxable Assessed Valuation	$251,026,755	(a)
Estimated Taxable Assessed Valuation as of September 15, 2016	$272,631,499	(b)
Gross Direct Debt Outstanding	$31,005,000	(c)
Estimated Overlapping Debt	9,941,598	(d)
Gross Direct Debt and Estimated Overlapping Debt	$40,946,598	
Ratios of Gross Direct Debt to:		
2016 Taxable Assessed Valuation	12.35%	
Estimated Taxable Assessed Valuation as of September 15, 2016	11.37%	
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:		
2016 Taxable Assessed Valuation	16.31%	
Estimated Taxable Assessed Valuation as of September 15, 2016	15.02%	
Funds Available for Debt Service:		
Debt Service Fund Balance as of October 13, 2016	$866,529	
Capitalized Interest from proceeds of the Bonds (Six (6) Months)	115,294	(e)
Total Funds Available for Debt Service	$981,823	
Operating Funds Available as of October 13, 2016	$1,669,530	
Capital Projects Funds Available as of October 13, 2016	$644,161	

(a) The 2016 Taxable Assessed Valuation shown herein includes $241,840,485 of certified value and $9,186,270 of uncertified value. The uncertified value represents Fort Bend Central Appraisal District's (the "Appraisal District") opinion of the value; however, such value is subject to review and downward revision prior to certification. No tax will be levied on said uncertified value until it is certified by the Appraisal District. See "TAXING PROCEDURES."

(b) Provided by the Appraisal District for informational purposes only. Such amount reflects an estimate of the taxable assessed value within the District on September 15, 2016. No tax will be levied on such amount until it is certified. Increases in value occurring between January 1, 2016 and September 15, 2016 will be certified as of January 1, 2017, and provided for purposes of taxation in the fall of 2017. See "TAXING PROCEDURES."

(c) After the issuance of the Bonds. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds."

(d) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt" and "—Overlapping Taxes."

(e) The District will capitalize six (6) months of interest from Bond proceeds. See "USE AND DISTRIBUTION OF BOND PROCEEDS."

Investments of the District

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

Outstanding Bonds

The District has previously issued six series of unlimited tax bonds in the principal amount of $25,090,000 and one series of unlimited tax refunding bonds in the principal amount of $4,940,000, $23,090,000 of which collectively remains outstanding (the "Outstanding Bonds") as of the date hereof. The following table lists the original principal amount of the Outstanding Bonds and the Outstanding Bonds.

Series		Original Principal Amount	Principal Currently Outstanding
2008		$ 5,250,000	$ 155,000
2011		2,135,000	1,905,000
2012		2,500,000	2,325,000
2013		4,655,000	4,100,000
2014		5,800,000	5,335,000
2015	(a)	4,940,000	4,830,000
2015A		4,750,000	4,525,000
Total		$ 30,030,000	$ 23,175,000

(a) Unlimited tax refunding bonds.

Debt Service Requirements

The following sets forth the debt service on the Outstanding Bonds and the Bonds. This schedule does not reflect the fact that an amount equal to six (6) months of interest will be capitalized from Bond proceeds for payment of debt service on the Bonds. See "USE AND DISTRIBUTION OF BOND PROCEEDS."

Year	Outstanding Bonds Debt Service Requirements	Plus: Debt Service on the Bonds Principal	Interest	Total	Total Debt Service Requirements
2017	$ 1,728,608.76	$ 325,000	$ 172,940.63	$ 497,940.63	$ 2,226,549.39
2018	1,710,558.76	330,000	224,087.50	554,087.50	2,264,646.26
2019	1,698,288.76	330,000	217,487.50	547,487.50	2,245,776.26
2020	1,680,518.76	330,000	210,887.50	540,887.50	2,221,406.26
2021	1,679,918.76	330,000	204,287.50	534,287.50	2,214,206.26
2022	1,661,168.76	330,000	197,687.50	527,687.50	2,188,856.26
2023	1,646,753.76	330,000	191,087.50	521,087.50	2,167,841.26
2024	1,636,353.76	325,000	181,187.50	506,187.50	2,142,541.26
2025	1,619,181.26	325,000	171,437.50	496,437.50	2,115,618.76
2026	1,600,573.76	325,000	161,687.50	486,687.50	2,087,261.26
2027	1,580,615.00	325,000	151,937.50	476,937.50	2,057,552.50
2028	1,559,125.00	325,000	142,187.50	467,187.50	2,026,312.50
2029	1,551,462.50	325,000	132,437.50	457,437.50	2,008,900.00
2030	1,526,906.26	325,000	122,687.50	447,687.50	1,974,593.76
2031	1,500,875.00	325,000	112,937.50	437,937.50	1,938,812.50
2032	1,483,387.50	325,000	102,781.25	427,781.25	1,911,168.75
2033	1,473,937.50	325,000	92,218.75	417,218.75	1,891,156.25
2034	1,156,550.00	325,000	81,250.00	406,250.00	1,562,800.00
2035	1,138,062.50	325,000	69,875.00	394,875.00	1,532,937.50
2036	1,118,700.00	325,000	58,500.00	383,500.00	1,502,200.00
2037	927,862.50	325,000	47,125.00	372,125.00	1,299,987.50
2038	929,587.50	325,000	35,343.75	360,343.75	1,289,931.25
2039	524,168.76	325,000	23,562.50	348,562.50	872,731.26
2040	-	325,000	11,781.25	336,781.25	336,781.25
Total	$ 33,133,165.12	$ 7,830,000	$ 3,117,403.13	$ 10,947,403.13	$ 44,080,568.25

Average Annual Debt Service Requirements (2017-2040) $1,836,690
Maximum Annual Debt Service Requirement (2018) $2,264,646

Estimated Overlapping Debt

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

Taxing Jurisdiction	Outstanding Bonds	As of	Overlapping Percent	Overlapping Amount
Fort Bend County	$431,140,000	09/30/2016	0.41%	$1,767,674
Fort Bend Independent School District	814,858,767	09/30/2016	0.79%	6,437,384
Fort Bend Levee Improvement District No. 12	13,535,000	05/31/2016	12.83%	1,736,541

Total Estimated Overlapping Debt	$9,941,598
The District's Total Direct Debt (a)	31,005,000
Total Direct and Estimated Overlapping Debt	$40,946,598

Direct and Estimated Overlapping Debt as a Percentage of:

2016 Taxable Assessed Valuation of $251,026,755	16.31%
Estimated Taxable Assessed Valuation as of September 15, 2016, of $272,631,499	15.02%

(a) Includes the Bonds and the Outstanding Bonds.

Overlapping Taxes

Property within the District is subject to taxation by several taxing authorities in addition to the District. On January 1 of each year a tax lien attaches to property to secure the payment of all taxes, penalties and interest imposed on such property. The lien exists in favor of each taxing unit, including the District, having the power to tax the property. The District's tax lien is on a parity with tax liens of taxing authorities shown below. In addition to ad valorem taxes required to pay debt service on bonded debt of the District and other taxing authorities (see "Estimated Overlapping Debt" above), certain taxing jurisdictions, including the District, are also authorized by Texas law to assess, levy and collect ad valorem taxes for operation and maintenance purposes.

Set forth below are all of the taxes levied for the 2016 tax year by all overlapping taxing jurisdictions. No recognition is given to local assessments for civic association dues, fire department contributions, solid waste disposal charges or any other levy of entities other than political subdivisions.

	Tax Rate per $100 Taxable Assessed Valuation
Fort Bend County (including Drainage District)	$ 0.474000
Fort Bend Independent School District	1.340000
Fort Bend County Levee Improvement District No. 12 (a)	0.090000
Total Overlapping Tax Rate	$ 1.904000
The District (b)	1.250000
Total Tax Rate	$ 3.154000

(a) See "INVESTMENT CONSIDERATIONS—Overlapping Debt and Taxes."
(b) See "TAX DATA—Historical Tax Rate Distribution."

TAX DATA

Debt Service Tax

The Board covenants in the Bond Resolution to levy and assess, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax adequate to provide funds to pay the principal of and interest on the Bonds. See "Historical Tax Rate Distribution" and "Tax Roll Information" below, "TAXING PROCEDURES" and "INVESTMENT CONSIDERATIONS—Factors Affecting Taxable Values and Tax Payments."

Maintenance Tax

The Board has the statutory authority to levy and collect an annual ad valorem tax for the operation and maintenance of the District, if such a maintenance tax is authorized by the District's voters. A maintenance tax election was conducted November 8, 2005, and voters of the District authorized, among other things, the Board to levy a maintenance tax at a rate not to exceed $1.50 per $100 taxable assessed valuation. A maintenance tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds. See "Debt Service Tax" above."

Historical Tax Rate Distribution

	2016	2015	2014	2013	2012
Debt Service	$ 0.87	$ 0.90	$ 0.92	$ 0.92	$ 0.87
Maintenance and Operations	0.38	0.42	0.45	0.45	0.50
Total	$ 1.25	$ 1.32	$ 1.37	$ 1.37	$ 1.37

Exemptions

As discussed in the section titled "TAXING PROCEDURES" herein, certain property in the District may be exempt from taxation by the District. The District does not exempt any percentage of the market value of any residential homesteads from taxation. For 2016, the District has exempted $20,000 of the taxable value of resident homesteads for persons who are disabled or 65 years of age or older. The Developer has executed a Waiver of Special Appraisal, waiving its right to claim any agriculture or open space exemptions, or any other type of exemption or valuation, for the property it owns within the District that would reduce the assessed value of such land below its market value for purposes of ad valorem taxation by the District. Such waiver is binding for a period of thirty years.

Additional Penalties

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

Historical Tax Collections

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

Tax Year	Net Taxable Valuation (a)	Tax Rate	Total Tax Levy (b)	Total Collections As of 8/31/2016 (c) Amount	Percent
2011	$ 68,953,310	$ 1.37	$ 944,660	$ 944,660	100.00%
2012	78,788,514	1.37	1,079,403	1,079,403	100.00%
2013	105,176,080	1.37	1,440,912	1,440,912	100.00%
2014	136,440,623	1.37	1,869,237	1,869,237	100.00%
2015	193,421,775	1.32	2,553,167	2,535,551	99.31%
2016	251,026,755	1.25	3,137,834	(d)	(d)

(a) Net valuation represents final gross taxable assessed valuation as certified by the Appraisal District less any exemptions granted. See "Tax Roll Information" below for gross taxable assessed valuation and exemptions granted by the District.
(b) Represents actual tax levy, including any adjustments by the Appraisal District, as of the date hereof.
(c) Unaudited.
(d) In the process of collection. Taxes for the 2016 tax year are due by January 31, 2017.

Tax Roll Information

The District's assessed value as of January 1 of each year is used by the District in establishing its tax rate. See "TAXING PROCEDURES—Valuation of Property for Taxation." The following represents the composition of property comprising the 2012 through 2016 Taxable Assessed Valuations and the Estimated Taxable Assessed Valuation as of September 15, 2016. The 2016 Taxable Assessed Valuation includes $241,840,485 of certified value plus $9,186,270 of uncertified value. Taxes are levied on taxable value certified by the Appraisal District as of January 1 of each year.

	Estimated Taxable Assessed Valuation as of 9/15/2016	2016 Taxable Assessed Valuation	2015 Taxable Assessed Valuation	2014 Taxable Assessed Valuation	2013 Taxable Assessed Valuation	2012 Taxable Assessed Valuation
Land	$ 48,825,020	$ 45,266,250	$ 39,228,700	$ 36,853,870	$ 33,246,680	$ 24,615,090
Improvements	227,274,830	212,076,640	162,301,870	101,734,950	72,540,850	54,545,150
Personal Property	758,210	758,210	776,130	1,219,870	686,100	745,270
Exempt Property	(7,092,215)	(7,074,345)	(8,884,925)	(3,368,067)	(1,297,550)	(1,116,996)
Uncertified	2,865,654	-	-	-	-	-
Total Assessed Valuation	$ 272,631,499	$ 251,026,755	$ 193,421,775	$ 136,440,623	$ 105,176,080	$ 78,788,514

Principal Taxpayers

The following table represents the ten principal taxpayers, the taxable assessed valuation of such property, and such property's taxable assessed valuation as a percentage of the certified portion ($184,246,601) of the 2016 Taxable Assessed Valuation of $241,840,485. Principal taxpayer lists related to the uncertified portion ($9,186,270) of the 2016 Taxable Assessed Valuation or Estimated Taxable Assessed Valuation as of September 15, 2016, of $272,631,499 are not currently available.

