

**PRELIMINARY OFFICIAL STATEMENT DATED DECEMBER 17, 2019**

**This Preliminary Official Statement is subject to completion and amendment. Upon sale of the Bonds, the Official Statement will be completed and delivered to the Underwriter.**

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

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

**NEW ISSUE-Book-Entry Only**

Underlying Rating: Moody's "Baa3"  
See "MUNICIPAL BOND RATING AND MUNICIPAL BOND INSURANCE" herein.

**\$3,365,000\***

**CONROE MUNICIPAL UTILITY DISTRICT NO. 1**  
*(A political subdivision of the State of Texas located within Montgomery County)*  
**UNLIMITED TAX REFUNDING BONDS**  
**SERIES 2020**

The bonds described above (the "Bonds") are obligations solely of Conroe Municipal Utility District No. 1 (the "District") and are not obligations of the State of Texas, Montgomery County, the City of Conroe, 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 levied, without legal limitation as to rate or amount, against all taxable property within the District. THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS DESCRIBED HEREIN. See "INVESTMENT CONSIDERATIONS."

**Dated Date: February 1, 2020**

**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 February 1, 2020, and is payable each March 1 and September 1, commencing September 1, 2020, 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.

**MATURITY SCHEDULE**

Due (September 1)	Principal* Amount	Interest Rate	Initial Reoffering Yield (c)	CUSIP Number (b)	Due (September 1)	Principal* Amount	Interest Rate	Initial Reoffering Yield (c)	CUSIP Number (b)
2020	\$ 50,000				2031	\$ 175,000 (a)			
2021	10,000				2032	180,000 (a)			
2022	115,000				2033	185,000 (a)			
2023	120,000				2034	195,000 (a)			
2024	130,000				2035	200,000 (a)			
2025	135,000				2036	205,000 (a)			
2026	140,000 (a)				2037	215,000 (a)			
2027	145,000 (a)				2038	220,000 (a)			
2028	150,000 (a)				2039	230,000 (a)			
2029	160,000 (a)				2040	240,000 (a)			
2030	165,000 (a)								

- (a) Bonds maturing on and after September 1, 2026, are subject to redemption prior to maturity at the option of the District, in whole or from time to time in part, on September 1, 2025, or on any date thereafter, at a price equal to the principal amount thereof plus accrued interest to the date fixed for redemption. See "THE BONDS—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 (as herein defined) for offers to the public and which may be subsequently changed by the Underwriter and is the sole responsibility of the Underwriter. The initial reoffering yields indicated above represent the lower of the yields resulting when priced at maturity or to the first call date. Accrued interest from February 1, 2020, is to be added to the price.

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 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, Bond Counsel. See "LEGAL MATTERS." Certain legal matters will be reviewed by McCall, Parkhurst & Horton L.L.P., Houston, Texas, as Underwriter's Counsel. Delivery of the Bonds through DTC is expected on or about February 6, 2020.

**RBC CAPITAL MARKETS**

\*Preliminary; subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

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## USE OF INFORMATION IN OFFICIAL STATEMENT

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission, as amended and in effect on the date hereof, this document constitutes an Official Statement with respect to the Bonds that has been “deemed final” by the District as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

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

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

All of the summaries of the statutes, 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, 3200 Southwest Freeway, Suite 2600, Houston, Texas, 77027-7528 upon payment of the costs of duplication therefor.

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

## SALE AND DISTRIBUTION OF THE BONDS

### **Award of the Bonds**

The Bonds are being purchased by RBC Capital Markets, LLC (the “Underwriter”) pursuant to a bond purchase agreement with the District (the “Bond Purchase Agreement”) at a price of \$ \_\_\_\_\_ (representing the par amount of the Bonds of \$ \_\_\_\_\_, plus/less a net premium/discount on the Bonds of \$ \_\_\_\_\_, less an Underwriter’s discount of \$ \_\_\_\_\_) plus accrued interest. The Underwriter’s obligation is to purchase all of the Bonds, if any are purchased. See “PLAN OF FINANCING—Sources and Uses of Funds.”

The Underwriter has reviewed the information in this OFFICIAL STATEMENT pursuant to its responsibilities to investors under the federal securities laws, but the Underwriter does not guarantee the accuracy or completeness of such information.

### **Prices and Marketability**

The prices and other terms with respect to the offering and sale of the Bonds may be changed at any 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 that stabilize or maintain the market prices of the Bonds at levels above those that 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; nor have the Bonds been registered or qualified under the securities laws of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any other jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other 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.

### HURRICANE HARVEY

#### *General...*

The greater Houston area, including Montgomery County, is subject to occasional severe weather events, including tropical storms and hurricanes. If the District were to sustain damage to its facilities requiring substantial repair or replacement, or if substantial damage were to occur to taxable property within the District as a result of such a weather event, the investment security of the Bonds could be adversely affected. The greater Houston area has experienced four storms exceeding a 0.2% probability (i.e. “500-year flood” events) since 2015, including Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 25, 2017, and brought historic levels of rainfall during the successive four days.

#### *Impact on the District...*

According to Vogt Engineering, L.P (the “Engineer”), the City’s water and sewer system serving the District did not sustain any material damage and there was no interruption of water and sewer service as a result of Hurricane Harvey. Further, as a result of Hurricane Harvey, no homes or commercial businesses within the District experienced structural flooding or other material damage.

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

### THE DISTRICT

#### *Description...*

The District is a political subdivision of the State of Texas, created by the Texas Commission on Environmental Quality (the “TCEQ”) effective July 11, 2006 and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended, and Article XVI, Section 59 of the Texas Constitution. The District currently includes approximately 539 acres of land and is in the process of seeking approval from the City of Conroe (the “City”) to annex approximately 31 acres into the District’s boundaries. The District expects to receive such approval in early 2020. See “THE DISTRICT.”

#### *Location...*

The District consists of two non-contiguous tracts. Approximately 401 acres within the District (the “Southern Tract”) are located approximately 40 miles north of the central downtown business district of the City of Houston and approximately two miles southeast of the City. The Southern Tract of the District is bisected east to west by Texas State Highway Loop 336, and is bounded to the west by Farm-to-Market Road 1314. The remaining approximately 138 acres in the District (the “Northern Tract”) are located approximately 45 miles north of the central downtown business district of the City of Houston, approximately five and one-half miles northwest of the Southern Tract and approximately three miles northwest of the City. The Northern Tract of the District is bounded to the east by Interstate Highway 45 and on the south by Farm-to-Market Road 3083 and Teas Nursery Road. The District lies wholly within the corporate limits of the City and within the boundaries of Conroe Independent School District. See “THE DISTRICT—Description and Location” and “AERIAL LOCATION MAP.”

*The Developers and  
Major Property Owners...*

BGM Land Investments Ltd., a Texas limited partnership (“BGM”) whose general partner is G.P. Landvest L.L.C., originally owned approximately 199 acres of developable land within the District. According to BGM, it sells such developable land to Woodmere Development Co., Ltd., a Texas limited partnership (“Woodmere”), the general partner of which is Woodmere GP, L.L.C. a Texas limited liability company, for future residential development on an as needed basis. After developing the land, Woodmere sells the developed lots on an as needed basis to Long Lake Ltd. (“Long Lake”), a Texas limited partnership dba Lake Ridge Builders and Briarwood Homes, which build and sell houses in the District. BGM, Woodmere and Long Lake are all under common ownership and management. As of the date hereof, BGM has sold approximately 60 acres to Woodmere and Woodmere has completed Barton Creek Ranch, Section One (111 lots) and is constructing Barton Creek Ranch, Sections Two and Three (100 lots).

DC Development Partners LP, a Texas limited partnership (“DC Development”) and DR Horton – Texas, Ltd, a Texas limited liability partnership. (“DR Horton”) originally owned approximately 69 acres in the District and have developed Barton Woods, Sections Three (107 lots) and are constructing Barton Woods, Section Four (157 lots).

The developer of approximately 53 acres being developed as MacKenzie Creek, Section One is MacKenzie Creek Ltd. (“MacKenzie Creek”), a Texas limited partnership. The general partner of MacKenzie Creek is Camcorp Management Inc. and the limited partner is Camcorp Interests, Ltd. The general partner of Legend Classic Homes, Ltd. (the builder in MacKenzie Creek) is Legend Home Corp., which is owned by Camcorp Interests, Ltd.

Teas Crossing West Commercial, LLC, a Texas limited liability company (“Teas Crossing West”) has developed approximately 22 acres of an approximately 65 acre commercial/retail site located within the District as Teas Crossing Town Center. Teas Crossing West is a single purpose entity created for the purpose of developing Teas Crossing Town Center. Teas Crossing West was formed and is wholly owned by Read King Commercial Real Estate (“Read King”). Read King is Houston-based full-service commercial real estate firm. See “THE DISTRICT—Status of Development.”

Approximately 8 acres of the approximate 22 acres developed by Teas Crossing West property was transferred to Teas Crossing Phase I LLC, a Texas limited liability company (“Teas Crossing Phase I”), which is a single purpose entity formed by Read King for the sole purpose of financing the Teas Crossing Phase I Property. After the transfer to Teas Crossing Phase I, Teas Crossing West continues to own approximately 35 developed acres where no commercial improvements have been constructed to date.

Woodmere, DC Development, DR Horton MacKenzie Creek and Teas Crossing West are collectively referred to herein as the “Developers.” See “THE DEVELOPERS AND MAJOR PROPERTY OWNERS.”

*Status of Development...*

Residential development in the District includes Barton Woods (247 single-family residential lots on approximately 95 acres) and Barton Creek Ranch (111 lots on approximately 33 acres). As of December 10, 2019, 229 homes were completed of which 208 were occupied, 36 homes were under construction and 93 developed lots were and available for home construction in the District. In addition, (a) 257 single-family residential lots on approximately 68 acres in Barton Woods, Section Four and Barton Creek Ranch, Sections Two and Three are under construction with completion expected in the first quarter of 2020 and (b) 256 lots on approximately 53 acres in MacKenzie Creek, Section One are under construction with an expected completion in the first quarter of 2020. Home prices in the District range from approximately \$240,000 to \$610,000. See “THE DISTRICT—Land Use—Status of Development.”

Commercial/retail development in the District includes Teas Crossing Town Center, anchored by a 105,000 square foot JC Penney (approximately 10 acres) and includes 57,619 square feet of multi-tenant retail pad sites (approximately 12 acres). According to Read King, Teas Crossing Town Center is approximately 92% leased and includes an Olive Garden, Chase Bank, Verizon Wireless, T-Mobile, Subway, Firehouse Subs, DaVita Dialysis, Merrill Lynch Wealth Management, Jos. A. Bank, Advantage Staffing, Weng’s Wok Asian Bistro, Sephora, Conroe Emergency Center, Massage Envy Spa, Lordex Spine Institute, Nails of America and Spa, Wild Ginger Japanese Steakhouse, Cherry Berry Self-Serve Yogurt Bar, State Farm Insurance Agency, The Dental Center of Conroe, America’s Home Place Custom Home Builders, SAS Comfort Shoes, Goddess Hair & Make-up Salon, and The Doctors’ Group.

The remainder of the District consists of approximately 188 acres of developable but undeveloped property (excluding approximately 121 acres where utility construction is underway for 513 single-family residential lots) and approximately 37 undevelopable acres (detention ponds, parks and open space, and drill sites). See “THE DISTRICT—Land Use” and “—Status of Development.”

*Homebuilding...* DR Horton is the sole builder in Barton Woods and Lake Ridge Builders and Briarwood Homes are building homes in Barton Creek Ranch. See “THE DISTRICT—Homebuilding.”

*Water and Wastewater...* Pursuant to a Utility Functions Agreement between the District and the City, the City provides retail water and sewer services to the residents in the District and all revenues from the collection of charges for water and sewer services are paid directly to the City. See “UTILITY AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF CONROE” and “THE SYSTEM.”

*Payment Record...* The District has previously issued three series of unlimited tax bonds totaling \$8,080,000 principal amount, of which \$7,570,000 is collectively outstanding as of the date hereof (the “Outstanding Bonds”). The District has never defaulted on the payment of debt service on the Outstanding Bonds. See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds.”

## THE BONDS

*Description...* The \$3,365,000\* Unlimited Tax Refunding Bonds, Series 2020 (the “Bonds”) are being issued as fully registered bonds pursuant to a resolution authorizing the issuance of the Bonds adopted by the District’s Board of Directors (the “Board”). The Bonds are scheduled to mature serially on September 1 in each of the years 2020 through 2040, both inclusive, in the principal amounts and on the dates 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 February 1, 2020, and is payable September 1, 2020, and each March 1 and September 1 thereafter, until the earlier of maturity or prior redemption. See “THE BONDS.”

*Book-Entry-Only...* 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, 2026 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, 2025, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. See “THE BONDS—Redemption Provisions.”

*Use of Proceeds...* Proceeds from the sale of the Bonds, together with lawfully available debt service funds, if any, will be used to pay certain costs incurred in connection with the issuance of the Bonds and to currently refund and defease \$3,195,000\* principal amount of the Outstanding Bonds in order to achieve net savings in the District’s annual debt service expense. See “PLAN OF FINANCING—Refunded Bonds.” The bonds to be refunded and discharged with Bond proceeds are referred to herein as the “Refunded Bonds.” After the issuance of the Bonds, \$4,375,000\* principal amount of the Outstanding Bonds will remain outstanding (the “Remaining Outstanding Bonds”). See “FINANCIAL INFORMATION CONCERNING THE DISTRICT—Outstanding Bonds.”

*Authority for Issuance...* The Bonds are the first series of refunding bonds issued out of an aggregate of \$22,360,000 principal amount of unlimited tax bonds authorized by the District’s voters for the purpose of refunding outstanding debt. The Bonds are issued by the District pursuant to 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, as amended, Chapter 1207 of the Texas Government Code, as amended, City of Conroe Ordinance No. 1381-97, elections held within the District, 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.”

<i>Source of Payment...</i>	Principal of and interest on the Bonds and the Remaining Outstanding Bonds are payable from the proceeds of a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. The Bonds are obligations of the District and are not obligations of the City, Montgomery County, the State of Texas or any entity other than the District. See “THE BONDS—Source of Payment.”
<i>Municipal Bond Rating and Municipal Bond Insurance...</i>	Moody’s Investors Service (“Moody’s”) has assigned a credit rating of “Baa3” on the Bonds. An explanation of the rating may be obtained from Moody’s, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007. The fee associated with the rating assigned to the District by Moody’s will be paid by the District; however, the fee associated with ratings provided by other agencies will be at the expense of the Underwriter. See “MUNICIPAL BOND RATING AND MUNICIPAL BOND INSURANCE.”  Application has also been made to municipal bond insurance companies for qualification of the Bonds for municipal bond insurance. If qualified, the purchase of municipal bond insurance is optional and at the expense of the District. See “INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance” and “MUNICIPAL BOND RATING AND MUNICIPAL BOND INSURANCE.”
<i>Qualified Tax-Exempt Obligations...</i>	The District will designate the Bonds as “qualified tax-exempt obligations” within the meaning of Section 265(b) of the Internal Revenue Code of 1986. See “TAX MATTERS—Qualified Tax-Exempt Obligations.”
<i>Bond Counsel...</i>	Allen Boone Humphries Robinson LLP, Houston, Texas. See “MANAGEMENT OF THE DISTRICT,” “LEGAL MATTERS,” and “TAX MATTERS.”
<i>Financial Advisor...</i>	Masterson Advisors LLC, Houston, Texas. See “MANAGEMENT OF THE DISTRICT.”
<i>Underwriter’s Counsel...</i>	McCall, Parkhurst & Horton L.L.P., Houston, Texas.
<i>Paying Agent/Registrar...</i>	The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. See “THE BONDS—Method of Payment of Principal and Interest.”
<i>Verification Agent...</i>	Public Finance Partners LLC, Rockford, Minnesota. See “VERIFICATION OF MATHEMATICAL CALCULATIONS.”

### **INVESTMENT CONSIDERATIONS**

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



## SELECTED FINANCIAL INFORMATION (UNAUDITED)

2019 Certified Taxable Assessed Valuation.....	\$ 94,282,824 (a)
Estimated Taxable Assessed Valuation as of July 1, 2019 .....	\$109,818,387 (b)
Gross Direct Debt Outstanding (the Bonds and the Remaining Outstanding Bonds) .....	\$ 7,740,000 *(c)
Estimated Overlapping Debt .....	6,960,406 (d)
Gross Direct Debt and Estimated Overlapping Debt.....	\$14,700,406 *(d)
Ratios of Gross Direct Debt to: .....	
2019 Certified Taxable Assessed Valuation.....	8.21% *
Estimated Taxable Assessed Valuation as of July 1, 2019.....	7.05% *
Ratios of Gross Direct Debt and Estimated Overlapping Debt to: .....	
2019 Certified Taxable Assessed Valuation.....	15.59% *
Estimated Taxable Assessed Valuation as of July 1, 2019.....	13.39% *
Debt Service Funds Available as of November 19, 2019.....	\$303,664 (e)
General Operating Fund Balance as of November 19, 2019 .....	\$414,163
Capital Projects Fund Balance as of November 19, 2019 .....	\$ 96,685
2019 Debt Service Tax Rate .....	\$0.42
2019 Maintenance and Operations Tax Rate .....	0.18
Total Tax Rate .....	\$0.60
Average Annual Debt Service Requirement (2020-2041).....	\$474,719 *(f)
Maximum Annual Debt Service Requirement (2021).....	\$539,260 *(f)
Tax Rates Required to Pay Average Annual Debt Service (2020-2041) at a 95% Collection Rate	
Based upon 2019 Certified Taxable Assessed Valuation.....	\$0.54 *(g)
Based upon Estimated Taxable Assessed Valuation as of July 1, 2019 .....	\$0.46 *(g)
Tax Rates Required to Pay Maximum Annual Debt Service (2021) at a 95% Collection Rate	
Based upon 2019 Certified Taxable Assessed Valuation.....	\$0.61 *(g)
Based upon Estimated Taxable Assessed Valuation as of July 1, 2019 .....	\$0.52 *(g)
Status of Development as of December 10, 2019 (h):	
Homes Completed (208 Occupied, 21 unoccupied).....	229
Homes Under Construction.....	36
Lots Available for Home Construction .....	93
Commercial .....	(h)
Estimated Population.....	728 (i)

- (a) As certified by the Montgomery Central Appraisal District (the "Appraisal District"). See "TAXING PROCEDURES."
- (b) Provided by the Appraisal District for informational purposes only. Such amounts reflect an estimate of the taxable assessed value within the District on July 1, 2019. No tax will be levied on such amount until it is certified. Increases in value occurring between January 1, 2019 and July 1, 2019, will be certified as of January 1, 2020 and provided for purposes of taxation in the summer of 2020. 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."
- (e) Neither Texas law nor the Bond Resolution requires the District to maintain any particular balance in the Debt Service Fund.
- (f) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements."
- (g) See "TAX DATA—Tax Adequacy for Debt Service."
- (h) See "THE DISTRICT—Land Use" and "—Status of Development."
- (i) Based upon 3.5 persons per occupied single-family residence.

## PRELIMINARY OFFICIAL STATEMENT

**\$3,365,000\***

### CONROE MUNICIPAL UTILITY DISTRICT NO. 1

*(A political subdivision of the State of Texas located within Montgomery County)*

### UNLIMITED TAX REFUNDING BONDS SERIES 2020

This OFFICIAL STATEMENT provides certain information in connection with the issuance by Conroe Municipal Utility District No. 1 (the “District”) of its \$3,365,000\* Unlimited Tax Refunding Bonds, Series 2020 (the “Bonds”).

The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, Chapter 1207 of the Texas Government Code, as amended, City of Conroe Ordinance No. 1381-97, the general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas, elections held within the District and a resolution authorizing the issuance of the Bonds (the “Bond Resolution”) adopted by the Board of Directors of the District (the “Board”). See “THE BONDS—Authority for Issuance.”

This OFFICIAL STATEMENT includes descriptions, among others, of the Bonds and the Bond Resolution, and certain other information about the District, BGM Land Investments Ltd, a Texas limited liability partnership (“BGM”), Woodmere Development Co., Ltd, a Texas limited partnership (“Woodmere”), DC Development Partners LP, a Texas limited partnership (“DC Development”), DR Horton – Texas, Ltd. (“DR Horton”) and Teas Crossing West Commercial, LLC, a Texas limited liability company (“Teas Crossing West”) and development activity in the District. Woodmere, DC Development, DR Horton and Teas Crossing West are collectively referred to herein as the “Developers.” 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.

## PLAN OF FINANCING

### Purpose

The proceeds of the Bonds and lawfully available debt service funds, if any, will be used to currently refund and defease a portion of the District’s Unlimited Tax Bonds, Series 2015, totaling an aggregate principal amount of \$3,195,000\* (the “Refunded Bonds”) in order to achieve a net savings in the District’s debt service expense. See “Refunded Bonds” herein. The proceeds will also be used to pay the costs of issuance of the Bonds. See “Sources and Uses of Funds” herein. A total of \$4,375,000\* in principal amount of the Outstanding Bonds will remain outstanding after the issuance of the Bonds (the “Remaining Outstanding Bonds”). See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds.”

## **Refunded Bonds**

Proceeds of the Bonds, together with lawfully available debt service funds, if any, will be applied to currently refund and defease the Refunded Bonds in the principal amounts and with maturity dates set forth below and to pay certain costs of issuing the Bonds.

<u>Maturity Date</u> <u>September 1</u>	<u>Series</u> <u>2015*</u>
2022	\$ 105,000
2023	110,000
2024	120,000
2025	125,000
2026	130,000
2027	135,000
2028	140,000
2029	150,000
2030	155,000
2031	165,000
2032	170,000
2033	180,000
2034	190,000
2035	195,000
2036	205,000
2037	215,000
2038	225,000
2039	235,000
2040	245,000
	<u>\$ 3,195,000</u>

Redemption Date: February 13, 2020

## **Defeasance of Refunded Bonds**

The Refunded Bonds, and the interest due thereon, are to be paid on the redemption date from funds to be deposited with The Bank of New York Mellon Trust Company, N.A., as paying agent for the Refunded Bonds.

The Bond Resolution provides that from the proceeds of the sale of the Bonds and lawfully available debt service funds, if any, the District will deposit with the Paying Agent for the Refunded Bonds the amount necessary to accomplish the discharge and final payment of the Refunded Bonds. Such funds will be held by the Paying Agent for the Refunded Bonds in a segregated payment account (the "Payment Account"). At the time of delivery of the Bonds, Public Finance Partners LLC, will verify to the District, the Paying Agent for the Refunded Bonds, Bond Counsel, and the Financial Advisor that the monies held in the Payment Account are sufficient to pay, when due, the principal of and interest on the Refunded Bonds. By the deposit of the cash with the Paying Agent for the Refunded Bonds and the making of irrevocable arrangements for the giving of notice of redemption of the Refunded Bonds, the terms of the prior resolution of the District securing payment of the Refunded Bonds shall have been satisfied and such Refunded Bonds will no longer be considered outstanding except for the payment out of the amounts so deposited in the Payment Account, and the amounts so deposited in the Payment Account will constitute firm banking arrangements under Texas law for the discharge and final payment of the Refunded Bonds. See "VERIFICATION OF MATHEMATICAL CALCULATIONS."

**Sources and Uses of Funds**

The proceeds derived from the sale of the Bonds, together with available debt service funds, if any, exclusive of accrued interest, will be applied as follows:

Sources of Funds:	
Principal Amount of the Bonds .....	\$ _____
Plus/Less: Net Premium/Discount on the Bonds .....	_____
Plus: Transfer from Debt Service Fund .....	_____
Total Sources of Funds.....	\$ _____
Uses of Funds:	
Deposit to Payment Account .....	\$ _____
Issuance Expenses and Underwriters' Discount (a).....	_____
Total Uses of Funds .....	\$ _____

(a) Includes municipal bond insurance premium.

**THE BONDS**

**Description**

The Bonds will be dated and accrue interest from February 1, 2020, with interest payable each September 1 and March 1, beginning September 1, 2020 (the "Interest Payment Date"), and will mature on the dates and in the principal 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.

**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. 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, a continuing direct annual ad valorem tax, without limit as to rate, upon all taxable property in the District sufficient to pay the interest on the Bonds as the same becomes due and to pay each installment of the principal of the Bonds as the same matures, with full allowance being made for delinquencies and costs of collection. In the Bond 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 solely of the District and are not obligations of the State of Texas, Montgomery County, the City of Conroe, 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 shall be deposited into the Debt Service Fund upon receipt. Any monies remaining after the refunding of the Refunded Bonds and payment of issuance costs will be deposited into the Debt Service Fund.

## **No Arbitrage**

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

## **Redemption Provisions**

The District reserves the right, at its option, to redeem the Bonds maturing on or after September 1, 2026, prior to their scheduled maturities, in whole or from time-to-time in part, in integral multiples of \$5,000 on September 1, 2025, or any date thereafter, at a price of par value plus accrued interest on the principal amounts called for redemption to the date fixed for redemption.

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

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

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

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

## **Authority for Issuance**

At a bond election held within the District, voters of the District have authorized the issuance of \$22,360,000 principal amount of unlimited tax bonds for the purpose of refunding outstanding debt. The Bonds are issued pursuant to such authorization. See “Issuance of Additional Debt” herein.

The Bonds are issued by the District pursuant to 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, as amended, Chapter 1207 of the Texas Government Code, as amended, City of Conroe Ordinance No. 1381-97, elections held within the District, and general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas.

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

## **Registration and Transfer**

So long as any Bonds remain outstanding, the Paying Agent/Registrar shall keep the Register at its principal payment office and, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar shall provide for the registration and transfer of Bonds in accordance with the terms of the Bond Resolution.

In the event the Book-Entry-Only System should be discontinued, each Bond shall be transferable only upon the presentation and surrender of such Bond at the principal payment office of the Paying Agent/Registrar, duly endorsed for transfer, or accompanied by an assignment duly executed by the Registered Owner or his authorized representative in form satisfactory to the Paying Agent/Registrar. Upon due presentation of any Bond in proper form for transfer, the Paying Agent/Registrar has been directed by the District to authenticate and deliver in exchange therefor, within three (3) business days after such presentation, a new Bond or Bonds, registered in the name of the transferee or transferees, in authorized denominations and of the same maturity and aggregate principal amount and paying interest at the same rate as the Bond or Bonds so presented.

All Bonds shall be exchangeable upon presentation and surrender thereof at the principal payment office of the Paying Agent/Registrar for a Bond or Bonds of the same maturity and interest rate and in any authorized denomination in an aggregate amount equal to the unpaid principal amount of the Bond or Bonds presented for exchange. The Paying Agent/Registrar is authorized to authenticate and deliver exchange Bonds. Each Bond delivered shall be entitled to the benefits and security of the Bond Resolution to the same extent as the Bond or Bonds in lieu of which such Bond is delivered.

Neither the District nor the Paying Agent/Registrar shall be required to transfer or to exchange any Bond during the period beginning on a Record Date and ending the next succeeding Interest Payment Date or to transfer or exchange any Bond called for redemption during the thirty (30) day period prior to the date fixed for redemption of such Bond.

The District or the Paying Agent/Registrar may require the Registered Owner of any Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the transfer or exchange of such Bond. Any fee or charge of the Paying Agent/Registrar for such transfer or exchange shall be paid by the District.

## **Lost, Stolen or Destroyed Bonds**

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

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

## **Replacement of Paying Agent/Registrar**

Provision is made in the Bond 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**

At an election held on November 7, 2006, the District's voters have authorized the issuance of \$22,360,000 principal amount of unlimited tax bonds for refunding outstanding debt and \$22,360,000 principal amount of unlimited tax bonds for the purpose of constructing and/or acquiring water, wastewater and drainage facilities. In an additional election held on May 9, 2009, the District's voters authorized the issuance of \$7,200,000 principal amount of unlimited tax bonds for the purpose of construction and/or acquiring water, wastewater and drainage facilities and refunding of the same at an additional election. The District could authorize additional amounts. The District currently has \$21,480,000 principal amount of unlimited tax bonds authorized but unissued for constructing and/or acquiring water, wastewater and drainage facilities. After the issuance of the Bonds, \$22,190,000\* principal of the unlimited tax refunding bonds will remain authorized but unissued from the 2006 refunding authorization election. The authorization approved at the 2009 election remains unissued. See "INVESTMENT CONSIDERATIONS—Future Debt."

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

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

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.

If additional debt obligations are issued in the future by the District, such issuance may increase gross debt/property ratios and might adversely affect the investment security of the Bonds.

### **Dissolution by the City of Conroe**

Under existing Texas law, because the District lies wholly within the corporate limits of the City, the District must conform to a City ordinance consenting to the creation of the District and its Utility Functions Agreement with the City. In addition, the District may be dissolved by the City without the District's consent. If the District is dissolved, the City will assume the District's assets and obligations (including the Bonds). Dissolution of the District by the City is a policy matter within the discretion of the Mayor and City Council of the City, and therefore, the District makes no representation that dissolution will or will not occur and makes no representation of the City's financial capability to pay debt service on the Bonds if such dissolution were to occur. See "UTILITY AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF CONROE" for a discussion of certain limitations on the City's right to dissolve the District.

### **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 districts with which it is consolidating. Although no consolidation is presently contemplated by the District, no representation is made concerning the likelihood of consolidation in the future.