Taxpayer	2016 Certified Taxable Assessed Valuation	% of 2016 Certified Taxable Assessed Valuation
Fieldstone (Houston) ASLI VI LLP (a)	$ 3,713,080	1.48%
K Hovnanian of Houston II LLC (b)	1,249,640	0.50%
Ashton Houston Residential LLC (b)	435,100	0.17%
Meritage Homes of Texas(b)	590,260	0.24%
Centerpoint Energy Electric	661,200	0.26%
Individual	417,320	0.17%
Riverway Builders LP (c)	402,030	0.16%
Individual	397,320	0.16%
Individual	395,290	0.16%
Individual	391,420	0.16%
Total of Principal Taxpayers	$ 8,652,660	3.45%

(a) See "THE DEVELOPER."
(b) See "THE DEVELOPER—Builders."
(c) No longer building in the District.

Tax Adequacy for Debt Service

The tax rate calculations set forth below are presented to indicate the tax rates per $100 taxable assessed valuation which would be required to meet average annual and maximum debt service requirements if no growth in the District's tax base occurred beyond the 2016 Taxable Assessed Valuation of $251,026,755 ($241,840,485 of certified and $9,182,270 of uncertified) and the Estimated Taxable Assessed Valuation as of September 15, 2016, of $272,631,499. The calculations contained in the following table merely represent the tax rates required to pay principal of and interest on the Bonds and the Outstanding Bonds when due, assuming no further increase or any decrease in taxable values in the District, collection of ninety-five percent (95%) of taxes levied, the sale of no additional bonds, and no other funds available for the payment of debt service. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements" and "INVESTMENT CONSIDERATIONS—Possible Impact on District Tax Rates."

Average Annual Debt Service Requirement (2017-2040) $1,836,690
$0.78 Tax Rate on 2016 Taxable Assessed Valuation... $1,860,108
$0.71 Tax Rate on Estimated Taxable Assessed Valuation as of September 15, 2016 .... $1,838,899

Maximum Annual Debt Service Requirement (2018).. $2,264,646
$0.95 Tax Rate on 2016 Taxable Assessed Valuation... $2,265,516
$0.88 Tax Rate on Estimated Taxable Assessed Valuation as of September 15, 2016 .... $2,279,199

No representation or suggestion is made that the uncertified portion of the 2016 Taxable Assessed Valuation will not be adjusted downward prior to certification or the estimated values of land and improvements provided by the Appraisal District as of September 15, 2016, for the District will be certified as taxable value by the Appraisal District, and no person should rely upon such amounts or their inclusion herein as assurance of their attainment. See “TAXING PROCEDURES.”

TAXING PROCEDURES

Authority to Levy Taxes

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in an amount sufficient to pay the principal of and interest on the Bonds, the Outstanding Bonds, and any additional bonds payable from taxes which the District may hereafter issue (see “INVESTMENT CONSIDERATIONS—Future Debt”) and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Resolution to levy such a tax from year-to-year as described more fully herein under “THE BONDS—Source of Payment.” Under Texas law, the Board may also levy and collect an annual ad valorem tax for the operation and maintenance of the District. See “TAX DATA—Debt Service Tax” and “—Maintenance Tax.”

Property Tax Code and County-Wide Appraisal District

The Texas Property Tax Code (the “Property Tax Code”) specifies the taxing procedures of all political subdivisions of the State of Texas, including the District. Provisions of the Property Tax Code are complex and are not fully summarized here.

The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas an appraisal district with the responsibility for recording and appraising property for all taxing units within a county and an appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. The Fort Bend Central Appraisal District (the “Appraisal District”) has the responsibility for appraising property for all taxing units within Fort Bend County, including the District. Such appraisal values are subject to review and change by the Fort Bend Central Appraisal Review Board (the “Appraisal Review Board”).

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property, 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; farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years or older and of certain disabled persons to the extent deemed advisable by the respective boards. The District may be required to offer such exemption if a majority of voters approve it at an election. The District would be required to call such an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the 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, of between $3,000 and $12,000 of taxable valuation depending upon the disability rating of the veteran claiming the exemption, and qualifying surviving spouses of persons 65 years of age or older will be entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse. A veteran who receives a disability rating of 100% is entitled to an exemption for the full amount of the veteran’s residence homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran’s residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran’s exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran’s disability rating if the residence homestead was donated by a charitable organization. Also, the surviving spouse of a member of the armed forced 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 spouse. See “TAX DATA.”

Residential Homestead Exemptions: The Property Tax Code authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) of the appraised value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of a homestead exemption may be considered each year, but must be adopted by April 30.

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

Tax Abatement

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

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Property Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Property Tax Code.

Nevertheless, certain land may be appraised at less than market value under the Property Tax Code. In November 1997, Texas voters approved a constitutional amendment to limit increases in the appraised value of residence homesteads to ten percent (10%) annually regardless of the market value of the property. The Property Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its fair market value. The Property Tax Code permits under certain circumstances that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Provisions of the Property Tax Code are complex and are not fully summarized here. Landowners wishing to avail themselves of the agricultural use, open space or timberland designation or residential real property inventory designation must apply for the designation and the appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions while claiming it as to another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous three (3) years for agricultural use and taxes for the previous five (5) years for open space land and timberland.

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

District and Taxpayer Remedies

Under certain circumstances taxpayers and taxing units (such as the District) may appeal the orders of the Appraisal Review Board by filing a timely petition for review in State district court. In such event, the value of the property in question will be determined by the court or by a jury if requested by any party. Additionally, taxing units may bring suit against the Appraisal District to compel compliance with the Property Tax Code.

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

Levy and Collection of Taxes

The District is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. The rate of taxation is set by the Board of Directors, after the legally required notice has been given to owners of property within the District, based upon: a) the valuation of property within the District as of the preceding January 1, and b) the amount required to be raised for debt service, maintenance purposes and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent if not paid before February 1 of the year following the year in which imposed. 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. For those taxes billed at a later date and that become delinquent on or after June 1, they will also incur an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. The delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, may be rejected. 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, 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 equal monthly installments and must extend for a period of at least 12 months and no more than 36 months. Additionally, the owner of a residential homestead property who is a person sixty-five (65) years of age or older or disabled is entitled by law to pay current taxes on a residential homestead in installments or to defer the payment of taxes without penalty during the time of ownership.

Rollback of Operation and Maintenance Tax Rate

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

District's Rights in the Event of Tax Delinquencies

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

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both, subject to the restrictions on residential homesteads described above under "Levy and Collection of Taxes." In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights or by bankruptcy proceedings which restrict the collection of taxpayer debts. A taxpayer may redeem property within six (6) months for commercial property and two (2) years for residential and all other types of property after the purchaser's deed issued at the foreclosure sale is filed in the county records. See "INVESTMENT CONSIDERATIONS—General" and "—Tax Collection Limitations and Foreclosure Remedies."

The Effect of FIRREA on Tax Collections of the District

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

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

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

INVESTMENT CONSIDERATIONS

General

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

Economic Factors and Interest Rates

A substantial percentage of the taxable value of the District results from the current market value of single-family residences and of developed lots which are currently being marketed by the Developer for sale to homebuilders for the construction of primary residences. The market value of such homes and lots is related to general economic conditions in the Houston region and the national economy and those conditions can affect the demand for residences. Demand for lots of this type and the construction of residential dwellings thereon can be significantly affected by factors such as interest rates, credit availability (see "Credit Market and Liquidity in the Financial Markets"), construction costs and the prosperity and demographic characteristics of the urban center toward which the marketing of lots is directed. Decreased levels of construction activity would tend to restrict the growth of property values in the District or could adversely impact such values.

Credit Markets and Liquidity in the Financial Markets

Interest rates and the availability of mortgage and development funding have a direct impact on construction activity in the District, particularly short-term interest rates at which developers are able to obtain financing for development costs. Interest rate levels may affect the ability of a landowner with undeveloped property to undertake and complete construction activities within the District. Because of the numerous and changing factors affecting the availability of funds, particularly liquidity in the national credit markets, the District is unable to assess the future availability of such funds for continued construction within the District. In addition, since the District is located approximately 25 miles southwest from the central downtown business district of the City of Houston, the success of development within the District and growth of District taxable property values are, to a great extent, a function of the Houston metropolitan and regional economies and national credit and financial markets. A downturn in the economic conditions of Houston and decline in the nation's real estate and financial markets could adversely affect development and home-building plans in the District and restrain the growth or reduce the value of the District's property tax base.

Competition

The demand for and construction of single-family homes in the District, which is 25 miles southwest from downtown Houston, could be affected by competition from other residential developments including other residential developments located in the southwestern portion of the Houston metropolitan area. In addition to competition for new home sales from other developments, there are numerous previously-owned homes in the area of the District and in more established neighborhoods closer to downtown Houston. Such homes could represent additional competition for new homes proposed to be sold within the District.

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

Possible Impact on District Tax Rates

Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of owners of property within the District to pay their taxes. The 2016 Taxable Assessed Value is $251,026,755 ($241,840,485 of certified and $9,186,270 of uncertified). After issuance of the Bonds, the maximum annual debt service requirement will be $2,264,646 (2018), and the average annual debt service requirement will be $1,836,690 (2017-2040, inclusive). Assuming no increase or decrease from the 2016 Taxable Assessed Value, the issuance of no additional debt, and no other funds available for the payment of debt service, tax rates of $0.95 and $0.78, per $100 of taxable assessed valuation, respectively, at a ninety-five percent (95%) collection rate would be necessary to pay both the maximum annual debt service requirement and the average annual debt service requirements, respectively. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements."

The Estimated Taxable Assessed Valuation as of September 15, 2016 is $272,631,499, which reduces the above tax calculations to $0.88 and $0.71, per $100 of taxable assessed valuation, respectively. No representation or suggestion is made that the Estimated Taxable Assessed Valuation as of September 15, 2016, will be the amount finally certified by the Appraisal District and no person should rely upon such amounts or their inclusion herein as assurance of their attainment. See "TAXING PROCEDURES."

Overlapping Debt and Taxes

All of the land within the District is located within Fort Bend Levee Improvement District No. 12 ("LID 12"), and is subject to taxation by LID 12. LID 12 levied a 2016 tax rate of $0.09 per $100 of taxable assessed valuation and has $13,535,000 principal amount of bonds outstanding. Increases in LID 12's tax rate could have an adverse impact upon development and home sales within LID 12, which includes the District, and the willingness of owners of property located within the District to pay ad valorem taxes levied by LID 12 and the District.

The District intends that the composite of its tax rate and that of LID 12, will not exceed $1.50 per $100 of valuation, however, the District cannot control the tax rates of LID 12. There can be no assurances that the composite of the tax rates imposed by all jurisdictions on property in the District will be competitive with the composite of the tax rates of competing projects in the Harris/Fort Bend County region. To the extent that such composite tax rates are not competitive with competing developments, the growth of property tax values in the District and the investment quality or security of the Bonds could be adversely affected. A composite tax rate of $1.50 is higher than the tax rate of many municipal utility districts in the Harris/Fort Bend County region, although such a combined rate is within the set by certain municipal utility districts in the Harris/Fort Bend County region in stages of development comparable with the District.

The current TCEQ rules regarding the feasibility of a bond issue for utility districts in Fort Bend County limit the projected "combined tax rate" attributable to an entity levying a tax for water, wastewater and drainage to $1.50 per $100 of taxable assessed valuation. In the case of the District, the total "combined tax rate" under current TCEQ rules includes the tax rate of the District and LID 12. If the total "combined tax rate" attributable to LID 12 and the District should ever exceed $1.50 per $100 of taxable assessed valuation, the District and LID 12 could be prohibited under rules of the TCEQ from selling additional bonds. See "Possible Impact on District Tax Rates" above and "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Overlapping Taxes."

Tax Collections Limitations and Foreclosure Remedies

The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other 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 market conditions limiting the proceeds from a foreclosure sale of taxable property and collection procedures. 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. The costs of collecting any such taxpayer's delinquencies could substantially reduce the net proceeds to the District from a tax foreclosure sale. Finally, a bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes against such taxpayer. In addition to the automatic stay against collection of delinquent taxes afforded a taxpayer during the pendency of a bankruptcy, a bankruptcy could affect payment of taxes in two other ways: first, a debtor's confirmation plan may allow a debtor to make installment payments on delinquent taxes for up to six years; and, second, a debtor may challenge, and a bankruptcy court may reduce, the amount of any taxes assessed against the debtor, including taxes that have already been paid. See "TAXING PROCEDURES—District's Rights in the Event of Tax Delinquencies."