### **Remedies in Event of Default**

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created or confirmed in the Bond Resolution, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Resolution, the Registered Owners 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 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 of 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 are on file with DTC.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 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 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a rating from S&P Global Ratings of "AA+." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

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

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

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

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

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.

## **UTILITY AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF CONROE**

The District operates pursuant to a Utility Functions Agreement between the City and the District, dated as of October 13, 2005, supplemented on November 15, 2007, and amended by the First Amendment to the Utility Functions Agreement, dated as of April 14, 2009 (collectively, the "Utility Agreement"). Pursuant to the Utility Agreement, the City consented to the creation of the District within the city limits of the City, the District assumed responsibility for acquiring and constructing for the benefit of, and for ultimate conveyance to, the City, the water distribution, wastewater collection and drainage facilities to serve development occurring within the boundaries of the District (the "Facilities") and the City agreed to accept the Facilities for operation and maintenance at the sole cost of the City in consideration for the District's financing, acquisition and construction of the Facilities. In order to secure performance by the City of its obligations under the Utility Agreement, the District retains a security interest in the Facilities transferred to the City until the District's bonds issued to acquire and construct the Facilities are paid off. It is the City's obligation to set rates and charges for the use of the Facilities and to bill and collect such rates and charges from customers of the Facilities. The City agrees to charge residents of the District the same water and wastewater rates that the City charges in other parts of the City. All revenues from the Facilities belong exclusively to the City.

The City agrees to provide the District with its ultimate requirements for water supply capacity and wastewater treatment capacity without capital charges of any kind. The City has covenanted to maintain the Facilities, or cause the Facilities to be maintained, in good condition and working order and to operate the same, or cause the same, to be operated in an efficient and economical manner at a reasonable cost and in accordance with sound business principles. The City has also covenanted to comply with all contractual provisions and agreements entered into by it and with all valid rules, regulation, directions or orders by any governmental or judicial body promulgating the same.

Under the Utility Agreement, the District is authorized to issue bonds to finance the construction and acquisition of the Facilities. Before the District can issue utility or park bonds, the District must provide the City with a copy of the TCEQ order authorizing issuance of the bonds and such order must provide that under the TCEQ's rules governing the issuance of bonds it is feasible to sell the bonds at a District tax rate that does not exceed \$1.00 per \$100 of taxable assessed valuation. The Utility Functions Agreement expressly provides that such condition is not a limitation on the District's authority to levy an unlimited tax and that the District's bonds are secured by a pledge of the proceeds of an ad valorem tax without limit as to rate or amount. However, if the District's debt service tax rate for a given year is \$0.95 per \$100 of taxable assessed valuation or higher, then the District's maintenance and operations tax rate shall not exceed \$0.05 per \$100 of taxable assessed valuation without written consent from the City. Both the City and the District levy taxes on property within the District. The Utility Functions Agreement provides that the City pays an annual rebate to the District of a portion of the City's tax rate related to the water, wastewater and drainage in order to prevent double payment of taxes by taxpayers in the District. The annual rebate is equal to the total assessed value in the District for a given year multiplied by the portion of the City's tax rate that is attributable to water, sewer or drainage facilities, which may increase or decrease over time. Currently, the City does not attribute any of its tax rate to water, sewer and drainage facilities. Therefore, at this time the City rebates nothing to the District.

The City's right to dissolve the District is restricted under the Utility Functions Agreement. Under the terms of the Utility Functions Agreement, the City agrees that it will not dissolve the District until ninety-five percent of the District's Facilities have been developed and the developers advancing funds to construct the Facilities have been reimbursed to the maximum extent permitted by the rules of the TCEQ or the City assumes any obligation for such reimbursement of the District under such rules. See "THE BONDS—Dissolution by the City of Conroe."

## **THE DISTRICT**

### **General**

The District is a political subdivision of the State of Texas, created by the TCEQ effective July 11, 2006, and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended, and Article XVI, Section 59 of the Texas Constitution. The District contains approximately 539 acres of land and is in the process of seeking approval from the City to annex approximately 31 acres into the District's boundaries. The District expects to receive such approval in or early 2020.

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; the control and diversion of storm water; and the construction of roads and related facilities. 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 recreational facilities, including the issuance of bonds payable from taxes for such purposes. 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. To comply with its consent ordinance for creation from the City, within which the District is located, the District is required to observe certain requirements of the City consent ordinance which: limit the purposes for which the District may sell bonds to the acquisition, construction, and improvement of waterworks, wastewater, drainage, park and recreational facilities and roads and related improvements; 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 consists of two non-contiguous areas that total approximately 539 acres of land. The majority of the District's acreage consisting of approximately 401 acres located approximately 40 miles north of the central downtown business district of the City of Houston and approximately two miles southeast of the City (the "Southern Tract"). The Southern Tract of the District is bisected east to west by Texas State Highway Loop 336 and is bounded to the west by Farm-to-Market Road 1314. The development within the Southern Tract of the District currently consists of residential development. The remaining approximately 138 acres in the District (the "Northern Tract") is located approximately 45 miles north of the central downtown business district of the City of Houston, approximately five and one-half miles northwest of the Southern Tract and approximately three miles northwest of the City. The Northern Tract of the District is bounded to the east by Interstate Highway 45 and to the south by Farm-to-Market Road 3083 and Teas Nursery Road. The development within the Northern Tract of the District is adjacent to Interstate Highway 45 and currently consists of commercial development. The District lies wholly within the corporate limits of the City and within the boundaries of Conroe Independent School District. See "AERIAL LOCATION MAP."

**Land Use**

The District’s land plan currently includes approximately 128 acres developed as 358 single-family residential lots, approximately 121 acres where utility construction is underway for 513 single-family residential lots, approximately 65 acres of commercial tracts, approximately 188 developable acres that have not been fully provided with water distribution, wastewater collection and storm drainage facilities and approximately 37 acres that are undevelopable consisting of rights-of-way, detention ponds, easements, permanent floodplain, and parks, recreational and open space. The table below represents a detailed breakdown of the current acreage and development in the District.

	Approximate <u>Acres</u>	<u>Lots</u>
<i><u>Single-Family Residential</u></i>		
Barton Woods		
Section One.....	10	12
Section Two.....	57	128
Section Three.....	28	107
Section Four (a).....	41	157
Barton Creek Ranch		
Section One.....	33	111
Section Two(a).....	12	39
Section Three(a).....	15	61
MacKenzie Creek		
Section One(b).....	<u>53</u>	<u>256</u>
Subtotal.....	249	871
Commercial.....	65	---
Future Development.....	188	---
Undevelopable (c).....	<u>37</u>	<u>---</u>
Totals.....	539	871

- (a) These sections are under construction with utilities with an expected completion date of utilities and paving in the first quarter of 2020.
- (b) These lots are under construction with lot development expected to be complete in the first quarter of 2020.
- (c) Represents rights-of-way, detention ponds, drainage easements, permanent floodplain, and parks, recreational and open space.

**Status of Development**

*Single-Family Residential:* Residential development in the District includes Barton Woods (247 single-family residential lots on approximately 95 acres) and Barton Creek Ranch (111 lots on approximately 33 acres). As of December 10, 2019, 229 homes were completed of which 208 were occupied, 36 homes were under construction and 93 developed lots were and available for home construction in the District. In addition, (a) 257 single-family residential lots on approximately 68 acres in Barton Woods, Section Four and Barton Creek Ranch, Sections Two and Three are under construction with an expected completion in the first quarter of 2020 and (b) 256 lots on approximately 53 acres in MacKenzie Creek, Section One are under construction with an expected completion in the first quarter of 2020. Home prices in the District range from approximately \$240,000 to \$610,000. See “THE DISTRICT—Land Use.”

*Commercial Development:* Commercial/ retail development in the District includes Teas Crossing Town Center, anchored by a 105,000 square foot JC Penney (approximately 10 acres) and includes 57,619 square feet of multi-tenant retail pad sites (approximately 12 acres). According to Read King, Teas Crossing Town Center is approximately 92% leased and includes an Olive Garden, Chase Bank, Verizon Wireless, T-Mobile, Subway, Firehouse Subs, DaVita Dialysis, Merrill Lynch Wealth Management, Jos. A. Bank, Advantage Staffing, Weng’s Wok Asian Bistro, Sephora, Conroe Emergency Center, Massage Envy Spa, Lordex Spine Institute, Nails of America and Spa, Wild Ginger Japanese Steakhouse, Cherry Berry Self-Serve Yogurt Bar, State Farm Insurance Agency, The Dental Center of Conroe, America’s Home Place Custom Home Builders, SAS Comfort Shoes, Goddess Hair & Make-up Salon, and The Doctors’ Group.

The remainder of the District consists of approximately 188 acres of developable but undeveloped property (excluding approximately 121 acres where utility construction is underway for 513 single-family residential lots) and approximately 37 undevelopable acres (detention ponds, parks and open space, and drill sites). See “—Land Use” herein.

### **Homebuilding**

DR Horton is the sole builder in Barton Woods and Lake Ridge Builders and Briarwood Homes are building homes in Barton Creek Ranch.

### **Future Development**

Approximately 309 developable acres of land in the District are not yet fully served with water distribution, wastewater collection, storm drainage facilities or paving (including approximately 121 acres where utility construction is underway for 513 single-family residential lots). While the District and the Developers anticipate future development of this acreage, 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. The District’s Engineer has stated that under current development plans, the remaining authorized but unissued bonds (\$21,480,000) will be sufficient to finance the construction of water, wastewater, and storm drainage facilities to complete the District’s water, wastewater, and storm drainage system for full development of the District. See “THE SYSTEM” and “INVESTMENT CONSIDERATIONS—Future Debt.”

## **THE DEVELOPERS AND MAJOR PROPERTY OWNERS**

### **General**

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 Developers 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 or leasing of taxable improvements constructed upon property within the District will be successful. See “INVESTMENT CONSIDERATIONS.”

### **Obligations of the Developer**

There are no commitments from or obligations of the Developers or any landowner to the District to proceed at any particular rate or according to any specified plan with the development of land or construction of improvements in the District, and there is no restriction on any landowner’s right to sell its land. Failure to construct taxable improvements on developed tracts of land or developed lots would restrict the rate of growth of taxable values in the District. The District cannot and does not make any representations that over the life of the Bonds the District will increase or maintain its taxable property.

### **BGM Land Investments Ltd. and Woodmere Development Co., Ltd.**

BGM Land Investments Ltd., a Texas limited partnership (“BGM”) whose general partner is G.P. Landvest L.L.C. originally owned approximately 199 acres of developable land within the District. According to BGM, it sells such developable land to Woodmere Development Co., Ltd., a Texas limited partnership (“Woodmere”), the general partner of which is Woodmere GP, L.L.C. a Texas limited liability company, for future development on an as needed basis. After developing the land, Woodmere sells the developed lots on an as needed basis to Long Lake Ltd. (“Long Lake”), a Texas limited partnership dba Lake Ridge Builders and Briarwood Homes, which build and sell houses in the District. Woodmere, the Land Investment Companies and Long Lake are all under common ownership and management. To date, Woodmere has purchased approximately 60 acres from BGM for single-family residential lot development (111 lots completed and 100 lots under construction) in Barton Creek Ranch.

**DC Development Partners LP and DR Horton**

DC Development Partners LP, a Texas limited partnership and DR Horton – Texas, Ltd, a Texas limited liability partnership originally owned approximately 69 acres in the District and have developed Barton Woods, Sections Three (107 lots) and are currently developing Barton Woods, Section Four (157 lots).

**Teas Crossing West Commercial, LLC**

Teas Crossing West Commercial, LLC, a Texas limited liability company (“Teas Crossing West”) has developed approximately 22 acres of an approximate 65 commercial/retail acre site located within the District. Teas Crossing West is a single purpose entity created for the purpose of developing Teas Crossing Town Center. Teas Crossing West was formed and is wholly owned by Read King Commercial Real Estate (“Read King”). Read King is Houston-based full-service commercial real estate firm.

Approximately 8 acres of the approximate 22 acres developed by Teas Crossing West (the “Teas Crossing Phase I Property”) was transferred to Teas Crossing Phase I LLC, a Texas limited liability company (“Teas Crossing Phase I”), which is a single purpose entity formed by Read King for the sole purpose of financing the Teas Crossing Phase I Property.

After the transfer to Teas Crossing Phase I, Teas Crossing West continues to own approximately 35 developed acres where no commercial improvements have been constructed to date.

**Major Property Owners**

JC Penney Properties Inc. purchased approximately 10 acres of property from Teas Crossing West in 2008, where it constructed an approximately 105,000 square foot JC Penney store that serves as the anchor for the Teas Crossing Town Center.

Lovie, L.L.C owns approximately 75 acres of undeveloped land within the District. No development has commenced on the acreage within the District owned by Lovie, L.L.C. to date.

**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 four-year terms and elections are held in May in even numbered years only. None of the Board members resides within the District; however, each of the Board members owns land within the District subject to a note and deed of trust in favor of the Lovie L.L.C, a property owner within the District. Directors have staggered four-year terms. The current members and officers of the Board along with their titles and terms, are listed as follows:

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
David Townsend	President	May 2022
Diane Moore	Vice President	May 2022
Julie Crum	Secretary	May 2022
Charles Atkinson	Assistant Vice President	May 2020
Alton Hues	Assistant Secretary	May 2020

**District Consultants**

While the District does not employ any full time employees, it has contracted for certain services as follows:

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

*Auditor:* The District’s financial statements for the fiscal year ending December 31, 2018, were audited by McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountants. The District has engaged McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountants to audit its financial statements for the fiscal year ending December 31, 2019. See “APPENDIX A” for a copy of the District’s audited financial statements for the fiscal year ending December 31, 2018.

*Engineer:* The District’s consulting engineer is Vogt Engineering, L.P. LJA Engineering, Inc., IDS Engineering Group and Bleyl Engineering are also designing sections within the District, including Barton Woods, Barton Creek Ranch and MacKenzie Creek, respectively.

*Tax Appraisal:* The Montgomery 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. Utility Tax Service LLC (the “Tax Assessor/Collector”) has been employed by the District to serve in this capacity.

*Bookkeeper:* The District has contracted with Municipal Accounts & Consulting, L.P. (the “Bookkeeper”) for bookkeeping services.

*Utility System Operator:* The operator of the water and wastewater system serving the District is the City of Conroe.

## **THE SYSTEM**

### **Regulation**

Construction and operation of the water, sanitary sewer and storm drainage system serving the District (the “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. Construction of water, sanitary sewer and storm drainage facilities is subject to the regulatory authority of the District, the City and Montgomery County. The TCEQ also exercises regulatory jurisdiction over portions of the System.

### **Water Supply and Wastewater Treatment**

Water supply and wastewater treatment for the District is provided by the City pursuant to the “Utility Functions Agreement.” See “UTILITY AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF CONROE.” The City has allocated water supply and wastewater capacity in an amount adequate to serve existing and proposed development in the District based on current land plan projections. In the event that the City’s facilities do not have sufficient capacity to serve the District, the City has agreed to make any necessary improvements to provide such capacity at no cost to the District.

### **Surface Water Conversion**

The District is within the boundaries of the Lone Star Groundwater Conservation District (the “Conservation District”) which regulates groundwater withdrawal. Because the District is served by the City with water, the District has no potable water wells subject to regulation by the Conservation District.

The City is a participant in the San Jacinto River Authority (SJRA) Groundwater Reduction Plan (GRP). The SJRA constructed a surface water treatment facility and transmission system to provide treated surface water to the City. The transmission system is interconnected to the City’s water system.

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

The District has constructed water distribution, wastewater collection, storm drainage and paving facilities to serve 358 lots and approximately 65 acres of commercial tracts. In addition, utilities to serve an additional 513 single-family residential lots are under construction with an expected completion date in the first quarter of 2020. See “THE DISTRICT—Land Use.”

### **100-Year Flood Plain**

The Flood Insurance Rate Map associated with the District indicates that approximately 22 acres of undeveloped land in the District is located within the effective 100-year flood plain. “Flood Insurance Rate Map” or “FIRM” means an official map of a community on which the Federal Emergency Management Agency (FEMA) has delineated the appropriate areas of flood hazards. The 1% chance of probable inundation, also known as the 100-year flood plain, is depicted on these maps. The “100-year flood plain” (or 1% chance of probable inundation) as shown on the FIRM is the estimated geographical area that would be flooded by a rain storm of such intensity to statistically have a one percent chance of occurring in any given year. Generally speaking, homes must be built above the 100-year flood plain in order to meet local regulatory requirements and to be eligible for federal flood insurance. An engineering or regulatory determination that an area is above the 100-year flood plain is not an assurance that homes built in such area will not be flooded. According to the Engineer approximately 0.05 acres along the back of three lots within The Woods of Conroe, Section One are within the effective 100-year flood plain. The Engineer has indicated that there is sufficient buildable area on such lots outside the effective 100-year flood plain. See “RISK FACTORS—Recent Extreme Weather Events; Hurricane Harvey.”



## FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)

2019 Certified Taxable Assessed Valuation.....	\$ 94,282,824 (a)
Estimated Taxable Assessed Valuation as of July 1, 2019 .....	\$109,818,387 (b)
Gross Direct Debt Outstanding (the Bonds and the Remaining Outstanding Bonds) .....	\$ 7,740,000 *(c)
Estimated Overlapping Debt .....	6,960,406 (d)
Gross Direct Debt and Estimated Overlapping Debt.....	\$14,700,406 *(d)
Ratios of Gross Direct Debt to: .....	
2019 Certified Taxable Assessed Valuation.....	8.21% *
Estimated Taxable Assessed Valuation as of July 1, 2019.....	7.05% *
Ratios of Gross Direct Debt and Estimated Overlapping Debt to: .....	
2019 Certified Taxable Assessed Valuation.....	15.59% *
Estimated Taxable Assessed Valuation as of July 1, 2019.....	13.39% *
Debt Service Funds Available as of November 19, 2019.....	\$303,664 (e)
General Operating Fund Balance as of November 19, 2019 .....	\$414,163
Capital Projects Fund Balance as of November 19, 2019 .....	\$ 96,685

- (a) As certified by the Montgomery Central Appraisal District (the "Appraisal District"). See "TAXING PROCEDURES."  
(b) Provided by the Appraisal District for informational purposes only. Such amounts reflect an estimate of the taxable assessed value within the District on July 1, 2019. No tax will be levied on such amount until it is certified. Increases in value occurring between January 1, 2019 and July 1, 2019, will be certified as of January 1, 2020 and provided for purposes of taxation in the summer of 2020. See "TAXING PROCEDURES."  
(c) After the issuance of the Bonds. See "—Outstanding Bonds" herein.  
(d) See "—Estimated Overlapping Debt" herein.  
(e) Neither Texas law nor the Bond Resolution requires the District to maintain any particular balance in the Debt Service Fund.

### 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 portfolio.

### Outstanding Bonds

The following table lists the original principal amount of Outstanding Bonds, and the current principal balance of the Outstanding Bonds, the Refunded Bonds and the Remaining Outstanding Bonds.

Series	Original Principal Amount	Principal Amount Currently Outstanding	Refunded Bonds*	Remaining Outstanding Bonds*
2015	\$ 3,750,000	\$ 3,400,000	\$ 3,195,000	\$ 205,000
2016	1,280,000	1,120,000	-	1,120,000
2019	3,050,000	3,050,000	-	3,050,000
Total	\$ 8,080,000	\$ 7,570,000	\$ 3,195,000	\$ 4,375,000
The Bonds				3,365,000 *
The Bonds and Remaining Outstanding Bonds				\$ 7,740,000 *

\*Preliminary; subject to change.

## Debt Service Requirements

The following sets forth the debt service requirements for the Outstanding Bonds, less the debt service on the Refunded Bonds (\$3,195,000\* principal amount), plus the estimated debt service on the Bonds.

Year	Outstanding Bonds Debt Service Requirements	Less: Debt Service on the Refunded Bonds*	Plus: Debt Service on the Bonds*			Total Debt Service Requirements*
			Principal	Interest	Total	
2020	\$ 390,787.92	\$ 118,935.00	\$ 50,000	\$ 58,887.50	\$ 108,887.50	\$ 380,740.42
2021	548,745.00	118,935.00	10,000	99,450.00	109,450.00	539,260.00
2022	535,190.00	223,935.00	115,000	99,150.00	214,150.00	525,405.00
2023	531,440.00	226,047.50	120,000	95,700.00	215,700.00	521,092.50
2024	532,250.00	232,857.50	130,000	92,100.00	222,100.00	521,492.50
2025	529,017.50	234,257.50	135,000	88,200.00	223,200.00	517,960.00
2026	525,302.50	235,257.50	140,000	84,150.00	224,150.00	514,195.00
2027	521,112.50	235,837.50	145,000	79,950.00	224,950.00	510,225.00
2028	516,562.50	236,112.50	150,000	75,600.00	225,600.00	506,050.00
2029	516,697.50	241,072.50	160,000	71,100.00	231,100.00	506,725.00
2030	511,153.75	240,672.50	165,000	66,300.00	231,300.00	501,781.25
2031	510,016.25	244,860.00	175,000	61,350.00	236,350.00	501,506.25
2032	503,020.00	243,507.50	180,000	56,100.00	236,100.00	495,612.50
2033	500,565.00	246,877.50	185,000	50,700.00	235,700.00	489,387.50
2034	492,448.75	249,767.50	195,000	45,150.00	240,150.00	482,831.25
2035	484,012.50	247,262.50	200,000	39,300.00	239,300.00	476,050.00
2036	480,197.50	249,560.00	205,000	33,300.00	238,300.00	468,937.50
2037	475,987.50	251,462.50	215,000	27,150.00	242,150.00	466,675.00
2038	471,382.50	252,970.00	220,000	20,700.00	240,700.00	459,112.50
2039	466,382.50	254,082.50	230,000	14,100.00	244,100.00	456,400.00
2040	460,625.00	254,800.00	240,000	7,200.00	247,200.00	453,025.00
2041	149,350.00	-	-	-	-	149,350.00
Total	\$ 10,652,246.67	\$ 4,839,070.00	\$ 3,365,000	\$ 1,265,637.50	\$ 4,630,637.50	\$ 10,443,814.17

Average Annual Debt Service Requirements (2020-2041) .....\$474,719\*  
Maximum Annual Debt Service Requirement (2021).....\$539,260\*

**Estimated Overlapping Debt**

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

<u>Taxing Jurisdiction</u>	<u>Outstanding Bonds</u>	<u>As of</u>	<u>Percent</u>	<u>Overlapping Amount</u>
Montgomery County .....	\$ 522,350,000	11/30/2019	0.16%	\$ 835,760
City of Conroe.....	289,180,000	11/30/2019	1.00%	2,891,800
Conroe Independent School District .....	1,200,395,000	11/30/2019	0.25%	3,000,988
Lone Star College System .....	579,645,000	11/30/2019	0.04%	<u>231,858</u>
Total Estimated Overlapping Debt.....				\$ 6,960,406*
The District's Total Direct Debt (a) .....				<u>7,720,000</u>
Total Direct and Estimated Overlapping Debt .....				\$14,700,406*

Direct and Estimated Overlapping Debt as a Percentage of:

2019 Certified Taxable Assessed Valuation of \$94,282,824 .....	15.59%*
Estimated Taxable Assessed Valuation as of July 15, 2019 of \$109,818,387 .....	13.39%*

(a) The Bonds and the Remaining Outstanding Bonds.

**Overlapping Taxes**

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

Set forth below are all of the taxes levied for the 2019 tax year by all taxing jurisdictions and the District. No recognition is given to local assessments for civic association dues, fire department contributions, solid waste disposal charges or any other levy of entities other than political subdivisions.

	<u>Tax Rate per \$100 of Taxable Assessed Valuation</u>
Montgomery County.....	\$ 0.4475
Conroe Independent School District.....	1.2300
Montgomery County Hospital District.....	0.0589
City of Conroe.....	0.4375
Lone Star College System.....	<u>0.1078</u>
Total Overlapping Tax Rate.....	\$ 2.2817
The District.....	<u>0.6000 (a)</u>
Total Tax Rate.....	\$ 2.8817

(a) See "TAX DATA—Historical Tax Rate Distribution."

## General Operating Fund

The System is owned and operated by the City and no water and sewer revenue is received by the District nor is the District responsible for operation, repair or maintenance of the System.

The following statement sets forth in condensed form the General Operating Fund as shown in the District's audited financial statements for the periods ending December 31, 2015, through December 31, 2018 and an unaudited summary provided by the District's Bookkeeper for the period ending November 30, 2019. 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.

	1/1/2019 to 11/30/2019 (a) (unaudited)	Fiscal Year Ended December 31			
		2018	2017	2016	2015
<b>Revenues</b>					
Property Taxes	\$ 169,334	\$ 124,904	\$ 97,734	\$ 113,597	\$ 259,995
Investment Revenue	6,207	-	-	-	1,713
Miscellaneous Revenues	-	5,707	3,400	2,093	7,773
<b>Total Revenues</b>	<b>\$ 175,541</b>	<b>\$ 130,611</b>	<b>\$ 101,134</b>	<b>\$ 115,690</b>	<b>\$ 269,481</b>
<b>Expenditures</b>					
Professional Fees	\$ 89,290	\$ 108,810	\$ 66,730	\$ 72,661	\$ 52,644
Contracted Services	16,214	19,217	18,355	16,301	13,531
Capital Outlay	-	373,186	-	-	-
Other	38,192	19,698	41,300	18,304	14,268
<b>Total Expenditures</b>	<b>\$ 143,696</b>	<b>\$ 520,911</b>	<b>\$ 126,385</b>	<b>\$ 107,266</b>	<b>\$ 80,443</b>
<b>Revenues Over (Under) Expenditures</b>	<b>\$ 31,845</b>	<b>\$ (390,300)</b>	<b>\$ (25,251)</b>	<b>\$ 8,424</b>	<b>\$ 189,038</b>
<b>Other Sources</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (99,260)</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Other Sources (Developer Advances)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 50,690</b>
<b>Fund Balance (Beginning of Year)</b>	<b>\$ 419,187</b>	<b>\$ 809,487</b>	<b>\$ 933,998</b>	<b>\$ 925,574</b>	<b>\$ 685,846</b>
<b>Fund Balance (End of Year)</b>	<b>\$ 451,032</b>	<b>\$ 419,187</b>	<b>\$ 809,487</b>	<b>\$ 933,998</b>	<b>\$ 925,574</b>

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

## 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 or the Remaining Outstanding Bonds remain outstanding and unpaid, a tax adequate to provide funds to pay the principal of and interest on the Bonds and the Remaining Outstanding Bonds. See “Historical Tax Rate Distribution” and “Tax Roll Information” below, “TAXING PROCEDURES” and “INVESTMENT CONSIDERATIONS—Tax Collections Limitations and Foreclosure Remedies.”

### Maintenance Tax

The District 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 7, 2006, and voters of the District authorized, among other things, the Board to levy a maintenance tax at a rate not to exceed \$0.60 per \$100 of taxable assessed valuation and a road maintenance tax at a rate not to exceed \$0.25 per \$100 of 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. Pursuant to a Utility Functions Agreement between the District and the City, if the District’s debt service tax rate for a given year is \$0.95 per \$100 of taxable assessed valuation or higher, then the District’s maintenance and operations tax rate shall not exceed \$0.05 per \$100 of taxable assessed valuation without written consent from the City. See “UTILITY AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF CONROE” and “Debt Service Tax” above.

### Historical Tax Rate Distribution

	2019	2018	2017	2016	2015
Debt Service	\$ 0.465	\$ 0.39	\$ 0.43	\$ 0.46	\$ 0.41
Maintenance and Operations	0.135	0.22	0.17	0.14	0.20
Total	\$ 0.600	\$ 0.60	\$ 0.60	\$ 0.60	\$ 0.60

### Additional Penalties

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

### Historical Tax Collections

The following statement of tax collections sets forth in condensed form a portion of the historical tax experience of the District. Such table has been prepared for inclusion herein, based upon information obtained from the District’s Tax Assessor/Collector. Reference is made to such statements and records for further and complete information. See “Tax Roll Information” below. Information in this summary may differ slightly from the assessed valuations shown herein due to differences in dates of data.

Tax Year	Certified	Tax Rate	Total Tax Levy	Total Collections	
	Taxable Assessed Valuation (a)			as of November 30, 2019 (b)	
				Amount	Percent
2015	\$ 58,301,768	\$ 0.60	\$ 349,811	\$ 349,811	100.00%
2016	69,428,046	0.60	416,568	416,483	99.98%
2017	74,301,034	0.60	445,806	441,529	99.04%
2018	83,234,646	0.60	497,073	492,041	98.99%
2019	94,282,824	0.60	565,697	(c)	(c)

(a) Net valuation represents final gross appraised value as certified by the Appraisal District less any exemptions granted. See “Tax Roll Information” below for gross appraised value and exemptions granted by the District.

(b) Represents actual tax levy, including any adjustments by the Appraisal District, as of the date hereof.

(c) Collections in progress. 2019 taxes are due by January 31, 2020.

**Tax Roll Information**

The District’s assessed value as of January 1 of each year is used by the District in establishing its tax rate (see “TAXING PROCEDURES—Valuation of Property for Taxation”). The following represents the composition of property comprising the 2015 through 2019 Certified Taxable Assessed Valuations. A breakdown of the Estimated Taxable Assessed Valuation as of July 1, 2019, of \$109,818,387 is not available. Taxes are levied on taxable value certified by the Appraisal District as of January 1 of each year.