Registered Owners' Remedies and Bankruptcy Limitations

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Resolution, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Resolution, the Registered Owners have the statutory right of a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Resolution. Except for mandamus, the Bond Resolution does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners. Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages, so that in the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Resolution may not be reduced to a judgment for money damages. If such a judgment against the District were obtained, it could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the District.

Subject to the requirements of Texas law discussed below, a political subdivision such as the District may voluntarily file a petition for relief from creditors under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. Sections 901-946. The filing of such petition would automatically stay the enforcement of a Registered Owner's remedies, including mandamus. The automatic stay would remain in effect until the federal bankruptcy judge hearing the case dismisses the petition, enters an order granting relief from the stay or otherwise allows creditors to proceed against the petitioning political subdivision. A political subdivision such as the District may qualify as a debtor eligible to proceed in a Chapter 9 case only if it is (1) authorized to file for federal bankruptcy protection by applicable state law, (2) is insolvent or unable to meet its debts as they mature, (3) desires to effect a plan to adjust such debts, and (4) has either obtained the agreement of or negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiation is impracticable. Special districts such as the District must obtain the approval of the TCEQ as a condition to seeking relief under the Federal Bankruptcy Code. The TCEQ is required to investigate the financial condition of a financially troubled district and authorize such district to proceed under federal bankruptcy law only if such district has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

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

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

A district may not be forced into involuntary bankruptcy.

Future Debt

The District has the right to issue obligations other than the Bonds, including tax anticipation notes and bond anticipation notes, and to borrow for any valid corporate purpose. A total of $60,000,000 principal amount of unlimited tax bonds for purchasing and constructing the Facilities, $5,000,000 principal amount of unlimited tax bonds for constructing parks and recreational facilities, and $22,000,000 principal amount of unlimited tax refunding bonds have been authorized by the District's voters. After the issuance of the Bonds, $27,080,000 principal amount of the unlimited tax bonds for Facilities will remain authorized but unissued, $5,000,000 principal amount of unlimited tax bonds for recreational facilities will remain authorized but unissued, and $21,225,000 principal amount of unlimited tax refunding bonds will remain authorized but unissued. In addition, voters may authorize the issuance of additional bonds secured by ad valorem taxes. The issuance of additional obligations may increase the District's tax rate and adversely affect the security for, and the investment quality and value of, the Bonds.

To date, the Developer has advanced certain funds for construction of water, sewer and drainage and parks and recreational facilities for which it has not been reimbursed. After the reimbursements are made with Bond proceeds, the District will owe the Developer approximately $6,000,000 plus interest for construction of such facilities paid on behalf of the District. The District intends to issue additional bonds in order to reimburse the Developer and develop the remainder of undeveloped but developable land (approximately 42 acres). The District does not employ any formula with respect to appraised valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue; however, the principal amount of bonds issued to finance parks and recreational facilities may not exceed 1% of the District's certified value. The issuance of additional bonds is subject to approval by the TCEQ pursuant to its rules regarding issuance and feasibility of bonds. In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District. See "THE BONDS—Issuance of Additional Debt."

Environmental Regulation

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

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

Sanctions against a municipal utility district (a "Utility District"), such as the 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 a Utility District. Further, changes in regulations occur frequently, and any changes that result in more stringent and costly requirements could materially impact a Utility District.

Air Quality/Greenhouse Gas Issues: Air quality control measures required by the United States Environmental Protection Agency (the "EPA") and the Texas Commission on Environmental Quality (the "TCEQ") may impact new industrial, commercial and residential development in the Houston area. Under the Clean Air Act ("CAA") Amendments of 1990, the eight-county Houston Galveston area ("HGB area")—Harris, Galveston, Brazoria, Chambers, Fort Bend, Waller, Montgomery and Liberty counties—was designated by the EPA in 2007 as a severe ozone nonattainment area. Such areas are required to demonstrate progress in reducing ozone concentrations each year until the EPA "8-hour" ozone standards are met. The EPA granted the governor's request to voluntarily reclassify the HGB ozone nonattainment area from a moderate to a severe nonattainment area for the 1997 eight-hour ozone standard, effective October 31, 2008. The HGB area's new attainment deadline for the 1997 eight-hour ozone standard must be attained as expeditiously as practicable, but no later than June 15, 2019. If the HGB area fails to demonstrate progress in reducing ozone concentration or fails to meet the EPA's standards, the EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects, as well as severe emissions offset requirements on new major sources of air emissions for which construction has not already commenced.

On October 1, 2015, the EPA lowered the ozone standard from 75 parts per billion ("ppb") to 70 ppb. This could make it more difficult for the HGB Area to demonstrate progress is reducing ozone concentration.

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

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

On May 27, 2015, the EPA and the United States Army Corps of Engineers ("USACE") jointly issued a final version of the Clean Water Rule ("CWR"), which expands the scope of the federal government's CWA jurisdiction over intrastate water bodies and wetlands. The final rule became effective on August 28, 2015. On October 9, 2015, the Sixth Circuit Court of Appeals put the CWR on hold nationwide until the court decides whether it has jurisdiction to consider lawsuits against the CWR. If the CWR is implemented, operations of Utility Districts, including the District, are potentially subject to additional restrictions and requirements, including permitting requirements, if construction or maintenance activities require the dredging, filling or other physical alteration of jurisdictional waters of the United States or associated wetlands that are within the "waters of the United States." The CWR expands the federal definition of what is a jurisdictional water, which could negatively impact development in the District.

The TCEQ renewed the General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the "MS4 Permit") on December 13, 2013. The permit authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems ("MS4s"). The renewed MS4 Permit impacts a much greater number of MS4s that were not previously subject to the MS4 Permit and contains more stringent requirements than the standards contained in the previous MS4 Permit. MS4s who are subject to the renewed MS4 Permit were required to apply for authorization under the renewed MS4 Permit by June 11, 2014. The District is subject to the reissued permit and prepared the required plans and application in order to meet the said deadline. The TCEQ issued a decision of approval on November 6, 2014, approving the application and comprehensive program manual. The District is currently implementing best management practices in accordance with the program manual. It is anticipated that 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 renewed MS4 Permit.

Marketability of the Bonds

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

Continuing Compliance with Certain Covenants

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

Risk Factors Related to the Purchase of Municipal Bond Insurance

The Underwriter has entered into an agreement with MUNICIPAL ASSURANCE CORP. ("MAC" or the "Insurer") for the purchase of a municipal bond insurance policy (the "Policy"). At the time of entering into this agreement, the Insurer was rated "AA" (stable outlook) by S&P and "AA+" (stable outlook) by KBRA. See "MUNICIPAL BOND INSURANCE."

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

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

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

Changes in Tax Legislation

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

LEGAL MATTERS

Legal Proceedings

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

Bond Counsel has reviewed the information appearing in this OFFICIAL STATEMENT under "THE BONDS," "THE DISTRICT—General," "TAXING PROCEDURES," "LEGAL MATTERS" "TAX MATTERS" and "CONTINUING DISCLOSURE OF INFORMATION" solely to determine whether such information fairly summarizes matters of law and the provisions of the documents referred to therein. Bond Counsel has not, however, independently verified any of the factual information contained in this OFFICIAL STATEMENT nor has it conducted an investigation of the affairs of the District or the Developer for the purpose of passing upon the accuracy or completeness of this OFFICIAL STATEMENT. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of any information contained herein.

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

No-Litigation Certificate

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

TAX MATTERS

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

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

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

The Code also imposes a 20% alternative minimum tax on the "alternative minimum taxable income" of a corporation if the amount of such alternative minimum tax is greater than the amount of the corporation's regular income tax. Generally, the alternative minimum taxable income of a corporation (other than any S corporation, regulated investment company, REIT, REMIC, or FASIT), includes 75% of the amount by which its "adjusted current earnings" exceeds its other "alternative minimum taxable income." Because interest on tax exempt obligations, such as the Bonds, is included in a corporation's "adjusted current earnings," ownership of the Bonds could subject a corporation to alternative minimum tax consequences.

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

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

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

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

Tax Accounting Treatment of Original Issue Discount Bonds

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

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

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

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

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

Qualified Tax-Exempt Obligations

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

The Issuer has designated the Bonds as "qualified tax-exempt obligations" and has represented that the aggregate amount of tax-exempt bonds (including the Bonds) issued by the Issuer and entities aggregated with the Issuer under the Code during calendar year 2016 is not expected to exceed $10,000,000 and that the Issuer and entities aggregated with the Issuer under the Code have not designated more than $10,000,000 in "qualified tax-exempt obligations" (including the Bonds) during calendar year 2016.

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

MUNICIPAL BOND RATING

It is expected that S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P") and Kroll Bond Rating Agency, Inc. ("KBRA") will assign a municipal bond ratings of "AA" (stable outlook) and "AA+" (stable outlook), respectively, to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Municipal Assurance Corp. Moody's Investors Service ("Moody's") has assigned an underlying rating of "Baa2" to the Bonds. See "INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance," "MUNICIPAL BOND INSURANCE," and "APPENDIX B."

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

MUNICIPAL BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Municipal Assurance Corp. ("MAC") 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 APPENDIX B to this OFFICIAL STATEMENT.

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

Municipal Assurance Corp.

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

MAC is wholly owned by Municipal Assurance Holdings Inc., which, in turn, is owned 61% by Assured Guaranty Municipal Corp. and 39% by Assured Guaranty Corp.

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

Current Financial Strength Ratings

On July 8, 2016, KBRA issued a financial guaranty surveillance report in which it affirmed the insurance financial strength rating of "AA+", with a Stable Outlook, of MAC. MAC can give no assurance as to any further ratings action that KBRA may take.

On July 27, 2016, S&P issued a credit rating report in which it affirmed MAC's financial strength rating of "AA" (stable outlook). MAC can give no assurance as to any further ratings action that S&P may take.

For more information regarding MAC's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

Capitalization of MAC

As of September 30, 2016, MAC's policyholders' surplus and contingency reserve were approximately $726 million and its unearned premium reserve was approximately $363 million, in each case, determined in accordance with statutory accounting principles.

Incorporation of Certain Documents by Reference

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

(i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2015 (filed by AGL with the SEC on February 26, 2016); and

(ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2016 (filed by AGL with the SEC on May 5, 2016).

(iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2016 (filed by AGL with the SEC on August 4, 2016) ; and

(iv) the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2016 (filed by AGL with the SEC on November 4, 2016).

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

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

Miscellaneous Matters

MAC makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, MAC 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 MAC supplied by MAC and presented under the heading "MUNICIPAL BOND INSURANCE."

PREPARATION OF OFFICIAL STATEMENT

Sources and Compilation of Information

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

Financial Advisor

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

Consultants

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

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

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

Auditor: The District's financial statements for the year ended May 31, 2016, were audited by McCall Gibson Swedlund Barfoot, PLLC, Certified Public Accountants. See "APPENDIX A" for a copy of the District's May 31, 2016, financial statements.

Updating the Official Statement

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

Certification of Official Statement

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

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

The District will provide certain financial information and operating data annually to the MSRB. The financial information and operating data which will be provided with respect to the District includes all quantitative financial information and operating data of the general type included in this OFFICIAL STATEMENT under the headings "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED), except for "Estimated Overlapping Debt," "The System," "TAX DATA," and in APPENDIX A (Auditor's Report and Financial Statements of the District and certain supplemental schedules). The District will update and provide this information to the MSRB within six months after the end of each of its fiscal years ending in or after 2017. Any financial statements provided by the District 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 June 30. Accordingly, it must provide updated information by December 31 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify EMMA of the change. On June 9, 2016, the District changed its fiscal year end to June 30. The District's next audit period will cover May 31, 2016 to June 30, 2017.