	Certified Taxable Assessed Valuation				
	2019	2018	2017	2016	2015
Land	\$ 29,062,010	\$ 27,085,640	\$ 18,445,260	\$ 18,268,140	\$ 16,672,850
Improvements	62,493,200	52,642,720	52,086,130	46,178,920	36,212,510
Personal Property	5,117,867	5,266,718	5,552,694	5,407,431	5,658,205
Exemptions	(2,390,253)	(1,760,432)	(1,783,050)	(426,445)	(241,797)
Total	<u>\$ 94,282,824</u>	<u>\$ 83,234,646</u>	<u>\$ 74,301,034</u>	<u>\$ 69,428,046</u>	<u>\$ 58,301,768</u>

**Principal Taxpayers**

The following table represents the ten major taxpayers, the taxable assessed valuation of such property, and such property’s taxable assessed valuation as a percentage of the 2019 Certified Taxable Assessed Valuation of \$94,282,824. A principal taxpayer list related to the Estimated Taxable Assessed Valuation as of July 1 2019, of \$109,818,387 is not available.

Taxpayer	2019 Certified Taxable Assessed Valuation	% of 2019 Certified Taxable Assessed Valuation
JC Penney Properties Inc. (a)	\$ 11,652,483	12.36%
Teas Crossing Phase I LLC (a)	10,941,550	11.61%
Teas Crossing West Commerical LLC (a)	7,954,460	8.44%
MedProperties Conroe LLC	4,300,000	4.56%
DR Horton (a)	2,512,300	2.66%
Darden SW LLC	2,000,000	2.12%
Woodmere/Longlake (a)	3,225,950	3.42%
Patrick JW Chiang & Lee Sen Chiang Trust	1,130,000	1.20%
Individual	620,620	0.66%
Individual	550,710	0.58%
Total	<u>\$ 44,888,073</u>	<u>47.61%</u>

(a) See “THE DEVELOPERS AND MAJOR PROPERTY OWNERS.”

**Tax Adequacy for Debt Service**

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 taxable assessed valuation which would be required to meet average annual and maximum annual debt service requirements if no growth in the District’s tax base occurred beyond the 2019 Certified Taxable Assessed Valuation of \$94,282,824 or the Estimated Taxable Assessed Valuation as of July 1, 2019, of \$109,818,387. The calculations contained in the following table merely represent the tax rates required to pay principal of and interest on the Bonds and the Remaining 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.”

Average Annual Debt Service Requirement (2020-2041) .....	\$474,719*
\$0.54* Tax Rate on 2018 Certified Taxable Assessed Valuation.....	\$483,671*
\$0.46* Tax Rate on Estimated Taxable Assessed Valuation as of July 1, 2019.....	\$479,906*
Maximum Annual Debt Service Requirement (2021).....	\$539,260*
\$0.61* Tax Rate on 2019 Certified Taxable Assessed Valuation.....	\$546,369*
\$0.52* Tax Rate on Estimated Taxable Assessed Valuation as of July 1, 2019.....	\$542,503*

\*Preliminary; subject to change.

No representation or suggestion is made that the Estimated Taxable Assessed Valuation as of July 1, 2019, will not be adjusted downward prior to certification in 2020, 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 Remaining 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**

Title I of the Texas 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 Montgomery Central Appraisal District (the “Appraisal District”) has the responsibility for appraising property for all taxing units within Montgomery County, including the District. Such appraisal values are subject to review and change by the Montgomery 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 of age or older and of certain disabled persons to the extent deemed advisable by the Board. The District may be required to call such an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the previous 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 residential 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 forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse’s residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead spouse. The surviving spouse of a first responder who was killed or fatally injured in the line of duty is, subject to certain conditions, also entitled to an exemption of the total appraised value of the surviving spouse’s residence homestead, and, subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. 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 before July 1. See "TAX DATA."

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

### **Tax Abatement**

Montgomery County or the City may designate all or part of the area within the District as a reinvestment zone. Thereafter, Montgomery County, the City and the District, under certain circumstances, may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the District, for a period of up to ten (10) years, all or any part of any increase in the appraised valuation of property covered by the agreement over its appraised valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with the terms of the tax abatement agreement. Each taxing jurisdiction has discretion to determine terms for its tax abatement agreements without regard to the terms approved by the other taxing jurisdictions. To date, neither the County nor the City has designated land within the District as a reinvestment zone.

### **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. Increases in the appraised value of residence homesteads are limited by the Texas Constitution 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, 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.

#### Reappraisal of Property

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

#### **District and Taxpayer Remedies**

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

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

#### **Levy and Collection of Taxes**

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

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

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

Under current law, 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.

During the 86th Regular Legislative Session, Senate Bill 2 (“SB 2”) was passed and signed by the Governor, with an effective date of January 1, 2020, and the provisions described herein are effective beginning with the 2020 tax year. See “SELECTED FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)” for a description of the District’s current total tax rate. Debt service and contract tax rates cannot be reduced by a rollback election held within any of the districts described below.

SB 2 classifies districts differently based on the current operation and maintenance tax rate or on the percentage of build-out that the District has completed. Districts that have adopted an operation and maintenance tax rate for the current year that is 2.5 cents or less per \$100 of taxable value are classified as "Special Taxing Units." Districts that have financed, completed, and issued bonds to pay for all improvements and facilities necessary to serve at least 95% of the projected build-out of the district are classified as "Developed Districts." Districts that do not meet either of the classifications previously discussed can be classified herein as "Developing Districts." The impact each classification has on the ability of a district to increase its maintenance and operations tax rate pursuant to SB 2 is described for each classification below.

Special Taxing Units: Special Taxing Units that adopt a total tax rate that would impose more than 1.08 times the amount of the total tax imposed by such district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead, subject to certain homestead exemptions, are required to hold an election within the district to determine whether to approve the adopted total tax rate. If the adopted total tax rate is not approved at the election, the total tax rate for a Special Taxing Unit is the current year's debt service and contract tax rate plus 1.08 times the previous year's operation and maintenance tax rate.

Developed Districts: Developed Districts that adopt a total tax rate that would impose more than 1.035 times the amount of the total tax imposed by the district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead, subject to certain homestead exemptions for the preceding tax year, plus any unused increment rates, as calculated and described in Section 26.013 of the Tax Code, are required to hold an election within the district to determine whether to approve the adopted total tax rate. If the adopted total tax rate is not approved at the election, the total tax rate for a Developed District is the current year's debt service and contract tax rate plus 1.035 times the previous year's operation and maintenance tax rate plus any unused increment rates. In addition, if any part of a Developed District lies within an area declared for disaster by the Governor of Texas or President of the United States, alternative procedures and rate limitations may apply for a temporary period. If a district qualifies as both a Special Taxing Unit and a Developed District, the district will be subject to the operation and maintenance tax threshold applicable to Special Taxing Units.

Developing Districts: Districts that do not meet the classification of a Special Taxing Unit or a Developed District can be classified as Developing Districts. The qualified voters of these districts, upon the Developing District's adoption of a total tax rate that would impose more than 1.08 times the amount of the total tax rate imposed by such district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead, subject to certain homestead exemptions, are authorized to petition for an election to reduce the operation and maintenance tax rate. If an election is called and passes, the total tax rate for Developing Districts is the current year's debt service and contract tax rate plus 1.08 times the previous year's operation and maintenance tax rate.

The District: A determination as to a district’s status as a Special Taxing Unit, Developed District or Developing District will be made by the Board of Directors on an annual basis, beginning with the 2020 tax year. The District cannot give any assurances as to what its classification will be at any point in time or whether the District's future tax rates will result in a total tax rate that will reclassify the District into a new classification and new election calculation.

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

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

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

### **The Effect of FIRREA on Tax Collections of the District**

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

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

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

## **INVESTMENT CONSIDERATIONS**

### **Recent Extreme Weather Events; Hurricane Harvey**

The greater Houston area, including Montgomery County, is subject to occasional severe weather events, including tropical storms and hurricanes. If the District were to sustain damage to its facilities requiring substantial repair or replacement, or if substantial damage were to occur to taxable property within the District as a result of such a weather event, the investment security of the Bonds could be adversely affected. The greater Houston area has experienced four storms exceeding a 0.2% probability (i.e. “500-year flood” events) since 2015, including Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 25, 2017, and brought historic levels of rainfall during the successive four days.

According to Vogt Engineering, L.P (the “Engineer”), the City’s water and sewer system serving the District did not sustain any material damage and there was no interruption of water and sewer service as a result of Hurricane Harvey. No homes or commercial improvements within the District experienced structural flooding or other material damage as a result of Hurricane Harvey.

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

### **General**

The Bonds are obligations solely of the District and are not obligations of the City of Conroe (the “City”), Montgomery 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 Bonds (“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.

## **Specific Flood Type Risks**

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

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

## **Atlas 14**

The National Weather Service recently completed a rainfall study known as NOAA Atlas 14, Volume 11 Precipitation-Frequency Atlas of the United States (“Atlas 14”). Floodplain boundaries within the District may be redrawn based upon the Atlas 14 study, which is based upon a higher statistical rainfall amount, resulting in interim floodplain regulations applying to a larger number of properties and consequently leaving less developable property within the District. Such regulations could additionally result in higher insurance rates, increased development fees and stricter building codes for any property located within the expanded boundaries of the floodplain. See “THE SYSTEM.”

## **Economic Factors and Interest Rates**

The majority of the taxable value of the District results from the current market value of single-family residences and commercial tracts and of developed lots which are currently being marketed for sale to homebuilders and homebuyers for the construction of primary residences. The market value of taxable improvements is related to general economic conditions in the Houston region and the national economy. 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 42 miles north 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 or a 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 and commercial tracts in the District could be affected by competition from other residential and commercial developments located in the northern 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 Developers in the sale of developed lots and 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 Developers will be implemented or, if implemented, will be successful.

### **Dependence on Major Taxpayers and the Developers**

The ten principal taxpayers represent \$44,888,073 or 47.61% of the 2019 Certified Taxable Assessed Valuation of \$94,282,824, which represents ownership as of January 1, 2019. If any of the principal taxpayers were to default in the payment of taxes in an amount which exceeds the District's debt service fund surplus, the ability of the District to make timely payment of debt service on the Bonds would be dependent on its ability to enforce and liquidate its tax lien, which is a time-consuming process, or to sell tax anticipation notes. Failure to recover or borrow funds in a timely fashion could result in an excessive District tax rate, hindering growth and leading to further defaults in the payment of taxes. The District is not required by law or the Bond Resolution to maintain any specified amount of surplus in its interest and sinking fund. See "Tax Collection Limitations and Foreclosure Remedies" in this section, "TAX DATA—Principal Taxpayers," and "TAXING PROCEDURES—Levy and Collection of Taxes."

The Developers have informed the District that their current plans are to continue developing its property in the District and/or marketing lots. However, neither the Developers nor any future developer is obligated to implement development plans on any particular schedule or at all. Thus, the furnishing of any information related to any proposed development should not be interpreted as a commitment.

### **Vacant Lots and Undeveloped Land**

There are 93 developed lots that remain vacant, and an additional 513 lots under construction with utilities and/or paving. There are also approximately 188 acres of land that has not been provided with water, sewer and drainage service (excluding approximately 121 acres under construction with utilities for 513 lots). The District makes no representation as to when or if development of the undeveloped acreage will occur or the success of any homebuilding programs. See "THE DISTRICT—Land Use" and "—Status of Development."

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

The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other local taxing authorities on the property against which taxes are levied, and such lien may be enforced by judicial foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time-consuming and expensive collection procedures, (b) a bankruptcy court's stay of tax collection procedures against a taxpayer, or (c) market conditions affecting the marketability of taxable property within the District and limiting the proceeds from a foreclosure sale of such property. Moreover, the proceeds of any sale of property within the District available to pay debt service on the Bonds may be limited by the existence of other tax liens on the property (see "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Overlapping Taxes"), by the current aggregate tax rate being levied against the property, and by other factors (including the taxpayers' right to redeem property within two years of foreclosure for residential and agricultural use property and six months for other property). Finally, any bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes assessed against such taxpayer. In addition to the automatic stay against collection of delinquent taxes afforded a taxpayer during the pendency of a bankruptcy, a bankruptcy could affect payment of taxes in two other ways: first, a debtor's confirmation plan may allow a debtor to make installment payments on delinquent taxes for up to six years; and, second, a debtor may challenge, and a bankruptcy court may reduce, the amount of any taxes assessed against the debtor, including taxes that have already been paid.

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

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond 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 Registered Owner's remedies, including mandamus. The automatic stay would remain in effect until the federal bankruptcy judge hearing the case dismisses the petition, enters an order granting relief from the stay or otherwise allows creditors to proceed against the petitioning political subdivision. A political subdivision such as the District may qualify as a debtor eligible to proceed in a Chapter 9 case only if it (1) is authorized to file for federal bankruptcy protection by applicable state law, (2) is insolvent or unable to meet its debts as they mature, (3) desires to effect a plan to adjust such debts, and (4) has either obtained the agreement of or negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiation is impracticable. Special districts such as the District must obtain the approval of the TCEQ as a condition to seeking relief under the Federal Bankruptcy Code. The TCEQ is required to investigate the financial condition of a financially troubled district and authorize such district to proceed under federal bankruptcy law only if such district has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

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

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

A district may not be forced into bankruptcy involuntarily.

The District makes no representation about the probability of development continuing in a timely manner or about the ability of the Developers to implement any plan of development. Furthermore, there is no restriction on any landowner's right to sell land. The District can make no prediction as to the effects that current or future economic conditions or governmental circumstances may have on any plans of the Developers or any other landowners.

### **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 \$22,360,000 principal amount of unlimited tax bonds has been authorized by the District's voters for the purpose of constructing or acquiring water, wastewater, and drainage facilities and \$22,360,000 principal amount of unlimited tax bonds has been authorized for refunding such bonds. After issuance of the Bonds, \$21,480,000 principal amount of unlimited tax bonds will remain authorized but unissued for constructing or acquiring water, wastewater, and drainage facilities and \$21,190,000\* principal amount of the 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 Developers have advanced certain funds for engineering and construction of water, wastewater and drainage facilities for which they have not been reimbursed. The District owes approximately \$4,970,000 plus interest to the Developers. The District intends to issue additional bonds in order to reimburse the Developers for existing development and to develop the remainder of undeveloped but developable land (approximately 273 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. The issuance of additional bonds for water, wastewater and drainage facilities 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 Regulations**

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

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

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

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

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

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

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

The HGB Area is currently designated as a “marginal” nonattainment area under the 2015 Ozone Standard, with an attainment deadline of August 3, 2021. For purposes of the 2015 Ozone Standard, the HGB Area consists of only six counties: Brazoria, Chambers, Fort Bend, Galveston, Harris, and Montgomery Counties.