Specified Event Notices

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of CFR § 240.15c2-12 (the "Rule"); (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of an definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material. The term "material" when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Resolution makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information from MSRB

The District has agreed to provide the foregoing 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 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 the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and either the 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 Resolution if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction determines that such provisions are invalid or unenforceable, but only to the extent that its right to do so would not prevent the Initial Purchasers from lawfully purchasing the Bonds in the initial offering. If the District so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance With Prior Undertakings

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

MISCELLANEOUS

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

/s/ William David "Mac" McKinnie IV
President, Board of Directors

ATTEST:

/s/ Melinda Garza Salazar
Secretary, Board of Directors

AERIAL PHOTOGRAPH
(Approximate Boundaries as of July 2016)

N
Fort Bend County
Municipal Utility
District No. 165
Meadowh Ranch Pkwy.
Grand Pkwy.

PHOTOGRAPHS OF THE DISTRICT
(Taken July 2016)


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APPENDIX A

Auditor's Report and Financial Statements of the District for the year ended May 31, 2016

The information contained in this appendix includes the audited financial statements of Fort Bend County Municipal Utility District No. 165 for the fiscal year ended May 31, 2016.

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 165

FORT BEND COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

MAY 31, 2016

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 165

FORT BEND COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

MAY 31, 2016

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Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Fort Bend County Municipal
Utility District No. 165
Fort Bend County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Fort Bend County Municipal Utility District No. 165 (the "District"), as of and for the year ended May 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Board of Directors
Fort Bend County Municipal
Utility District No. 165

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 May 31, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

McCall Gibson Swedlund Barfoot PLLC

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

September 8, 2016

Management's discussion and analysis of Fort Bend County Municipal Utility District No. 165's (the "District") financial performance provides an overview of the District's financial activities for the year ended May 31, 2016. Please read it in conjunction with the District's financial statements.

USING THIS ANNUAL REPORT

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

FUND FINANCIAL STATEMENTS

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

FUND FINANCIAL STATEMENTS (Continued)

assessing and collecting taxes. The Capital Projects Fund accounts for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

OTHER INFORMATION

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of the District's financial position. In the case of the District, liabilities exceeded assets and deferred outflows of resources by $897,267 as of May 31, 2016. A portion of the District's net position reflects its net investment in capital assets (water, wastewater and drainage facilities less any debt used to acquire those assets that is still outstanding).

The following is a comparative analysis of the changes in the Statement of Net Position as of May 31, 2016, and May 31, 2015.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Summary of Changes in the Statement of Net Position		
	2016	2015	Change Positive (Negative)
Current and Other Assets	$ 5,073,634	$ 3,428,404	$ 1,645,230
Capital Assets (Net of Accumulated Depreciation)	20,875,497	17,126,917	3,748,580
Total Assets	$ 25,949,131	$ 20,555,321	$ 5,393,810
Deferred Outflows of Resources	$ 658,900	$ 641,510	$ 17,390
Due to Developer	$ 3,064,496	$ 2,463,840	$ (600,656)
Bonds Payable	23,988,464	19,906,500	(4,081,964)
Other Liabilities	452,338	331,206	(121,132)
Total Liabilities	$ 27,505,298	$ 22,701,546	$ (4,803,752)
Net Position:			
Net Investment in Capital Assets	$ (4,726,536)	$ (4,600,927)	$ (125,609)
Restricted	2,063,775	1,704,386	359,389
Unrestricted	1,765,494	1,391,826	373,668
Total Net Position	$ (897,267)	$ (1,504,715)	$ 607,448

The following table provides a comparative analysis of the District's operations for the years ending May 31, 2016, and May 31, 2015.

	Summary of Changes in the Statement of Activities		
	2016	2015	Change Positive (Negative)
Revenues:			
Property Taxes	$ 2,545,501	$ 1,874,309	$ 671,192
Charges for Services	1,398,436	1,195,852	202,584
Other Revenues	20,010	16,179	3,831
Total Revenues	$ 3,963,947	$ 3,086,340	$ 877,607
Expenses for Services	3,356,499	3,596,400	239,901
Change in Net Position	$ 607,448	$ (510,060)	$ 1,117,508
Net Position, Beginning of Year	(1,504,715)	(994,655)	(510,060)
Net Position, End of Year	$ (897,267)	$ (1,504,715)	$ 607,448

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of May 31, 2016, were $4,787,919, an increase of $1,553,835 from the prior year.

The General Fund fund balance increased by $369,648, primarily due to service and property tax revenues exceeding operating and administrative costs as a result of growth in the District.

The Debt Service Fund fund balance increased by $393,146, primarily due to the structure of the District's outstanding debt and proceeds from the sale of Series 2015A bonds.

The Capital Projects Fund fund balance increased by $791,041, primarily due to the sale of Series 2015A bonds, a portion of which proceeds were still on hand at year end.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors amended the budget during the current fiscal year to increase estimated property tax and service revenues and to increase various operating costs. Actual revenues were $103,874 more than budgeted revenues primarily due to higher than anticipated service revenues as a result of growth within the District. Actual expenditures were $154,711 more than budgeted expenditures primarily due to higher than anticipated repairs and maintenance costs, capital outlay and purchased water costs than were anticipated.

LONG-TERM DEBT ACTIVITY

As of May 31, 2016, the District had total bond debt payable of $24,145,000. The changes in the debt position of the District during the fiscal year ended May 31, 2016, are summarized as follows:

Bond Debt Payable, June 1, 2015	$ 20,070,000
Add: Bond Sale	4,750,000
Less: Bond Principal Paid	675,000
Bond Debt Payable, May 31, 2016	$ 24,145,000

The District's bonds carry an underlying rating of "BBB-" by Standard & Poor's ("S&P") or "Baa2" by Moody's. The Series 2013 bonds carry an S&P rating of "AA" by virtue of bond insurance issued by Municipal Assurance Corporation. The Series 2014 bonds carry an S&P rating of "AA" by virtue of bond insurance issued by Assured Guaranty Municipal. The Series 2015 Refunding bonds carry an S&P rating of "AA" by virtue of bond insurance issued by Build America Mutual Assurance Company. The Series 2015A bonds carry an S&P rating of "AA" by virtue of bond insurance issued by Assured Guaranty Municipal. The above ratings reflect rating changes, if any, during the fiscal year ended May 31, 2016.

CAPITAL ASSETS

Capital assets total $20,875,497 as of May 31, 2016 and include land as well as the water, wastewater and drainage systems and the District's capacity interest in the Grand Mission Municipal Utility District No. 1 joint facilities. Significant capital asset activity during the year included: reimbursement to the developer from Series 2015A bond proceeds for utilities serving Fieldstone Section 5 Phases 1 and 2, Section 6, Phases 1 and 2, Section 8, Phases 1, 2 and Stoneage Drive Culvert Crossing, remaining portion of Regional Detention Basin, Phase 3B, Fieldstone Section 9 and Mason Road Extension; completion of utilities serving Fieldstone Sections 10 and 11; Fieldstone Section 10 landscape improvements; and the District's share of the water plant no. 3, phase I expansion.

Capital Assets At Year-End, Net of Accumulated Depreciation

	2016	2015	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	$ 1,916,799	$ 1,916,799	$
Construction in Progress	412,820		412,820
Capital Assets, Net of Accumulated Depreciation:			
Water System	2,994,665	2,479,907	514,758
Wastewater System	5,566,334	4,677,906	888,428
Drainage System	9,651,904	7,711,525	1,940,379
Recreational Facilities	332,975	340,780	(7,805)
Total Net Capital Assets	$ 20,875,497	$ 17,126,917	$ 3,748,580

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Fort Bend County Municipal Utility District No. 165, c/o Allen Boone Humphries Robinson LLP, 3200 Southwest Freeway, Suite 2600, Houston, TX 77027.

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 165
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
MAY 31, 2016

	General Fund	Debt Service Fund
ASSETS		
Cash	$ 510,875	$ 555,059
Investments	1,271,613	1,710,978
Receivables:		
Property Taxes	10,073	21,584
Penalty and Interest on Delinquent Taxes		
Service Accounts	66,661	
Due from Other Funds	25,368	
Prepaid Costs	237	
Due from Other Governmental Units	29,418	
Advance for Water Plant Operations	50,061	
Advance for Regional Wastewater Treatment Plant Operations	45,312	
Advance for Regional Detention Facilities	4,901	
Land		
Construction in Progress		
Capital Assets (Net of Accumulated Depreciation)		
TOTAL ASSETS	$ 2,014,519	$ 2,287,621
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Charges on Refunding Bonds	$ -0-	$ -0-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 2,014,519	$ 2,287,621

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

Capital Projects Fund	Total	Adjustments	Statement of Net Position
$ 764	$ 1,066,698	$	$ 1,066,698
791,463	3,774,054		3,774,054
	31,657		31,657
		4,635	4,635
	66,661		66,661
	25,368	(25,368)	
	237		237
	29,418		29,418
	50,061		50,061
	45,312		45,312
	4,901		4,901
		1,916,799	1,916,799
		412,820	412,820
		18,545,878	18,545,878
$ 792,227	$ 5,094,367	$ 20,854,764	$ 25,949,131
$ -0-	$ -0-	$ 658,900	$ 658,900
$ 792,227	$ 5,094,367	$ 21,513,664	$ 26,608,031

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

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 165
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
MAY 31, 2016

	General Fund	Debt Service Fund
LIABILITIES		
Accounts Payable	$ 165,875	$
Accrued Interest Payable		
Due to Other Funds		25,368
Due to Taxpayers		198
Security Deposits	83,150	
Due to Developer		
Long-Term Liabilities:		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
TOTAL LIABILITIES	$ 249,025	$ 25,566
DEFERRED INFLOWS OF RESOURCES		
Property Taxes	$ 10,073	$ 21,584
FUND BALANCES		
Nonspendable:		
Prepaid Costs	$ 237	$
Operating Advances	100,274	
Restricted for Authorized Construction		
Restricted for Debt Service		2,240,471
Unassigned	1,654,910	
TOTAL FUND BALANCES	$ 1,755,421	$ 2,240,471
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 2,014,519	$ 2,287,621
NET POSITION		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
TOTAL NET POSITION		

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

Capital Projects Fund	Total	Adjustments	Statement of Net Position
$ 200	$ 166,075	$	$ 166,075
		202,915	202,915
	25,368	(25,368)	
	198		198
	83,150		83,150
		3,064,496	3,064,496
		970,000	970,000
		23,018,464	23,018,464
$ 200	$ 274,791	$ 27,230,507	$ 27,505,298
$ -0-	$ 31,657	$ (31,657)	$ -0-
$	$ 237	$ (237)	$
	100,274	(100,274)	
792,027	792,027	(792,027)	
	2,240,471	(2,240,471)	
	1,654,910	(1,654,910)	
$ 792,027	$ 4,787,919	$ (4,787,919)	$ - 0 -
$ 792,227	$ 5,094,367		
		$ (4,726,536)	$ (4,726,536)
		2,063,775	2,063,775
		1,765,494	1,765,494
		$ (897,267)	$ (897,267)

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

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 165
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
MAY 31, 2016

Total Fund Balances - Governmental Funds		$ 4,787,919
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Deferred charges incurred as part of a refunding bond sale are recorded as a deferred outflow in governmental activities and amortized through the shorter of the life of the old debt or new debt.		658,900
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.		20,875,497
Deferred tax revenues and penalty and interest receivable on delinquent taxes for the 2015 tax levy became part of recognized revenue in the governmental activities of the District.		36,292
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year end consist of:		
Due to Developer	$ (3,064,496)	
Accrued Interest Payable	(202,915)	
Bonds Payable	(23,988,464)	(27,255,875)
Total Net Position - Governmental Activities		$ (897,267)

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

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FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 165
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED MAY 31, 2016

	General Fund	Debt Service Fund
REVENUES		
Property Taxes	$ 805,860	$ 1,726,412
Water Service	428,076	
Wastewater Service	272,476	
Regional Water Authority Fees	318,065	
Fire Protection Fees	134,885	
Penalty and Interest	25,505	13,628
Tap Connection and Inspection Fees	204,015	
Miscellaneous Revenues	15,470	3,370
TOTAL REVENUES	$ 2,204,352	$ 1,743,410
EXPENDITURES/EXPENSES		
Service Operations:		
Professional Fees	$ 176,216	$ 4,132
Contracted Services	457,152	32,025
Purchased Water Service	386,865	
Purchased Wastewater Service	122,695	
Detention Facilities Costs	20,182	
Utilities	24,916	
Repairs and Maintenance	191,583	
Depreciation		
Other	178,098	2,397
Capital Outlay	276,997	
Debt Service:		
Bond Issuance Costs		
Bond Principal		675,000
Bond Interest		704,585
TOTAL EXPENDITURES/EXPENSES	$ 1,834,704	$ 1,418,139
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES	$ 369,648	$ 325,271
OTHER FINANCING SOURCES (USES)		
Proceeds from Long-Term Debt	$ -0-	$ 67,875
NET CHANGE IN FUND BALANCES	$ 369,648	$ 393,146
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION - JUNE 1, 2015	1,385,773	1,847,325
FUND BALANCES/NET POSITION - MAY 31, 2016	$ 1,755,421	$ 2,240,471