In order to demonstrate progress toward attainment of the EPA’s ozone standards, the TCEQ has established a state implementation plan (“SIP”) for the HGB Area setting emission control requirements, some of which regulate the inspection and use of automobiles. These types of measures could impact how people travel, what distances people are willing to travel, where people choose to live and work, and what jobs are available in the HGB Area. These SIP requirements can negatively impact business due to the additional permitting/regulatory constraints that accompany this designation and because of the community stigma associated with a nonattainment designation. It is possible that additional controls will be necessary to allow the HGB Area to reach attainment with the ozone standards by the EPA’s attainment deadlines. These additional controls could have a negative impact on the HGB Area’s economic growth and development.

*Water Supply & Discharge Issues.* Water supply and discharge regulations that municipal utility districts, including the District, may be required to comply with involve: (1) groundwater well permitting and surface water appropriation; (2) public water supply systems; (3) wastewater discharges from treatment facilities; (4) storm water discharges; and (5) wetlands dredge and fill activities. Each of these is addressed below:

Certain governmental entities regulate groundwater usage in the HGB Area. A municipal utility district or other type of special purpose district that (i) is located within the boundaries of such an entity that regulates groundwater usage, and (ii) relies on local groundwater as a source of water supply, may be subject to requirements and restrictions on the drilling of water wells and/or the production of groundwater that could affect both the engineering and economic feasibility of district water supply projects.

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

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

The District is subject to the TCEQ’s General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the “MS4 Permit”), which was issued by the TCEQ on January 24, 2019. The MS4 Permit authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems. In order to maintain MS4 Permit compliance, the District is partnering with the city of Conroe (the “City”), to participate in the City’s program to develop, implement, and maintain the required plan (the “MS4 Permit Plan”) as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff. While the District does not have its own independent MS4 Permit Plan, the District has taken all necessary steps required by the City to be included in the City’s MS4 Permit Plan in order to obtain MS4 Permit compliance with the TCEQ. If at any time in the future the District were required to maintain independent coverage under the MS4 Permit, it is anticipated that the District could incur substantial additional costs to develop and implement its own program necessary to comply with the MS4 Permit.

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

In 2015, the EPA and USACE promulgated a rule known as the Clean Water Rule (“CWR”) aimed at redefining “waters of the United States” over which the EPA and USACE have jurisdiction under the CWA. The CWR significantly expanded the scope of the federal government’s CWA jurisdiction over intrastate water bodies and wetlands. The CWR was challenged in numerous jurisdictions, including the Southern District of Texas, causing significant uncertainty regarding the ultimate scope of “waters of the United States” and the extent of EPA and USACE jurisdiction.

On September 12, 2019, the EPA and USACE finalized a rule repealing the CWR, thus reinstating the regulatory text that existed prior to the adoption of the CWR. This repeal will officially become final on December 23, 2019.

On December 11, 2018, the EPA and USACE released a proposed replacement definition of “waters of the United States.” The proposed definition outlines six categories of waters that would be considered “waters of the United States,” including traditional navigable waters, tributaries to those waters, certain ditches, certain lakes and ponds, impoundments of jurisdictional waters, and wetlands adjacent to jurisdictional waters. The proposed rule also details what are not “waters of the United States,” such as features that only contain water during or in response to rainfall (e.g., ephemeral features); groundwater; many ditches, including most roadside or farm ditches; prior converted cropland; stormwater control features; and waste treatment systems. The agencies took comments on the proposal for 60 days after publication in the Federal Register, which occurred on February 14, 2019, but the proposed rule has not been finalized.

Due to the pending rulemaking activity, there remains uncertainty regarding the ultimate scope of “waters of the United States” and the extent of EPA and USACE jurisdiction. Depending on the final outcome of such proceedings, operations of municipal utility districts, including the District, could potentially be subject to additional restrictions and requirements, including additional permitting requirements.

### **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 “TAX MATTERS.”

### **Changes in Tax Legislation**

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

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

The District has applied for a bond insurance policy (the “Policy”) to guarantee the scheduled payment of principal and interest on the Bonds. If the Policy is issued, investors should be aware of the following investment considerations:

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

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

Neither the District nor the Underwriter has made independent investigation into the claims paying ability of the Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest on the Bonds and the claims paying ability of the Insurer, particularly over the life of the investment.

## **MUNICIPAL BOND RATING AND MUNICIPAL BOND INSURANCE**

Moody’s Investors Service (“Moody’s”) has assigned an underlying rating of “Baa3” to the Bonds. An explanation of the rating may be obtained from Moody’s. The rating fees of Moody’s will be paid by the District; however, the fees associated with any other rating will be the responsibility of the Underwriter.

The use of insurance and the payment of an insurance premium is at the option and expense of the District. The rating fees of Moody’s will be paid by the District; any other rating fees associated with the insurance will be the responsibility of the Underwriter. See “INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance.”

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

## LEGAL MATTERS

### **Legal Proceedings**

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

Bond Counsel has reviewed the information appearing in this OFFICIAL STATEMENT under “PLAN OF FINANCING— Defeasance of Refunded Bonds” “THE BONDS,” “UTILITY AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF CONROE,” “THE DISTRICT— General,” and “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 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.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction, nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

### **No Material Adverse Change**

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

### **No-Litigation Certificate**

The District will furnish the Underwriter a certificate, executed by both the President or Vice President and Secretary or Assistant Secretary of the Board, and dated as of the date of delivery of the Bonds, to the effect that no litigation of any nature is pending or to its knowledge threatened, either in state or federal courts, contesting or attacking the Bonds; restraining or enjoining the levy, assessment and collection of ad valorem taxes to pay the interest or the principal of the Bonds; in any manner questioning the authority or proceedings for the issuance, execution or delivery of the Bonds; or affecting the validity of the Bonds or the title of the present officers of the District.

## TAX MATTERS

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

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

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”) may be 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 a Original Issue Discount Bond held by an owner who purchased such Bond at the initial offering price in the initial public offering of the Bonds, and should be considered in connection with the discussion in this portion of the OFFICIAL STATEMENT.)

The foregoing is based on the assumptions that (a) the 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 District will designate the Bonds as "qualified tax-exempt obligations" and has represented that the aggregate amount of tax-exempt bonds (including the Bonds) issued by the District and entities aggregated with the District under the Code during calendar year 2020 is not expected to exceed \$10,000,000 and that the District and entities aggregated with the District under the Code have not designated more than \$10,000,000 in "qualified tax-exempt obligations" (including the Bonds) during calendar year 2020.

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

## **VERIFICATION OF MATHEMATICAL CALCULATIONS**

Public Finance Partners LLC will deliver to the District, on or before the settlement date of the Bonds, its verification report indicating that it has verified the mathematical accuracy of (a) the mathematical computations of the adequacy of the funds deposited to the Payment Account for the payment of the Refunded Bonds; (b) the mathematical computations of yield used by Bond Counsel to support its opinion that interest on the Bonds will be excluded from gross income for federal income tax purposes, and (c) compliance with City of Conroe Ordinance No. 1381-97.

Public Finance Partners LLC relied on the accuracy, completeness and reliability of all information provided to it by, and on all decisions and approvals of, the District. In addition, Public Finance Partners LLC has relied on any information provided to it by the District's retained advisors, consultants or legal counsel.

## PREPARATION OF OFFICIAL STATEMENT

### **Sources and Compilation of Information**

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

### **Financial Advisor**

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

### **Consultants**

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

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

*Engineer:* The information contained in this OFFICIAL STATEMENT relating to engineering and to the description of the District's water, wastewater and storm drainage system and, in particular that information included in the sections entitled "THE DISTRICT" and "THE SYSTEM" has been provided by Vogt Engineering, L.P, Consulting Engineers and has been included herein in reliance upon the authority of said firm as the District's Engineer.

*Auditor:* The District's financial statements for the period from inception to December 31, 2018, were audited by McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountants. See "APPENDIX A" for a copy of the District's December 31, 2018, financial statements.

*Bookkeeper:* The information related to the "unaudited" summary of the District's General Operating Fund as it appears in "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—General Operating Fund" has been provided by Municipal Accounts & Consulting, L.P. and is included herein in reliance upon the authority of such firm as experts in the tracking and managing the various funds of municipal utility districts.

### **Updating the Official Statement**

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

## **Certification of Official Statement**

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

## **CONTINUING DISCLOSURE OF INFORMATION**

The offering of the Bonds qualifies for the Rule 15c2-12(d)(2) exemption from Rule 15c2-12(b)(5) of the United States Securities and Exchange Commission (the "SEC") regarding the District's continuing disclosure obligations because the District has less than \$10,000,000 in aggregate amount of outstanding bonds and no person is committed by contract or other arrangement with respect to payment of the Bonds. 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 which is customarily prepared by the District and is publicly available, annually to the MSRB through EMMA. The District will be obligated to provide information concerning the Developers and any such other person or entity only if and so long as (1) such person owns more than 20% of the taxable property within the District by value, as reflected by the most recently certified tax rolls (and without effect to special valuation provisions), (2) such person has made tax or other payments to the District which were used or available to pay more than 20% of the District's debt service requirements in the applicable fiscal year, or (3) at the end of such fiscal year such person is obligated to the District to provide or pay for District facilities or debt in an amount which exceeds 20% of the amount of the District's bonds then outstanding.

The information to be updated with respect to the District will be the District's Annual Financial Report and Supplemental Schedules ("APPENDIX A") and with respect to the Developers will be the information found in "TAX DATA—Principal Taxpayers." The District will update and provide this information within six months after the end of each of its fiscal years ending in or after 2019. The District will provide the updated information to the MSRB.

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

## **Specified Event Notices**

The District will provide timely notices of certain specified events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other 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; (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person or the sale of all or substantially all of the assets of the District or other obligated person, 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; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District or other obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District or other obligated person, any of which affect Beneficial Owners of the Bonds, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District or other obligated person, any of which

reflect financial difficulties. The terms “obligated person” and “financial obligation” when used in this paragraph shall have the meanings ascribed to them under SEC Rule 15c2-12 (the “Rule”). 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, operational data, or financial statements in accordance with its agreement described above under “Annual Reports.”

#### **Availability of Information from the MSRB**

The District has agreed to provide the foregoing information only to the MSRB. The MSRB makes the information available to the public without charge through its Electronic Municipal Market Access (“EMMA”) internet portal at [www.emma.msrb.org](http://www.emma.msrb.org).

#### **Limitations and Amendments**

The District has agreed to update information and to provide notices of specified events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects; nor has the District agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders or Beneficial Owners of Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

The District may amend its continuing disclosure agreement from time to time to adapt to 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 Underwriter from lawfully purchasing the Bonds in the initial offering. If the District so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under “Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

#### **Compliance With Prior Undertakings**

Since the issuance of its first series of bonds in 2015, 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/ \_\_\_\_\_  
President, Board of Directors

ATTEST:

/s/ \_\_\_\_\_  
Secretary, Board of Directors

**AERIAL PHOTOGRAPH**  
**(As of September 2019)**





CONROE MUNICIPAL  
UTILITY DISTRICT No. 1

I 45

FM 3003



CONROE MUNICIPAL  
UTILITY DISTRICT No. 1

Loop 336

FM 1314

**PHOTOGRAPHS OF THE DISTRICT**  
**(As of September 2019)**















**APPENDIX A**

**Financial Statement of the District for the fiscal year ended December 31, 2018**

EXHIBIT A

**CONROE MUNICIPAL UTILITY DISTRICT NO. 1**  
**MONTGOMERY COUNTY, TEXAS**  
**ANNUAL FINANCIAL REPORT**  
**DECEMBER 31, 2018**

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

**CONROE MUNICIPAL UTILITY DISTRICT NO. 1**  
**MONTGOMERY COUNTY, TEXAS**  
**ANNUAL FINANCIAL REPORT**  
**DECEMBER 31, 2018**

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

13100 Wortham Center Drive  
Suite 235  
Houston, Texas 77065-5610  
(713) 462-0341  
Fax (713) 462-2708  
E-Mail: [mgsb@mgsbpllc.com](mailto:mgsb@mgsbpllc.com)

9600 Great Hills Trail  
Suite 150W  
Austin, Texas 78759  
(512) 610-2209  
[www.mgsbpllc.com](http://www.mgsbpllc.com)

INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Conroe Municipal Utility District No. 1  
Montgomery County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Conroe Municipal Utility District No. 1 (the "District"), as of and for the year ended December 31, 2018, 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  
Conroe Municipal Utility District No. 1

### **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 December 31, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

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

### **Other Information**

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

*McCall Gibson Swedlund Barfoot PLLC*

McCall Gibson Swedlund Barfoot PLLC  
Certified Public Accountants  
Houston, Texas

March 19, 2019

**CONROE MUNICIPAL UTILITY DISTRICT NO. 1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

Management's discussion and analysis of Conroe Municipal Utility District No. 1's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2018. 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 financial statements include: (1) combined fund financial statements and government-wide financial statements and (2) notes to the financial statements. The combined fund financial statements and government-wide financial statements combine both: (1) the Statement of Net Position and Governmental Funds Balance Sheet and (2) the Statement of Activities and Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances. This report also includes required and other supplementary information in addition to the 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 financial statements provide 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 Statement of Net Position includes 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 is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

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

**FUND FINANCIAL STATEMENTS**

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has three governmental fund types. The General Fund accounts for property taxes and administrative expenditures. The Debt Service Fund accounts for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes. The Capital Projects Fund accounts for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.



**CONROE MUNICIPAL UTILITY DISTRICT NO. 1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

**FUND FINANCIAL STATEMENTS (Continued)**

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

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

**NOTES TO THE FINANCIAL STATEMENTS**

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

**OTHER INFORMATION**

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, liabilities and deferred inflows of resources exceeded assets by \$684,140 as of December 31, 2018.

**CONROE MUNICIPAL UTILITY DISTRICT NO. 1**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

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

The following is a comparative analysis of government-wide changes in net position:

	Summary of Changes in the Statement of Net Position		
	2018	2017	Change Positive (Negative)
Current Assets	\$ 1,162,333	\$ 1,497,820	\$ (335,487)
Intangible Assets (Net of Amortization)	4,935,083	5,084,422	(149,339)
Capital Assets (Net of Depreciation)	604,482	781,361	(176,879)
Total Assets	\$ 6,701,898	\$ 7,363,603	\$ (661,705)
Due to Developers	\$ 2,145,826	\$ 2,472,923	\$ 327,097
Bonds Payable	4,670,000	4,815,000	145,000
Other Liabilities	70,357	68,644	(1,713)
Total Liabilities	\$ 6,886,183	\$ 7,356,567	\$ 470,384
Deferred Inflows of Resources	\$ 499,855	\$ 447,438	\$ (52,417)
Net Position:			
Net Investment in Capital Assets	\$ (1,268,958)	\$ (1,414,837)	\$ 145,879
Restricted	171,018	172,205	(1,187)
Unrestricted	413,800	802,230	(388,430)
Total Net Position	\$ (684,140)	\$ (440,402)	\$ (243,738)

The following table provides a summary of the District's operations for the years ended December 31, 2018, and December 31, 2017. The District's net position decreased by \$243,738.