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
$	$ 2,532,272	$ 13,229	$ 2,545,501
	428,076		428,076
	272,476		272,476
	318,065		318,065
	134,885		134,885
	39,133	1,786	40,919
	204,015		204,015
1,170	20,010		20,010
$ 1,170	$ 3,948,932	$ 15,015	$ 3,963,947
$ 6,180	$ 186,528	$	$ 186,528
	489,177		489,177
	386,865		386,865
	122,695		122,695
	20,182		20,182
	24,916		24,916
	191,583	(14,988)	176,595
		571,813	571,813
235	180,730		180,730
3,427,752	3,704,749	(3,704,749)	
458,087	458,087		458,087
	675,000	(675,000)	
	704,585	34,326	738,911
$ 3,892,254	$ 7,145,097	$ (3,788,598)	$ 3,356,499
$ (3,891,084)	$ (3,196,165)	$ 3,803,613	$ 607,448
$ 4,682,125	$ 4,750,000	$ (4,750,000)	$ -0-
$ 791,041	$ 1,553,835	$ (1,553,835)	$
		607,448	607,448
986	3,234,084	(4,738,799)	(1,504,715)
$ 792,027	$ 4,787,919	$ (5,685,186)	$ (897,267)

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

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 165
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MAY 31, 2016

Net Change in Fund Balances - Governmental Funds	$ 1,553,835
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied.	13,229
Governmental funds report penalty and interest revenue on delinquent taxes when collected. However, in the Statement of Activities, revenue is recorded when penalties and interest are assessed.	1,786
Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.	(571,813)
Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected.	3,719,737
Governmental funds report bond principal payments as expenditures. However, in the Statement of Net Position, bond principal payments are reported as decreases in long-term liabilities.	675,000
Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end.	(34,326)
Governmental funds report bond proceeds as other financing sources. Issued bonds increase long-term liabilities in the Statement of Net Position.	(4,750,000)
Change in Net Position - Governmental Activities	$ 607,448

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

NOTE 1. CREATION OF DISTRICT

Fort Bend County Municipal Utility District No. 165 (the District) was created by an order of the Texas Commission on Environmental Quality (the Commission), effective July 28, 2005, 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 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.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

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

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

The District has entered into a joint venture with Fort Bend County Municipal Utility District No. 143 (District No. 143), Grand Mission Municipal Utility District No. 1 (District No. 1) and Grand Mission Municipal Utility District No. 2 (District No. 2) for water service through a joint water plant. District No. 1 has oversight over the water plant. Additional disclosure concerning this joint venture is provided in Note 8.

The District has entered into a joint venture with District No. 143, District No. 1 and District No. 2 for wastewater disposal through a joint wastewater treatment plant. District No. 1 has oversight responsibility over the plant. Additional disclosure concerning this joint venture is provided in Note 9.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The District has entered into a joint venture with District No. 143, District No. 1 and District No. 2 for the construction and operation of joint detention facilities. District No. 1 has oversight responsibility over the facilities. Additional disclosure concerning this joint venture is provided in Note 10.

Financial Statement Presentation

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

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

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

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

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

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

Government-Wide Financial Statements

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide Financial Statements (Continued)

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

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

Fund Financial Statements

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

Governmental Funds

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

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

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

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

Basis of Accounting

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

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

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis. As of May 31, 2016, the Debt Service Fund owed the General Fund $25,368 for maintenance tax collections.

Capital Assets

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

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

	Years
Water System	10-45
Wastewater System	10-45
Drainage System	10-45
Recreational Facilities	10-45

Budgeting

In compliance with governmental accounting principles, the Board of Directors annually adopts an unappropriated budget for the General Fund. The budget was amended during the current fiscal year.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pensions

The District has not established a pension plan as the District does not have employees. The Internal Revenue Service has determined that fees of office received by Directors are considered to be wages subject to federal income tax withholding for payroll purposes only.

Measurement Focus

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

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

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

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

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

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

Unassigned: all other spendable amounts in the General Fund.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

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

Accounting Estimates

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

NOTE 3. LONG-TERM DEBT

	Series 2008	Series 2011	Series 2012
Amount Outstanding – May 31, 2016	$ 300,000	$ 1,955,000	$ 2,375,000
Interest Rates	6.00%	3.00% - 5.00%	3.00% - 3.75%
Maturity Dates - Serially Beginning/Ending	September 1, 2016/2017	September 1, 2016/2036	September 1, 2016/2038
Interest Payment Dates	September 1/ March 1	September 1/ March 1	September 1/ March 1
Callable Dates	September 1, 2017*	September 1, 2019*	September 1, 2019*

* Or on any date thereafter, callable at par plus unpaid accrued interest in whole or in part at the option of the District. Series 2011 term bonds due September 1, 2025, September 1, 2030, and September 1, 2036 are subjected to mandatory redemption by random selection beginning September 1, 2022, September 1, 2029, and September 1, 2031, respectively. Series 2012 term bonds due September 1, 2023, September 1, 2026, September 1, 2029, September 1, 2032, and September 1, 2038 are subjected to mandatory redemption by random selection beginning September 1, 2021, September 1, 2024, September 1, 2027, September 1, 2030, and September 1, 2033, respectively.

NOTE 3. LONG-TERM DEBT (Continued)

	Series 2013	Series 2014	Refunding Series 2015
Amount Outstanding – May 31, 2016	$ 4,285,000	$ 5,570,000	$ 4,910,000
Interest Rates	3.00% - 5.00%	2.00% - 4.00%	2.00% - 3.375%
Maturity Dates - Serially Beginning/Ending	September 1, 2016/2038	September 1, 2016/2039	September 1, 2016/2033
Interest Payment Dates	September 1/ March 1	September 1/ March 1	September 1/ March 1
Callable Dates	September 1, 2021*	September 1, 2022*	September 1, 2022*

	Series 2015A
Amount Outstanding – May 31, 2016	$ 4,750,000
Interest Rates	2.00% - 3.625%
Maturity Dates - Serially Beginning/Ending	September 1, 2016/2039
Interest Payment Dates	September 1/ March 1
Callable Dates	September 1, 2023*

* Or on any date thereafter, callable at par plus unpaid accrued interest in whole or in part at the option of the District. Series 2013 term bonds due September 1, 2038, are subjected to mandatory redemption by random selection beginning September 1, 2033. Series 2014 term bonds due September 1, 2033, September 1, 2035, September 1, 2037, and September 1, 2039 are subjected to mandatory redemption by random selection beginning September 1, 2032, September 1, 2034, September 1, 2036, and September 1, 2038, respectively. Series 2015A term bonds due September 1, 2035, and September 1, 2039 are subjected to mandatory redemption by random selection beginning September 1, 2033, and September 1, 2036, respectively.

On March 26, 2015, the District issued its $4,940,000 Series 2015 Unlimited Tax Refunding Bonds to refund a portion of Series 2008 bonds in the amount of $4,165,000. The refunding resulted in gross debt service savings of $848,593 and net present value savings of $634,094. The Series 2008 refunded bonds are callable September 1, 2017.

NOTE 3. LONG-TERM DEBT (Continued)

The following is a summary of transactions regarding bonds payable for the year ended May 31, 2016:

	June 1, 2015	Additions	Retirements	May 31, 2016
Bonds Payable	$ 20,070,000	$ 4,750,000	$ 675,000	$ 24,145,000
Unamortized Discounts	(178,966)		(7,834)	(171,132)
Unamortized Premiums	15,466		870	14,596
Bonds Payable, Net	$ 19,906,500	$ 4,750,000	$ 668,036	$ 23,988,464

Amount Due Within One Year	$ 970,000
Amount Due After One Year	23,018,464
Bonds Payable, Net	$ 23,988,464

As of May 31, 2016, the District had authorized but unissued bonds in the amount of $34,910,000 for utility facilities, $21,225,000 for refunding purposes and $5,000,000 for recreational facilities.

As of May 31, 2016, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2017	$ 970,000	$ 797,635	$ 1,767,635
2018	945,000	769,585	1,714,585
2019	955,000	744,425	1,699,425
2020	965,000	721,905	1,686,905
2021	970,000	697,720	1,667,720
2022-2026	5,115,000	3,051,202	8,166,202
2027-2031	5,530,000	2,193,831	7,723,831
2032-2036	5,485,000	1,161,722	6,646,722
2037-2040	3,210,000	225,968	3,435,968
	$ 24,145,000	$ 10,363,993	$ 34,508,993

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

NOTE 3. LONG-TERM DEBT (Continued)

During the year ended May 31, 2016, the District levied an ad valorem debt service tax rate of $0.90 per $100 of assessed valuation, which resulted in a tax levy of $1,739,027 on the adjusted taxable valuation of $193,225,235 for the 2015 tax year. The bond resolutions require the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. See Note 7 for the maintenance tax levy.

The District's tax calendar is as follows:

Levy Date	- October 1 or as soon thereafter as practicable.
Lien Date	- January 1.
Due Date	- Not later than January 31.
Delinquent Date	- February 1, at which time the taxpayer is liable for penalty and interest.

NOTE 4. SIGNIFICANT BOND RESOLUTION AND LEGAL REQUIREMENTS

The bond resolutions state that the District is required by the Securities and Exchange Commission to provide continuing disclosure of certain general financial information and operating data, and notices of certain events, to each nationally recognized municipal securities information depository and the state information depository. This information, along with the audited annual financial statements, is to be provided within six months after the end of each fiscal year and shall continue to be provided through the life of the bonds.

The District has covenanted that it will take all necessary steps to comply with the requirement that rebatable arbitrage earnings on the investment of the gross proceeds of the bonds, within the meaning of section 148(f) of the Internal Revenue Code, be rebated to the federal government. The minimum requirement for determination of the rebatable amount is on the five year anniversary of the issue.

Series 2015A bond proceeds of $67,875 was deposited into the Debt Service Fund and restricted for the payment of bond interest. Series 2015A bond interest payments totaled $27,904 leaving a balance of $39,971 which is restricted for future interest payments.

NOTE 5. DEPOSITS AND INVESTMENTS

Deposits

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

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District's deposits was $1,066,698 and the bank balance was $1,142,348. The District was not exposed to custodial credit risk at year-end.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at May 31, 2016, as listed below:

	Cash
GENERAL FUND	$ 510,875
DEBT SERVICE FUND	555,059
CAPITAL PROJECTS FUND	764
TOTAL DEPOSITS	$ 1,066,698

Investments

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

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. Authorized investments are summarized as follows: (1) obligations of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (5) certain A rated or higher obligations of states, agencies, counties, cities, and other political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) insured or collateralized certificates of deposit, (8) certain fully collateralized repurchase agreements secured by delivery, (9) certain bankers' acceptances with limitations, (10) commercial paper rated A-1 or P-1 or higher and a maturity of 270 days or less, (11) no-load money market mutual funds and no-load mutual funds with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools and (14) a qualified securities lending program.

All invetments are recorded at cost which the District considers to be fair value. The District invests in TexPool, an external investment pool that is not SEC-registered. The State Comptroller of Public Accounts of the State of Texas has oversight of the pool. Federated Investors, Inc. manages the daily operations of the pool under a contract with the Comptroller. The fair value of the District's position in the pool is the same as the value of pool shares.

As of May 31, 2016, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities - Less Than 1 Year
GENERAL FUND		
TexPool	$ 1,271,613	$ 1,271,613
DEBT SERVICE FUND		
TexPool	1,710,978	1,710,978
CAPITAL PROJECTS FUND		
TexPool	791,463	791,463
TOTAL INVESTMENTS	$ 3,774,054	$ 3,774,054

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The District's investment in TexPool was rated AAAm by Standard and Poor's. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District considers the investment in TexPool to have a maturity of less than one year due to the fact the share position can usually be redeemed each day at the discretion of the District, unless there has been a significant change in value.

Restrictions

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

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended May 31, 2016:

	June 1, 2015	Increases	Decreases	May 31, 2016
Capital Assets Not Being Depreciated				
Land and Land Improvements	$ 1,916,799	$	$	$ 1,916,799
Construction in Progress		4,320,393	3,907,573	412,820
Total Capital Assets Not Being Depreciated	$ 1,916,799	$ 4,320,393	$ 3,907,573	$ 2,329,619
Capital Assets Subject to Depreciation				
Water System	$ 2,994,254	$ 623,389	$	$ 3,617,643
Wastewater System	5,402,569	1,056,326		6,458,895
Drainage System	8,837,940	2,202,577		11,040,517
Recreational Facilities	403,700	25,281		428,981
Total Capital Assets Subject to Depreciation	$ 17,638,463	$ 3,907,573	$ - 0 -	$ 21,546,036
Less Accumulated Depreciation				
Water System	$ 514,347	$ 108,631	$	$ 622,978
Wastewater System	724,663	167,898		892,561
Drainage System	1,126,415	262,198		1,388,613
Recreational Facilities	62,920	33,086		96,006
Total Accumulated Depreciation	$ 2,428,345	$ 571,813	$ - 0 -	$ 3,000,158
Total Depreciable Capital Assets, Net of Accumulated Depreciation	$ 15,210,118	$ 3,335,760	$ - 0 -	$ 18,545,878
Total Capital Assets, Net of Accumulated Depreciation	$ 17,126,917	$ 7,656,153	$ 3,907,573	$ 20,875,497

NOTE 7. MAINTENANCE TAX

On November 8, 2005, the voters of the District approved the levy and collection of a maintenance tax not to exceed $1.50 per $100 of assessed valuation of taxable property within the District. During the year ended May 31, 2016, the District levied an ad valorem maintenance tax rate of $0.42 per $100 of assessed valuation, which resulted in a tax levy of $811,546 on the adjusted taxable valuation of $193,225,235 for the 2015 tax year. This maintenance tax is to be used by the General Fund to pay expenditures of operating the District's waterworks and wastewater system.

NOTE 8. REGIONAL WATER SUPPLY SYSTEM

The District is a participant in a regional water supply system with Grand Mission Municipal Utility District No. 1 (Grand Mission), Grand Mission Municipal Utility District No. 2 (District No. 2) and Fort Bend County Municipal Utility District No. 143 (District No. 143) pursuant to an agreement, as amended.

Grand Mission holds title to the water plant and has responsibility for capital improvements as well as maintenance of the water plant. The costs of operating and maintaining the water plant are shared based on metered water usage within each District. Non-routine repairs and maintenance costs are shared based on ownership capacity. During the year ended May 31, 2016, the District paid $386,865 for purchased water. The District maintains a reserve balance of $50,061. The term of this agreement is 40 years.

The following summary financial data on the joint water plant is presented for the fiscal year ended June 30, 2015. A copy of the financial statements for the plant can be obtained by contacting Grand Mission's attorney, Coats Rose, P.C.

	Joint Water Plant
Total Assets	$ 607,907
Total Liabilities	304,024
Total Fund Balance	$ 303,883
Total Revenues	$ 1,701,144
Total Expenditures	1,701,144
Net Change in Fund Balance	$ -0-
Beginning Fund Balance	303,883
Ending Fund Balance	$ 303,883

NOTE 9. REGIONAL WASTEWATER TREATMENT FACILITIES

The District is a participant in regional wastewater treatment facilities with Grand Mission Municipal Utility District No. 1, Grand Mission Municipal Utility District No. 2 and Fort Bend County Municipal Utility District No. 143 pursuant to an agreement, as amended.

The District owns an aggregate of 271,120 gpd of wastewater treatment capacity in the plant. Ownership of the system belongs to Grand Mission. Unless terminated by mutual agreement of the participants, the contracts will continue in force and effect as long as the participants are in existence. Monthly billings consist of a fixed capacity charge, currently $1.50 per 1,000 gallons of treatment capacity in the system reserved to each participant, and an operating charge, currently $12.49 per active single family residential connections. During the current year, the District incurred costs of $122,695 for purchased wastewater services. The District also maintains a reserve balance of $45,312.

The following summary financial data of the joint wastewater treatment facilities is presented for the fiscal year ended June 30, 2015. A copy of the financial statements for the plant can be obtained by contacting Grand Mission's attorney, Coats Rose, P.C.

	Joint Wastewater Treatment Plant
Total Assets	$ 912,339
Total Liabilities	635,956
Total Fund Balance	$ 276,383
Total Revenues	$ 996,823
Total Expenditures	996,823
Net Change in Fund Balance	$ -0-
Beginning Fund Balance	276,383
Ending Fund Balance	$ 276,383

NOTE 10. REGIONAL DETENTION FACILITIES

The District is a participant in regional detention facilities with Grand Mission Municipal Utility District No. 1, Grand Mission Municipal Utility District No. 2 and Fort Bend County Municipal Utility District No. 143 pursuant to an agreement, as amended.

Grand Mission operates the detention facilities. Each district is responsible for operation and maintenance costs based on its pro rata share of detention volume. During the current year, the District incurred detention facilities costs of $20,182. The District maintains a reserve balance of $4,901. The term of this agreement is 50 years from its effective date.

The following summary financial data of the joint detention facilities is presented for the fiscal year ended June 30, 2015. A copy of the financial statements for the plant can be obtained by contacting Grand Mission's attorney, Coats Rose, P.C.

	Detention Facilities
Total Assets	$ 26,885
Total Liabilities	4,685
Total Fund Balance	$ 22,200
Total Revenues	$ 111,717
Total Expenditures	111,717
Net Change in Fund Balance	$ -0-
Beginning Fund Balance	22,000
Ending Fund Balance	$ 22,000

NOTE 11. NORTH FORT BEND WATER AUTHORITY

The District is located within the boundaries of the North Fort Bend Water Authority (the "Authority"). The Authority was created by an Act of the Texas Legislature. The Act empowers the Authority for purposes including the acquisition and provision of surface water and groundwater for residential, commercial, industrial, agricultural, and other uses, the reduction of groundwater withdrawals, the conservation, preservation, protection, recharge, and prevention of waste of groundwater, and of groundwater reservoirs or their subdivisions, and the control of subsidence caused by withdrawal of water from those groundwater reservoirs or their subdivisions. The Authority is overseeing that its participants comply with subsidence district pumpage requirements.

The Authority charges a fee, based on the amount of water pumped from a well, to the owners of wells located within the boundaries of the Authority, unless exempted. The current rates charged by the Authority are $2.75 per 1,000 gallons of water pumped from each well and $3.10 per 1,000 gallons of surface water purchased. The District's costs for these fees are included in purchased water costs.

NOTE 12. DUE TO DEVELOPER AND UNREIMBURSED COSTS

The District has executed a developer financing agreement with the Developer within the District. The agreement calls for the Developer to fund costs associated with water, sewer, and drainage facilities until such time as the District can sell bonds. The District has recorded $3,064,496 as a liability to the Developer for facilities which the District now operates and maintains.

NOTE 13. RISK MANAGEMENT

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

NOTE 14. FIRE PROTECTION AGREEMENT

The District is authorized by statute to engage in fire-fighting activities, including the issuing of bonds payable from taxes for such purpose. The District has prepared a detailed fire plan which has been approved by the TCEQ. The fire plan does not call for the issuance of bonds but for a mandatory fee and monetary contribution to the City of Richmond, Texas. Pursuant to a Fire Protection Services Agreement, the Board held a successful election to approve the fire plan and Fire Protection Services Agreement on November 6, 2007. Fire protection is currently provided to property in the District by the City of Richmond, Texas Fire Station No. 3 located one-half mile south of the District. The Agreement with the City of Richmond requires residents of the District to pay a mandatory fire fee and will terminate in 2021 or when the District is annexed and dissolved by the City of Houston, whichever comes first.

NOTE 15. BOND SALE

On December 17, 2015, the District closed on the sale of its $4,750,000 Series 2015A Unlimited Tax Bonds. The District used bond proceeds to reimburse the Developer for: water, wastewater and drainage facilities to serve Fieldstone Sections 5, 6 and 8; Fieldstone Section 8, Phase 1 Stoneage Culvert; the District's share of the Grand Mission Regional Detention Basin Phase IIIB; and Fieldstone Section 9 Mason Road extension. Bond proceeds will also be used to fund the District's share of the Grand Mission Water Plant No. 3, pay for bond issuance costs and provide for capitalized interest on the bonds.

NOTE 16. CHANGE OF FISCAL YEAR

On June 9, 2016, subsequent to year end, the Board adopted a resolution changing the District's fiscal year end to June 30th to be in line with the Grand Mission Municipal Utility District No. 1's and the other regional participant districts' fiscal years. The next District audit will be for the 13-month period ended June 30, 2017.

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FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 165

REQUIRED SUPPLEMENTARY INFORMATION

MAY 31, 2016

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 165
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND FOR THE YEAR ENDED MAY 31, 2016

	Original Budget	Final Amended Budget	Actual	Variance Positive (Negative)
REVENUES				
Property Taxes	$ 602,000	$ 795,175	$ 805,860	$ 10,685
Water Service	385,000	399,746	428,076	28,330
Wastewater Service	245,000	252,527	272,476	19,949
Regional Water Authority Fees	198,500	264,158	318,065	53,907
Fire Protection Fees	132,486	132,956	134,885	1,929
Penalty and Interest	20,480	22,442	25,505	3,063
Tap Connection and Inspection Fees	165,400	217,900	204,015	(13,885)
Miscellaneous Revenues	16,660	15,574	15,470	(104)
TOTAL REVENUES	$ 1,765,526	$ 2,100,478	$ 2,204,352	$ 103,874
EXPENDITURES				
Services Operations:				
Professional Fees	$ 144,600	$ 172,454	$ 176,216	$ (3,762)
Contracted Services	463,982	457,354	457,152	202
Purchased Water Service	289,200	339,910	386,865	(46,955)
Purchased Wastewater Service	138,420	141,878	122,695	19,183
Detention Facilities Costs	34,200	22,795	20,182	2,613
Utilities	29,680	27,779	24,916	2,863
Repairs and Maintenance	148,370	157,542	191,583	(34,041)
Other	141,683	160,281	178,098	(17,817)
Capital Outlay	200,000	200,000	276,997	(76,997)
TOTAL EXPENDITURES	$ 1,590,135	$ 1,679,993	$ 1,834,704	$ (154,711)
NET CHANGE IN FUND BALANCE	$ 175,391	$ 420,485	$ 369,648	$ (50,837)
FUND BALANCE - JUNE 1, 2015	1,385,773	1,385,773	1,385,773	
FUND BALANCE - MAY 31, 2016	$ 1,561,164	$ 1,806,258	$ 1,755,421	$ (50,837)

See accompanying independent auditor's report.

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FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 165

SUPPLEMENTARY INFORMATION – REQUIRED BY THE

WATER DISTRICT FINANCIAL MANAGEMENT GUIDE

MAY 31, 2016

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 165
SERVICES AND RATES
FOR THE YEAR ENDED MAY 31, 2016

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

X	Retail Water		Wholesale Water	X	Drainage
X	Retail Wastewater		Wholesale Wastewater		Irrigation
X	Parks/Recreation	X	Fire Protection	X	Security
X	Solid Waste/Garbage		Flood Control		Roads

X Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)

___ Other (specify): ______________________

2. RETAIL SERVICE PROVIDERS

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

Based on the rate order approved May 12, 2016.

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate per 1,000 Gallons over Minimum Use	Usage Levels
WATER:	$ 32.25	8,000	N	$ 1.00	8,001 to 15,000
				$ 1.50	15,001 to 30,000
				$ 2.00	30,001 and up
WASTEWATER	$ 22.25		Y		
SURCHARGE:					
Fire Protection Fee	$ 11.22		Y		
Regional Water Authority Fees	$ 3.41 per 1,000 gallons				

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

Total monthly charges per 10,000 gallons usage: Water: $34.25 Wastewater: $22.25 Surcharge: $45.32

See accompanying independent auditor's report.