	Summary of Changes in the Statement of Activities		
	2018	2017	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 447,439	\$ 416,569	\$ 30,870
Other Revenues	15,191	16,012	(821)
Total Revenues	\$ 462,630	\$ 432,581	\$ 30,049
Expenses for Services	706,368	421,515	(284,853)
Change in Net Position	\$ (243,738)	\$ 11,066	\$ (254,804)
Net Position, Beginning of Year	(440,402)	(451,468)	11,066
Net Position, End of Year	\$ (684,140)	\$ (440,402)	\$ (243,738)

**CONROE MUNICIPAL UTILITY DISTRICT NO. 1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

**FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS**

The District's combined fund balances as of December 31, 2018, were \$641,219, a decrease of \$397,103 from the prior year.

The General Fund fund balance decreased by \$390,300, primarily due to general and administrative costs exceeding tax revenues during the year, as well as a reimbursement to the Developer.

The Debt Service Fund fund balance decreased by \$6,803, primarily due to the structure of the District's outstanding debt.

The Capital Projects Fund fund balance did not change during the year.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The Board of Directors did not amend the budget during the current fiscal year. Actual revenues were \$13,639 less than budgeted revenues due to lower than anticipated tax collections. Actual expenditures were \$411,011 more than budgeted expenditures due to the reimbursement to the Developer, which was unbudgeted.

**CAPITAL ASSETS AND INTANGIBLE ASSETS**

Capital assets as of December 31, 2018 total \$604,482 and include the Barton Woods detention pond easement and Barton Creek subdivision detention facilities.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2018	2017	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 251,087	\$ 251,087	\$
Construction in Progress		188,048	(188,048)
Capital Assets, Net of Accumulated Depreciation:			
Drainage System	353,395	342,226	11,169
Total Net Capital Assets	\$ 604,482	\$ 781,361	\$ (176,879)

Additionally, the District is located within the City of Conroe (the "City"). In accordance with the Utility Functions Agreement with the City, water, wastewater and drainage facilities constructed are conveyed to the City. For conveyance of these assets, the City is to provide water and wastewater services to the District.

**CONROE MUNICIPAL UTILITY DISTRICT NO. 1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

**CAPITAL ASSETS AND INTANGIBLE ASSETS (Continued)**

As a result, the District has recognized an intangible asset representing the right to receive service from the City. The balance of the intangible asset, net of accumulated amortization, was \$4,935,083 as of December 31, 2018.

Intangible Assets At Year-End, Net of Accumulated Amortization			
	2018	2017	Change Positive (Negative)
Intangible Assets, Net of Accumulated Amortization: Water and Sewer Infrastructure	<u>\$ 4,935,083</u>	<u>\$ 5,084,422</u>	<u>\$ (149,339)</u>

**LONG-TERM DEBT**

At the end of the current fiscal year, the District had total bond debt payable of \$4,670,000. The changes in the bond debt payable of the District during the fiscal year ended December 31, 2018, are summarized as follows:

Bond Debt Payable, January 1, 2018	\$ 4,815,000
Less: Bond Principal Paid	<u>145,000</u>
Bond Debt Payable, December 31, 2018	<u>\$ 4,670,000</u>

As of December 31, 2018, no application has been made to a rating service.

**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 Conroe Municipal Utility District No. 1, c/o Allen Boone Humphries Robinson LLP, 3200 Southwest Freeway, Suite 2600, Houston, TX 77027.

**CONROE MUNICIPAL UTILITY DISTRICT NO. 1**  
**STATEMENT OF NET POSITION AND**  
**GOVERNMENTAL FUNDS BALANCE SHEET**  
**DECEMBER 31, 2018**

	General Fund	Debt Service Fund
<b>ASSETS</b>		
Cash	\$ 11,987	\$ 465,845
Investments	391,923	
Receivables:		
Property Taxes	94,399	170,478
Accrued Interest	2,692	
Other	18,235	
Due from Other Funds	93,817	
Prepaid Costs	1,635	
Intangible Assets: Water and Sewer Infrastructure (Net of Accumulated Amortization)		
Land		
Capital Assets (Net of Accumulated Depreciation)		
<b>TOTAL ASSETS</b>	<b>\$ 614,688</b>	<b>\$ 636,323</b>
<b>LIABILITIES</b>		
Accounts Payable	\$ 14,470	\$ 4
Accrued Interest Payable		
Due to Developers		
Due to Other Funds		88,678
Long-Term Liabilities:		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
<b>TOTAL LIABILITIES</b>	<b>\$ 14,470</b>	<b>\$ 88,682</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Property Taxes	\$ 181,031	\$ 325,609
<b>FUND BALANCES</b>		
Nonspendable - Prepaid Costs	\$ 1,635	\$
Restricted for Debt Service		222,032
Committed for Drainage Construction	16,562	
Unassigned	400,990	
<b>TOTAL FUND BALANCES</b>	<b>\$ 419,187</b>	<b>\$ 222,032</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 614,688</b>	<b>\$ 636,323</b>
<b>NET POSITION</b>		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
<b>TOTAL NET POSITION</b>		

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

Capital Projects Fund	Total	Adjustments	Statement of Net Position
\$ 5,139	\$ 482,971	\$	\$ 482,971
	391,923		391,923
	264,877		264,877
	2,692		2,692
	18,235		18,235
	93,817	(93,817)	
	1,635		1,635
		4,935,083	4,935,083
		251,087	251,087
		353,395	353,395
<u>\$ 5,139</u>	<u>\$ 1,256,150</u>	<u>\$ 5,445,748</u>	<u>\$ 6,701,898</u>
\$	\$ 14,474	\$	\$ 14,474
		55,883	55,883
		2,145,826	2,145,826
5,139	93,817	(93,817)	
		150,000	150,000
		4,520,000	4,520,000
<u>\$ 5,139</u>	<u>\$ 108,291</u>	<u>\$ 6,777,892</u>	<u>\$ 6,886,183</u>
<u>\$ -0-</u>	<u>\$ 506,640</u>	<u>\$ (6,785)</u>	<u>\$ 499,855</u>
\$	\$ 1,635	\$ (1,635)	\$
	222,032	(222,032)	
	16,562	(16,562)	
	400,990	(400,990)	
<u>\$ -0-</u>	<u>\$ 641,219</u>	<u>\$ (641,219)</u>	<u>\$ -0-</u>
<u>\$ 5,139</u>	<u>\$ 1,256,150</u>		
		\$ (1,268,958)	\$ (1,268,958)
		171,018	171,018
		413,800	413,800
		<u>\$ (684,140)</u>	<u>\$ (684,140)</u>

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

**CONROE MUNICIPAL UTILITY DISTRICT NO. 1  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
DECEMBER 31, 2018**

Total Fund Balances - Governmental Funds	\$	641,219
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
<p>Water and wastewater facilities constructed by the developer and reimbursed by the District using bond proceeds are conveyed to the City of Conroe for the right to receive service from the City of Conroe. These assets are amortized over the term of the service agreement as intangible assets in governmental activities.</p>		4,935,083
<p>Capital assets are not current financial resources and, therefore, are not reported as assets in the governmental funds.</p>		604,482
<p>Deferred inflows of resources related to property tax revenues for the 2017 and prior tax levies became part of recognized revenue in the governmental activities of the District.</p>		6,785
<p>Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year end consist of:</p>		
Due to Developers	\$ (2,145,826)	
Accrued Interest Payable	(55,883)	
Bonds Payable	<u>(4,670,000)</u>	<u>(6,871,709)</u>
Total Net Position - Governmental Activities	\$	<u>(684,140)</u>

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

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**CONROE MUNICIPAL UTILITY DISTRICT NO. 1**  
**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF**  
**REVENUES, EXPENDITURES AND CHANGES IN FUNDS BALANCES**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	General Fund	Debt Service Fund
<b>REVENUES</b>		
Property Taxes	\$ 124,904	\$ 315,941
Penalty and Interest		2,557
Miscellaneous Revenues	5,707	1,475
Tax Rebate		5,444
	<u>\$ 130,611</u>	<u>\$ 325,417</u>
<b>TOTAL REVENUES</b>		
<b>EXPENDITURES/EXPENSES</b>		
Service Operations:		
Professional Fees	\$ 108,810	\$ 657
Contracted Services	19,217	11,662
Amortization		
Depreciation		
Other	19,698	4,576
Capital Outlay	373,186	
Debt Service:		
Bond Principal		145,000
Bond Interest		170,325
	<u>\$ 520,911</u>	<u>\$ 332,220</u>
<b>TOTAL EXPENDITURES/EXPENSES</b>		
<b>NET CHANGE IN FUND BALANCES</b>	\$ (390,300)	\$ (6,803)
<b>CHANGE IN NET POSITION</b>		
<b>FUND BALANCES/NET POSITION -</b>		
<b>JANUARY 1, 2018</b>	<u>809,487</u>	<u>228,835</u>
<b>FUND BALANCES/NET POSITION -</b>		
<b>DECEMBER 31, 2018</b>	<u>\$ 419,187</u>	<u>\$ 222,032</u>

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 440,845	\$ 6,594	\$ 447,439
	2,557		2,557
8	7,190		7,190
	5,444		5,444
<u>\$ 8</u>	<u>\$ 456,036</u>	<u>\$ 6,594</u>	<u>\$ 462,630</u>
\$	\$ 109,467	\$ 188,048	\$ 297,515
	30,879		30,879
		170,499	170,499
		13,760	13,760
8	24,282		24,282
	373,186	(373,186)	
	145,000	(145,000)	
	170,325	(892)	169,433
<u>\$ 8</u>	<u>\$ 853,139</u>	<u>\$ (146,771)</u>	<u>\$ 706,368</u>
\$	\$ (397,103)	\$ 397,103	\$
		(243,738)	(243,738)
	1,038,322	(1,478,724)	(440,402)
<u>\$ -0-</u>	<u>\$ 641,219</u>	<u>\$ (1,325,359)</u>	<u>\$ (684,140)</u>

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

**CONROE MUNICIPAL UTILITY DISTRICT NO. 1  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF  
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2018**

Net Change in Fund Balances - Governmental Funds	\$	(397,103)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report tax revenue when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied.		6,594
Governmental funds do not account for amortization. However, in the Statement of Net Position, intangible assets are amortized over the term of the service agreement with the City of Conroe.		(170,499)
Governmental funds do not account for depreciation. However in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded.		(13,760)
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.		145,000
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 or the related developer liability is reduced.		185,138
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.		892
Change in Net Position - Governmental Activities	\$	<u>(243,738)</u>

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

**CONROE MUNICIPAL UTILITY DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**NOTE 1. CREATION OF DISTRICT**

Conroe Municipal Utility District No. 1, located in Conroe, Texas (the “District”) was created on July 11, 2006, by an Order of the Texas Commission on Environmental Quality (the “Commission”). Pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, sanitary sewer service, storm sewer drainage, irrigation, solid waste collection and disposal, including recycling, and to construct parks and recreational facilities for the residents of the District. The District is also empowered to contract for or employ its own peace officers with powers to make arrests and to establish, operate and maintain a fire department to perform all fire-fighting activities within the District. The Board of Directors held its first meeting on August 14, 2006, and the District sold its first series of bonds on March 19, 2015.

**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 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.

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”).

The 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:

**CONROE MUNICIPAL UTILITY DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

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

Financial Statement Presentation (Continued)

- 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 is the District's policy to use restricted resources first.

Government-Wide Financial Statements

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

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

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

**CONROE MUNICIPAL UTILITY DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

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

Fund Financial Statements

As discussed above, the District's fund financial statements are combined with the government-wide financial statements. The fund financial statements include a Balance Sheet and a 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 property taxes and administrative 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 collectible 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 collectible within 60 days after year-end. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, which are recognized as expenditures when payment is due.

Property taxes considered available by the District and included in revenue include the 2017 tax levy collections during the period October 1, 2017 to December 31, 2018, and taxes collected in the period January 1, 2018, to December 31, 2018, for the 2016 and prior tax levies. The 2018 tax levy has been fully deferred.

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 December 31, 2018, General Fund recorded a receivable of \$88,678 from the Debt Service Fund for maintenance tax collections and \$5,139 from the Capital Projects Fund for costs related to the Series 2016 bond sale.

**CONROE MUNICIPAL UTILITY DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

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

Capital Assets

Capital assets, if acquired, are reported in the government-wide Statement of Net Position. Capital assets will be valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets will be 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 will be capitalized and depreciated over the estimated useful life of the asset. Interest costs, including developer interest, engineering fees and certain other costs will be 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.

Intangible Assets

Intangible assets, consisting of rights to receive water and wastewater service, are reported in the government-wide Statement of Net Position. Intangible assets are valued at the cost of water and wastewater facilities conveyed to the City of Conroe and amortized over the 40-year term of the agreement with the City of Conroe.

Budgeting

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

Pensions

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

Measurement Focus

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

**CONROE MUNICIPAL UTILITY DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

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

Measurement Focus (Continued)

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

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

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

*Committed:* amounts that can be spent only for purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. This action must be made no later than the end of the fiscal year. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. During a prior fiscal year, the District received \$588,580 from the Conroe Industrial Development Corporation to be used to pay for off-site drainage facilities. As of year-end, \$16,562 remains committed for this project.

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

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

When 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.



**CONROE MUNICIPAL UTILITY DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**NOTE 3. LONG-TERM DEBT**

	Series 2015	Series 2016
Amounts Outstanding – December 31, 2018	\$ 3,495,000	\$ 1,175,000
Interest Rates	2.00% - 4.00%	2.20% - 4.25%
Maturity Dates – Serially Beginning/Ending	September 1, 2019/2040	September 1, 2019/2040
Interest Payment Dates	March 1/ September 1	March 1/ September 1
Callable Dates	September 1, 2019*	September 1, 2022*

\* 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. Series 2015 term bonds maturing September 1, 2039, are subject to mandatory redemption beginning September 1, 2033. Series 2016 term bonds maturing September 1, 2028, 2030, 2033, and 2040, are subject to mandatory redemption beginning September 1, 2027, 2029, 2031, and 2034, respectively.