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 165
SERVICES AND RATES
FOR THE YEAR ENDED MAY 31, 2016

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFCs
Unmetered			x 1.0	
≤¾"	902	895	x 1.0	895
1"	179	176	x 2.5	440
1½"			x 5.0	
2"	11	11	x 8.0	88
3"			x 15.0	
4"			x 25.0	
6"			x 50.0	
8"			x 80.0	
10" Master			x 115.0	
Total Water Connections	1,092	1,082		1,423
Total Wastewater Connections	1,059	1,050	x 1.0	1,050

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

Gallons billed to customers: 103,691,000 Water Accountability Ratio: *

* The District participates in joint water supply facilities with Grand Mission Municipal Utility District No. 1, Grand Mission Municipal Utility District No. 2, and Fort Bend County Municipal Utility District No. 143. See Note 8.

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 165
SERVICES AND RATES
FOR THE YEAR ENDED MAY 31, 2016

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

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

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

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes _X_ No ___

County in which District is located:

Fort Bend County, Texas

Is the District located within a city?

Entirely ___ Partly ___ Not at all _X_

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

Entirely _X_ Partly ___ Not at all ___

ETJ in which district is located:

City of Houston, Texas

Are Board Members appointed by an office outside the District?

Yes ___ No _X_

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 165
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED MAY 31, 2016

PROFESSIONAL FEES:		
Auditing	$	12,500
Engineering		45,563
Legal		118,153
TOTAL PROFESSIONAL FEES	$	176,216
PURCHASED SERVICES FOR RESALE:		
Purchased Water Service	$	386,865
Purchased Wastewater Service		122,695
Detention Facilities Costs		20,182
TOTAL PURCHASED SERVICES FOR RESALE	$	529,742
CONTRACTED SERVICES:		
Bookkeeping	$	21,146
Operations and Billing		32,651
TOTAL CONTRACTED SERVICES	$	53,797
UTILITIES:		
Electricity	$	23,365
Telephone		1,551
TOTAL UTILITIES	$	24,916
REPAIRS AND MAINTENANCE	$	191,583
ADMINISTRATIVE EXPENDITURES:		
Director Fees	$	8,400
Insurance		3,599
Office Supplies and Postage		21,746
Payroll Administration		2,147
Payroll Taxes		643
Election Costs		3,262
Travel and Meetings		2,846
Other		236
TOTAL ADMINISTRATIVE EXPENDITURES	$	42,879

See accompanying independent auditor's report.

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 165
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED MAY 31, 2016

CAPITAL OUTLAY	$	276,997
TAP CONNECTIONS	$	83,995
SOLID WASTE DISPOSAL	$	173,596
SECURITY	$	96,039
FIRE FIGHTING	$	133,720
OTHER EXPENDITURES:		
Laboratory Fees	$	6,648
Permit Fees		2,011
Reconnection Fees		2,254
Inspection Fees		36,865
Regulatory Assessment		3,446
TOTAL OTHER EXPENDITURES	$	51,224
TOTAL EXPENDITURES	$	1,834,704

See accompanying independent auditor's report.

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 165
INVESTMENTS
MAY 31, 2016

Funds	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Accrued Interest Receivable at End of Year
GENERAL FUND					
TexPool	XXXX0003	Varies	Daily	$ 1,271,613	$ - 0 -
DEBT SERVICE FUND					
TexPool	XXXX0002	Varies	Daily	$ 1,710,978	$ - 0 -
CAPITAL PROJECTS FUND					
TexPool	XXXX0001	Varies	Daily	$ 791,463	$ - 0 -
TOTAL - ALL FUNDS				$ 3,774,054	$ - 0 -

See accompanying independent auditor's report.

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 165
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED MAY 31, 2016

	Maintenance Taxes		Debt Service Taxes	
TAXES RECEIVABLE - JUNE 1, 2015	$ 6,053		$ 12,375	
Adjustments to Beginning Balance	(1,666)	$ 4,387	(3,406)	$ 8,969
Original 2015 Tax Levy	$ 769,329		$ 1,648,563	
Adjustment to 2015 Tax Levy	42,217	811,546	90,464	1,739,027
TOTAL TO BE ACCOUNTED FOR		$ 815,933		$ 1,747,996
TAX COLLECTIONS:				
Prior Years	$ 4,387		$ 8,969	
Current Year	801,473	805,860	1,717,443	1,726,412
TAXES RECEIVABLE - MAY 31, 2016		$ 10,073		$ 21,584
TAXES RECEIVABLE BY YEAR:				
2015		$ 10,073		$ 21,584

See accompanying independent auditor’s report.

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 165
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED MAY 31, 2016

	2015	2014	2013	2012
PROPERTY VALUATIONS:				
Land	$ 39,228,700	$ 36,853,870	$ 33,246,680	$ 24,615,090
Improvements	162,074,640	101,734,950	72,540,850	54,545,150
Personal Property	776,130	1,219,870	686,100	745,270
Exemptions	(8,854,235)	(2,997,844)	(1,297,550)	(1,116,996)
TOTAL PROPERTY VALUATIONS	$ 193,225,235	$ 136,810,846	$ 105,176,080	$ 78,788,514
TAX RATES PER $100 VALUATION:				
Debt Service	$ 0.90	$ 0.92	$ 0.92	$ 0.87
Maintenance	0.42	0.45	0.45	0.50
TOTAL TAX RATES PER $100 VALUATION	$ 1.32	$ 1.37	$ 1.37	$ 1.37
ADJUSTED TAX LEVY*	$ 2,550,573	$ 1,874,309	$ 1,440,912	$ 1,079,403
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	98.76 %	100.00 %	100.00 %	100.00 %

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

** Maintenance Tax – Maximum tax rate of $1.50 per $100 of assessed valuation approved by voters on November 8, 2005.

See accompanying independent auditor's report.

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 165
LONG-TERM DEBT SERVICE REQUIREMENTS
MAY 31, 2016

	SERIES - 2008		
Due During Fiscal Years Ending May 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2017	$ 145,000	$ 13,650	$ 158,650
2018	155,000	4,650	159,650
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
	$ 300,000	$ 18,300	$ 318,300

See accompanying independent auditor's report.

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 165
LONG-TERM DEBT SERVICE REQUIREMENTS
MAY 31, 2016

	SERIES-2011		
Due During Fiscal Years Ending May 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2017	$ 50,000	$ 89,490	$ 139,490
2018	55,000	87,915	142,915
2019	55,000	86,155	141,155
2020	60,000	84,110	144,110
2021	60,000	81,800	141,800
2022	65,000	79,300	144,300
2023	70,000	76,442	146,442
2024	75,000	73,216	148,216
2025	80,000	69,768	149,768
2026	85,000	66,097	151,097
2027	90,000	62,134	152,134
2028	95,000	57,833	152,833
2029	100,000	53,175	153,175
2030	105,000	48,125	153,125
2031	110,000	42,750	152,750
2032	115,000	37,125	152,125
2033	120,000	31,250	151,250
2034	130,000	25,000	155,000
2035	135,000	18,375	153,375
2036	145,000	11,375	156,375
2037	155,000	3,875	158,875
2038			
2039			
2040			
	$ 1,955,000	$ 1,185,310	$ 3,140,310

See accompanying independent auditor's report.

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 165
LONG-TERM DEBT SERVICE REQUIREMENTS
MAY 31, 2016

	S E R I E S - 2 0 1 2		
Due During Fiscal Years Ending May 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2017	$ 50,000	$ 82,069	$ 132,069
2018	55,000	80,494	135,494
2019	55,000	78,844	133,844
2020	60,000	77,119	137,119
2021	65,000	75,244	140,244
2022	70,000	73,219	143,219
2023	70,000	71,119	141,119
2024	75,000	68,944	143,944
2025	80,000	66,518	146,518
2026	85,000	63,837	148,837
2027	90,000	60,994	150,994
2028	95,000	57,869	152,869
2029	100,000	54,456	154,456
2030	110,000	50,781	160,781
2031	115,000	46,772	161,772
2032	120,000	42,512	162,512
2033	130,000	37,981	167,981
2034	135,000	33,094	168,094
2035	145,000	27,844	172,844
2036	155,000	22,219	177,219
2037	165,000	16,219	181,219
2038	170,000	9,937	179,937
2039	180,000	3,375	183,375
2040			
	$ 2,375,000	$ 1,201,460	$ 3,576,460

See accompanying independent auditor's report.

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 165
LONG-TERM DEBT SERVICE REQUIREMENTS
MAY 31, 2016

	SERIES-2013		
Due During Fiscal Years Ending May 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2017	$ 185,000	$ 168,694	$ 353,694
2018	185,000	163,144	348,144
2019	185,000	157,594	342,594
2020	185,000	152,044	337,044
2021	185,000	146,494	331,494
2022	185,000	140,944	325,944
2023	185,000	135,394	320,394
2024	185,000	129,612	314,612
2025	185,000	123,369	308,369
2026	185,000	116,662	301,662
2027	185,000	109,494	294,494
2028	185,000	102,093	287,093
2029	185,000	94,463	279,463
2030	185,000	86,600	271,600
2031	185,000	78,506	263,506
2032	185,000	70,065	255,065
2033	185,000	61,393	246,393
2034	190,000	52,250	242,250
2035	190,000	42,750	232,750
2036	190,000	33,250	223,250
2037	190,000	23,750	213,750
2038	190,000	14,250	204,250
2039	190,000	4,750	194,750
2040			
	$ 4,285,000	$ 2,207,565	$ 6,492,565

See accompanying independent auditor's report.

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 165
LONG-TERM DEBT SERVICE REQUIREMENTS
MAY 31, 2016

	S E R I E S - 2 0 1 4		
Due During Fiscal Years Ending May 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2017	$ 235,000	$ 166,513	$ 401,513
2018	235,000	161,813	396,813
2019	235,000	157,113	392,113
2020	235,000	152,413	387,413
2021	235,000	147,713	382,713
2022	235,000	141,837	376,837
2023	235,000	134,787	369,787
2024	235,000	127,737	362,737
2025	235,000	120,687	355,687
2026	235,000	113,637	348,637
2027	230,000	106,662	336,662
2028	230,000	99,762	329,762
2029	230,000	92,862	322,862
2030	230,000	85,819	315,819
2031	230,000	78,488	308,488
2032	230,000	71,013	301,013
2033	230,000	63,250	293,250
2034	230,000	55,200	285,200
2035	230,000	47,150	277,150
2036	230,000	39,100	269,100
2037	230,000	30,906	260,906
2038	230,000	22,569	252,569
2039	230,000	13,800	243,800
2040	230,000	4,600	234,600
	$ 5,570,000	$ 2,235,431	$ 7,805,431

See accompanying independent auditor's report.

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 165
LONG-TERM DEBT SERVICE REQUIREMENTS
MAY 31, 2016

	SERIES-2015 REFUNDING		
Due During Fiscal Years Ending May 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2017	$ 80,000	$ 143,719	$ 223,719
2018	85,000	142,069	227,069
2019	250,000	138,719	388,719
2020	250,000	133,719	383,719
2021	250,000	127,469	377,469
2022	265,000	119,744	384,744
2023	270,000	111,719	381,719
2024	275,000	103,544	378,544
2025	285,000	95,144	380,144
2026	290,000	86,519	376,519
2027	300,000	77,669	377,669
2028	305,000	68,593	373,593
2029	310,000	59,368	369,368
2030	325,000	49,640	374,640
2031	330,000	39,406	369,406
2032	335,000	28,806	363,806
2033	345,000	17,756	362,756
2034	360,000	6,075	366,075
2035			
2036			
2037			
2038			
2039			
2040			
	$ 4,910,000	$ 1,549,678	$ 6,459,678

See accompanying independent auditor's report.

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 165
LONG-TERM DEBT SERVICE REQUIREMENTS
MAY 31, 2016

	SERIES-2015A		
Due During Fiscal Years Ending May 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2017	$ 225,000	$ 133,500	$ 358,500
2018	175,000	129,500	304,500
2019	175,000	126,000	301,000
2020	175,000	122,500	297,500
2021	175,000	119,000	294,000
2022	175,000	115,500	290,500
2023	175,000	112,000	287,000
2024	175,000	108,500	283,500
2025	175,000	104,781	279,781
2026	175,000	100,625	275,625
2027	175,000	96,141	271,141
2028	175,000	91,219	266,219
2029	175,000	85,969	260,969
2030	175,000	80,719	255,719
2031	175,000	75,469	250,469
2032	175,000	70,109	245,109
2033	175,000	64,531	239,531
2034	175,000	58,625	233,625
2035	250,000	51,187	301,187
2036	250,000	42,437	292,437
2037	250,000	33,531	283,531
2038	250,000	24,469	274,469
2039	275,000	14,953	289,953
2040	275,000	4,984	279,984
	$ 4,750,000	$ 1,966,249	$ 6,716,249

See accompanying independent auditor's report.

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FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 165
LONG-TERM DEBT SERVICE REQUIREMENTS
MAY 31, 2016

	ANNUAL REQUIREMENTS FOR ALL SERIES		
Due During Fiscal Years Ending May 31	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2017	$ 970,000	$ 797,635	$ 1,767,635
2018	945,000	769,585	1,714,585
2019	955,000	744,425	1,699,425
2020	965,000	721,905	1,686,905
2021	970,000	697,720	1,667,720
2022	995,000	670,544	1,665,544
2023	1,005,000	641,461	1,646,461
2024	1,020,000	611,553	1,631,553
2025	1,040,000	580,267	1,620,267
2026	1,055,000	547,377	1,602,377
2027	1,070,000	513,094	1,583,094
2028	1,085,000	477,369	1,562,369
2029	1,100,000	440,293	1,540,293
2030	1,130,000	401,684	1,531,684
2031	1,145,000	361,391	1,506,391
2032	1,160,000	319,630	1,479,630
2033	1,185,000	276,161	1,461,161
2034	1,220,000	230,244	1,450,244
2035	950,000	187,306	1,137,306
2036	970,000	148,381	1,118,381
2037	990,000	108,281	1,098,281
2038	840,000	71,225	911,225
2039	875,000	36,878	911,878
2040	505,000	9,584	514,584
	$ 24,145,000	$ 10,363,993	$ 34,508,993

See accompanying independent auditor's report.

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 165
CHANGES IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED MAY 31, 2016

Description	Original Bonds Issued	Bonds Outstanding June 1, 2015
Fort Bend County Municipal Utility District No. 165 Unlimited Tax Bonds - Series 2008	$ 5,250,000	$ 435,000
Fort Bend County Municipal Utility District No. 165 Unlimited Tax Bonds - Series 2011	2,135,000	2,000,000
Fort Bend County Municipal Utility District No. 165 Unlimited Tax Bonds - Series 2012	2,500,000	2,425,000
Fort Bend County Municipal Utility District No. 165 Unlimited Tax Bonds - Series 2013	4,655,000	4,470,000
Fort Bend County Municipal Utility District No. 165 Unlimited Tax Bonds - Series 2014	5,800,000	5,800,000
Fort Bend County Municipal Utility District No. 165 Unlimited Tax Refunding Bonds - Series 2015	4,940,000	4,940,000
Fort Bend County Municipal Utility District No. 165 Unlimited Tax Bonds - Series 2015A	4,750,000	
TOTAL	$ 30,030,000	$ 20,070,000

Bond Authority:	Tax Bonds	Recreational Facilities Bonds	Refunding Bonds
Amount Authorized by Voters	$ 60,000,000	$ 5,000,000	$ 22,000,000
Amount Issued	25,090,000		775,000
Remaining to be Issued	$ 34,910,000	$ 5,000,000	$ 21,225,000

See accompanying independent auditor's report.

Current Year Transactions					
	Retirements				
Bonds Sold	Principal	Interest	Bonds Outstanding May 31, 2016	Paying Agent
$	$ 135,000	$ 22,050	$ 300,000	Wells Fargo Bank N.A. Houston, TX
	45,000	90,915	1,955,000	Wells Fargo Bank N.A. Houston, TX
	50,000	83,568	2,375,000	Wells Fargo Bank N.A. Houston, TX
	185,000	174,244	4,285,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	230,000	171,163	5,570,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	30,000	134,741	4,910,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
4,750,000		27,904	4,750,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
$ 4,750,000	$ 675,000	$ 704,585	$ 24,145,000	

Debt Service Fund cash and investment balances as of May 31, 2016:	$ 2,266,037
Average annual debt service payment (principal and interest) for remaining term of all debt:	$ 1,437,875

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

See accompanying independent auditor's report.

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 165
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS

	Amount		
	2016	2015	2014
REVENUES			
Property Taxes	$ 805,860	$ 616,151	$ 473,301
Water Service	428,076	362,425	280,734
Wastewater Service	272,476	230,760	181,435
Regional Water Authority Fees	318,065	233,990	178,896
Fire Protection Fees	134,885	111,031	78,465
Penalty and Interest	25,505	20,272	17,890
Tap Connection and Inspection Fees	204,015	229,685	262,605
Miscellaneous Revenues	15,470	13,510	4,057
TOTAL REVENUES	$ 2,204,352	$ 1,817,824	$ 1,477,383
EXPENDITURES			
Professional Fees	$ 176,216	$ 143,201	$ 108,601
Contracted Services	457,152	398,465	350,538
Purchased Services	529,742	460,134	347,461
Utilities	24,916	27,758	49,893
Repairs and Maintenance	191,583	198,739	131,257
Other	178,098	192,974	146,889
Capital Outlay	276,997		403,700
TOTAL EXPENDITURES	$ 1,834,704	$ 1,421,271	$ 1,538,339
NET CHANGE IN FUND BALANCE	$ 369,648	$ 396,553	$ (60,956)
BEGINNING FUND BALANCE	1,385,773	989,220	1,050,176
ENDING FUND BALANCE	$ 1,755,421	$ 1,385,773	$ 989,220

See accompanying independent auditor's report.

		Percentage of Total Revenue				
2013	2012	2016	2015	2014	2013	2012
$ 392,112	$ 398,332	36.5 %	34.0 %	32.0 %	35.7 %	44.1 %
219,379	172,044	19.4	19.9	19.0	19.9	19.1
142,346	78,814	12.4	12.7	12.3	12.9	8.8
112,315	102,977	14.4	12.9	12.1	10.2	11.4
55,193	42,327	6.1	6.1	5.3	5.0	4.7
13,179	7,318	1.2	1.1	1.2	1.2	0.8
161,465	98,822	9.3	12.6	17.8	14.7	10.9
3,883	2,176	0.7	0.7	0.3	0.4	0.2
$ 1,099,872	$ 902,810	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %
$ 107,862	$ 104,730	8.0 %	7.9 %	7.4 %	9.8 %	11.6 %
209,760	163,418	20.7	21.9	23.7	19.1	18.1
238,494	206,771	24.0	25.3	23.5	21.7	22.9
48,053	41,692	1.1	1.5	3.4	4.4	4.6
122,825	188,168	8.7	10.9	8.9	11.2	20.8
92,807	65,680	8.1	10.6	9.9	8.4	7.3
		12.6		27.3		
$ 819,801	$ 770,459	83.2 %	78.1 %	104.1 %	74.6 %	85.3 %
$ 280,071	$ 132,351	16.8 %	21.9 %	(4.1) %	25.4 %	14.7 %
770,105	637,754					
$ 1,050,176	$ 770,105					

See accompanying independent auditor's report.

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 165
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FIVE YEARS

	Amount		
	2016	2015	2014
REVENUES			
Property Taxes	$ 1,726,412	$ 1,259,478	$ 964,321
Penalty and Interest	13,628	7,633	12,662
Miscellaneous Revenues	3,370	1,263	1,276
TOTAL REVENUES	$ 1,743,410	$ 1,268,374	$ 978,259
EXPENDITURES			
Tax Collection Expenditures	$ 34,174	$ 28,761	$ 21,936
Debt Service Principal	675,000	405,000	190,000
Debt Service Interest and Fees	708,965	695,052	529,908
Bond Issuance Costs		192,806	
TOTAL EXPENDITURES	$ 1,418,139	$ 1,321,619	$ 741,844
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	$ 325,271	$ (53,245)	$ 236,415
OTHER FINANCING SOURCES (USES)			
Proceeds from Long-Term Debt	$ 67,875	$ 5,026,731	$ 182,569
Payment to Refunding Bond Escrow Agent		(4,760,534)	
Bond Premium		15,623	
TOTAL OTHER FINANCING SOURCES (USES)	$ 67,875	$ 281,820	$ 182,569
NET CHANGE IN FUND BALANCE	$ 393,146	$ 228,575	$ 418,984
BEGINNING FUND BALANCE	1,847,325	1,618,750	1,199,766
ENDING FUND BALANCE	$ 2,240,471	$ 1,847,325	$ 1,618,750
TOTAL ACTIVE RETAIL WATER CONNECTIONS	1,082	947	783
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	1,050	920	756

See accompanying independent auditor’s report.

2013	2012	Percentage of Total Revenue 2016	2015	2014	2013	2012
$ 681,576	$ 555,462	99.0 %	99.3 %	98.6 %	99.3 %	98.1 %
2,966	8,706	0.8	0.6	1.3	0.4	1.5
1,860	2,172	0.2	0.1	0.1	0.3	0.4
$ 686,402	$ 566,340	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %
$ 17,102	$ 18,849	2.0 %	2.3 %	2.2 %	2.5 %	3.3 %
165,000	110,000	38.7	31.9	19.4	24.0	19.4
443,747	352,564	40.7	54.8	54.2	64.7	62.2
			15.2			
$ 625,849	$ 481,413	81.4 %	104.2 %	75.8 %	91.2 %	84.9 %
$ 60,553	$ 84,927	18.6 %	(4.2) %	24.2 %	8.8 %	15.1 %
$ 86,569	$ 95,640					
$ 86,569	$ 95,640					
$ 147,122	$ 180,567					
1,052,644	872,077					
$ 1,199,766	$ 1,052,644					
599	422					
583	410					

See accompanying independent auditor's report.

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 165
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
MAY 31, 2016

District Mailing Address	-	Fort Bend County Municipal Utility District No. 165 c/o Allen Boone Humphries Robinson LLP 3200 Southwest Freeway, Suite 2600 Houston, TX 77027
District Telephone Number	-	(713) 860-6400

Board Members:	Term of Office (Elected or Appointed)	Fees of office for the year ended May 31, 2016	Expense reimbursements for the year ended May 31, 2016	Title
William David McKinnie IV	05/16 05/20 (Elected)	$ 1,650	$ 74	President
Angela Gutowsky	05/16 05/20 (Elected)	$ 900	$ 169	Vice President
Melinda Salazar	05/14 05/18 (Elected)	$ 2,400	$ 663	Secretary
Matt Moake	05/16 05/20 (Elected)	$ 1,800	$ 95	Assistant Secretary
Richard E. Van den Bosch	05/14 05/18 (Elected)	$ 1,650	$ 185	Assistant Secretary/ Assistant Vice President

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

Submission date of most recent District Registration Form (TWC Sections 36.054 and 49.054): May 12, 2016.

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

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 165
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
MAY 31, 2016

	Date Hired	Fees for the year ended May 31, 2016	Title
Consultants:			
Allen Boone Humphries Robinson LLP	08/04/05	$ 127,595 $ 133,848	General Counsel/ Bond Counsel
McCall Gibson Swedlund Barfoot PLLC	04/09/15	$ 12,500 $ 10,250	Auditor Bond Related
McLennan & Associates, LP	08/04/05	$ 26,045	Bookkeeper
Perdue, Brandon, Fielder, Collins & Mott, L.L.P.	02/08/07	$ 4,132	Delinquent Tax Attorney
Jones & Carter, Inc.	08/04/05	$ 82,611	Engineer
FirstSouthwest, a Division of Hilltop Securities	08/22/05	$ 112,451	Financial Advisor
Shirley McLennan	11/17/05	$ -0-	Investment Officer
Municipal District Services, LLC	06/01/12	$ 328,745	Operator
Bob Leared	08/22/05	$ 16,198	Tax Assessor/ Collector

APPENDIX B

Specimen Municipal Bond Insurance Policy

MUNICIPAL
ASSURANCE
CORP.

AN ASSURED GUARANTY COMPANY

MUNICIPAL BOND INSURANCE POLICY

ISSUER: Policy No: -N

BONDS: $ in aggregate principal amount of

Effective Date:

Premium: $

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

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

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

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

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

To the fullest extent permitted by applicable law, MAC 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 MAC to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

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

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

MUNICIPAL ASSURANCE CORP.

By ____________________________________
Authorized Officer

A subsidiary of Assured Guaranty Ltd.
31 West 52nd Street, New York, N.Y. 10019
(212) 974-0100