The following is a summary of transactions regarding bonds payable for the year ended December 31, 2018:

	January 1, 2018	Additions	Retirements	December 31, 2018
Bonds Payable	\$ 4,815,000	\$ -0-	\$ 145,000	\$ 4,670,000
			Amount Due Within One Year	\$ 150,000
			Amount Due After One Year	4,520,000
			Bonds Payable	\$ 4,670,000

As of December 31, 2018, the District had authorized but unissued bonds in the amount of \$24,530,000 for utility facilities and \$29,560,000 for refunding purposes. As of December 31, 2018, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2019	\$ 150,000	\$ 167,650	\$ 317,650
2020	155,000	164,540	319,540
2021	160,000	161,020	321,020
2022	160,000	156,965	316,965
2023	165,000	152,565	317,565
2024-2028	925,000	680,621	1,605,621
2029-2033	1,095,000	503,953	1,598,953
2034-2038	1,280,000	274,147	1,554,147
2039-2040	580,000	35,258	615,258
	<u>\$ 4,670,000</u>	<u>\$ 2,296,719</u>	<u>\$ 6,966,719</u>

**CONROE MUNICIPAL UTILITY DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

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

The bonds are payable from an ad valorem tax levied upon all property subject to taxation within the District, without limitation as to rate or amount. During the year ended December 31, 2018, the District levied an ad valorem debt service tax rate of \$0.385 per \$100 of assessed valuation, which resulted in a tax levy of \$320,740 on the adjusted taxable valuation of \$83,309,122 for the 2018 tax year. The bond resolution requires 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. The District's tax calendar is as follows:

Levy Date	- October 1 or as soon thereafter as practicable.
Lien Date	- January 1.
Due Date	- Upon receipt but 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 District is required by the Securities and Exchange Commission to provide continuing disclosure of certain general financial information and operating data with respect to the District to certain information repositories. 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 each issue.

**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.

**CONROE MUNICIPAL UTILITY DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

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

Deposits (Continued)

At fiscal year end, the carrying amount of the District's deposits was \$777,971 and the bank balance was \$737,832. 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 December 31, 2018, as listed below:

	Cash	Certificates of Deposit	Total
GENERAL FUND	\$ 11,987	\$ 295,000	\$ 306,987
DEBT SERVICE FUND	465,845		465,845
CAPITAL PROJECTS FUND	5,139		5,139
TOTAL DEPOSITS	\$ 482,971	\$ 295,000	\$ 777,971

Investments

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

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. The District has adopted a written investment policy to establish the guidelines by which it may invest. This policy is reviewed annually. The District's investment policy may be more restrictive than the Public Funds Investment Act.

**CONROE MUNICIPAL UTILITY DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

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

Investments (Continued)

The District invests in Texas Cooperative Liquid Assets Securities System Trust (“Texas CLASS”), an external public funds investment pool that is not SEC-registered. Public Trust Advisors, LLC serves as the pool’s administrator and investment advisor. The pool is subject to the general supervision of the Board of Trustees and its Advisory Board. Wells Fargo Bank, N.A. serves as custodian for the pool. Investments held by Texas CLASS are priced to market on a weekly basis. The investments are considered Level I investments because their fair value is measured by quoted prices in active markets. The fair value of the District’s position in the pool is the same as the value of the pool shares. There are no limitations or restrictions on withdrawals from Texas CLASS.

The District records certificates of deposit at the acquisition cost at the date of purchase.

As of December 31, 2018, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities of Less Than 1 Year
<u>GENERAL FUND</u>		
Texas CLASS	\$ 96,923	\$ 96,923
Certificates of Deposit	295,000	295,000
<b>TOTAL INVESTMENTS</b>	<b>\$ 391,923</b>	<b>\$ 391,923</b>

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The District manages credit risk by investing in certificates of deposit with balances below FDIC coverage. The District’s investments in Texas CLASS were 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 Texas CLASS 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. The District also manages interest rate risk by investing in certificates of deposit with maturities of less than one-year.

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.

**CONROE MUNICIPAL UTILITY DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**NOTE 6. CAPITAL ASSETS AND INTANGIBLE ASSETS**

Capital asset activity for the year ended December 31, 2018 is as follows:

	January 1, 2018	Increases	Decreases	December 31, 2018
<b>Capital Assets Not Being Depreciated</b>				
Land and Land Improvements	\$ 251,087	\$	\$	\$ 251,087
Construction in Progress	<u>188,048</u>	<u>352,026</u>	<u>540,074</u>	<u></u>
<b>Total Capital Assets Not Being Depreciated</b>	<u>\$ 439,135</u>	<u>\$ 352,026</u>	<u>\$ 540,074</u>	<u>\$ 251,087</u>
<b>Capital Assets Subject to Depreciation</b>				
Drainage System	\$ 348,257	\$ 24,929	\$ -0-	\$ 373,186
<b>Less Accumulated Depreciation</b>				
Drainage System	\$ 6,031	\$ 13,760	\$ -0-	\$ 19,791
<b>Total Depreciable Capital Assets, Net of Accumulated Depreciation</b>	<u>\$ 342,226</u>	<u>\$ 11,169</u>	<u>\$ -0-</u>	<u>\$ 353,395</u>
<b>Total Capital Assets, Net of Accumulated Depreciation</b>	<u>\$ 781,361</u>	<u>\$ 363,195</u>	<u>\$ 540,074</u>	<u>\$ 604,482</u>

The Developer financed the construction of facilities to serve Barton Woods, Section 1, Teas Town Center, Sections 1 and 2, and Barton Creek Ranch, Section 1 water, wastewater and drainage facilities which were conveyed to the City of Conroe in accordance with the Utility Functions Agreement (see Note 10). In exchange for conveyance of these assets, the City agrees to provide water and wastewater services to the District, which results in an intangible asset of the District. Intangible asset activity for the year ended December 31, 2018 is as follows:

	January 1, 2018	Increases	Decreases	December 31, 2018
<b>Intangible Assets Subject to Amortization</b>				
Water and Sewer Infrastructure	\$ 5,799,451	\$ 21,160	\$ -0-	\$ 5,820,611
<b>Accumulated Amortization</b>	<u>\$ 715,029</u>	<u>\$ 170,499</u>	<u>\$ -0-</u>	<u>\$ 885,528</u>
<b>Intangible Assets, Net of Accumulated Amortization</b>	<u>\$ 5,084,422</u>	<u>\$ (149,339)</u>	<u>\$ -0-</u>	<u>\$ 4,935,083</u>

**NOTE 7. MAINTENANCE TAX**

On November 7, 2006, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$0.60 per \$100 of assessed valuation of taxable property within the District. During the year ended December 31, 2018, the District levied an ad valorem maintenance tax rate of \$0.215 per \$100 of assessed valuation, which resulted in a tax levy of \$179,115 on the adjusted taxable valuation of \$83,309,122 for the 2018 tax year. The 2018 tax levy has been fully deferred and is budgeted for use in fiscal year 2019.

**CONROE MUNICIPAL UTILITY DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**NOTE 8. UNREIMBURSED COSTS**

The District has executed developer financing agreements with Developers within the District. The agreements call for the Developers to fund costs associated with water, sewer, and drainage facilities until such time as the District can sell bonds. Reimbursement to the Developers will come from future bond sales or other available funds, subject to the terms of the contracts between the District and the Developers. As of December 31, 2018, \$2,145,826 was recorded in the Statement of Net Position as a liability for completed projects.

During the current year, the District used \$373,186 in surplus General Fund money to reimburse the Developer for Barton Creek, Phase I Storm Water Detention.

**NOTE 9. 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 pollution, general liability, automobile, sewer backup, 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 10. UTILITY FUNCTIONS AGREEMENT WITH THE CITY OF CONROE**

The District operates pursuant to a Utility Functions Agreement between the City and the District, dated as of October 13, 2005, supplemented on November 15, 2007, and amended by the First Amendment to the Utility Functions Agreement, dated as of April 14, 2009 (collectively, the "Utility Agreement"). Pursuant to the Utility Agreement, the City consented to the creation of the District within the city limits of the City, the District assumed responsibility for acquiring and constructing for the benefit of, and for ultimate conveyance to, the City, the water distribution, wastewater collection and drainage facilities to serve development occurring within the boundaries of the District (the "Facilities") and the City agreed to accept the Facilities for operation and maintenance at the sole cost of the City in consideration for the District's financing, acquisition and construction of the Facilities. In order to secure performance by the City of its obligations under the Utility Agreement, the District retains a security interest in the Facilities transferred to the City until the District's bonds issued to acquire and construct the Facilities are paid off. It is the City's obligation to set rates and charges for the use of the Facilities and to bill and collect such rates and charges from customers of the Facilities. The City agrees to charge residents of the District the same water and wastewater rates that the City charges in other parts of the City. All revenues from the Facilities belong exclusively to the City.

**CONROE MUNICIPAL UTILITY DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**NOTE 10. UTILITY FUNCTIONS AGREEMENT WITH THE CITY OF CONROE**  
(Continued)

The Utility Agreement provides that the Facilities shall be designed and constructed in accordance with the City's requirements and criteria. The City agrees to provide the District with its ultimate requirements for water supply capacity and wastewater treatment capacity without capital charges of any kind. The City has covenanted to maintain the Facilities, or cause the Facilities to be maintained, in good condition and working order and to operate the same, or cause the same, to be operated in an efficient and economical manner at a reasonable cost and in accordance with sound business principles. The City has also covenanted to comply with all contractual provisions and agreements entered into by it and with all valid rules, regulation, directions or orders by any governmental or judicial body promulgating the same.

Under the Utility Agreement, the District is authorized to issue bonds to finance the construction and acquisition of the Facilities. Before the District is authorized to issue bonds, the District must provide the City with a copy of the TCEQ order authorizing issuance of the bonds and such order must provide that under the TCEQ's rules governing the issuance of bonds it is feasible to sell the bonds at a District tax rate that does not exceed \$0.60 per \$100 of taxable assessed valuation. The Utility Agreement expressly provides that such condition is not a limitation on the District's authority to levy an unlimited tax and that the District's bonds are secured by a pledge of the proceeds of an ad valorem tax without limit as to rate or amount. Both the City and the District levy taxes on property within the District. The Utility Agreement provides that the City pays an annual rebate to the District of a portion of the City's tax rate related to the water, wastewater and drainage in order to prevent double payment of taxes by taxpayers in the District. The annual rebate is equal to the total assessed value in the District for a given year multiplied by the portion of the City's tax rate that is attributable to water, sewer or drainage facilities, which is may increase or decrease over time. The annual rebate payment is to be deposited in the District's Debt Service Fund.

The City's right to dissolve the District is restricted under the Utility Agreement. Under the terms of the Utility Agreement, the City agrees that it will not dissolve the District until ninety percent of the District's Facilities have been developed and the developers advancing funds to construct the Facilities have been reimbursed to the maximum extent permitted by the rules of the TCEQ or the City assumes any obligation for such reimbursement of the District under such rules.

**CONROE MUNICIPAL UTILITY DISTRICT NO. 1**

**REQUIRED SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2018**



**CONROE MUNICIPAL UTILITY DISTRICT NO. 1**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	Original and Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>			
Property Taxes	\$ 142,000	\$ 124,904	\$ (17,096)
Miscellaneous Revenues	<u>2,250</u>	<u>5,707</u>	<u>3,457</u>
<b>TOTAL REVENUES</b>	<u>\$ 144,250</u>	<u>\$ 130,611</u>	<u>\$ (13,639)</u>
<b>EXPENDITURES</b>			
Services Operations:			
Professional Fees	\$ 67,000	\$ 108,810	\$ (41,810)
Contracted Services	19,000	19,217	(217)
Other	23,900	19,698	4,202
Capital Outlay	<u>                    </u>	<u>373,186</u>	<u>(373,186)</u>
<b>TOTAL EXPENDITURES</b>	<u>\$ 109,900</u>	<u>\$ 520,911</u>	<u>\$ (411,011)</u>
<b>NET CHANGE IN FUND BALANCE</b>	\$ 34,350	\$ (390,300)	\$ (424,650)
<b>FUND BALANCE - JANUARY 1, 2018</b>	<u>809,487</u>	<u>809,487</u>	<u>                    </u>
<b>FUND BALANCE - DECEMBER 31, 2018</b>	<u>\$ 843,837</u>	<u>\$ 419,187</u>	<u>\$ (424,650)</u>

See accompanying independent auditor's report.

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**CONROE MUNICIPAL UTILITY DISTRICT NO. 1**  
**SUPPLEMENTARY INFORMATION – REQUIRED BY THE**  
**WATER DISTRICT FINANCIAL MANAGEMENT GUIDE**  
**DECEMBER 31, 2018**



**CONROE MUNICIPAL UTILITY DISTRICT NO. 1  
SERVICES AND RATES  
FOR THE YEAR ENDED DECEMBER 31, 2018**

**5. LOCATION OF DISTRICT:**

Is the District located entirely within one county?

Yes   X   No       

County in which District is located:

Montgomery County, Texas

Is the District located within a city?

Entirely   X   Partly        Not at all       

City in which District is located:

City of Conroe, Texas.

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

Entirely        Partly        Not at all   X  

Are Board Members appointed by an office outside the District?

Yes        No   X  

See accompanying independent auditor's report.

**CONROE MUNICIPAL UTILITY DISTRICT NO. 1**  
**GENERAL FUND EXPENDITURES**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

PROFESSIONAL FEES:	
Audit and AUP Services	\$ 13,200
Engineering	8,743
Legal	<u>86,867</u>
TOTAL PROFESSIONAL FEES	<u>\$ 108,810</u>
CONTRACTED SERVICES:	
Bookkeeping	<u>\$ 19,217</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 5,550
Dues	650
Insurance	2,831
Legal Notices	458
Office Supplies and Postage	1,600
Payroll Taxes	425
Travel and Meetings	1,702
Other	<u>6,482</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 19,698</u>
CAPITAL OUTLAY	<u>\$ 373,186</u>
TOTAL EXPENDITURES	<u><u>\$ 520,911</u></u>

**CONROE MUNICIPAL UTILITY DISTRICT NO. 1  
INVESTMENTS  
DECEMBER 31, 2018**

<u>Fund</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at End of Year</u>
<u>GENERAL FUND</u>					
Texas CLASS	XXXX0001	Varies	Daily	\$ 96,923	\$
Certificate of Deposit	XXXX9940	1.30%	03/28/19	50,000	495
Certificate of Deposit	XXXX0612	2.75%	12/26/19	50,000	19
Certificate of Deposit	XXXX1522	1.30%	02/13/19	50,000	572
Certificate of Deposit	XXXX1499	1.30%	03/15/19	95,000	985
Certificate of Deposit	XXXX0122	1.25%	01/01/19	<u>50,000</u>	<u>621</u>
TOTAL GENERAL FUND				<u>\$ 391,923</u>	<u>\$ 2,692</u>

**CONROE MUNICIPAL UTILITY DISTRICT NO. 1  
TAXES LEVIED AND RECEIVABLE  
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Maintenance Taxes		Debt Service Taxes	
TAXES RECEIVABLE -				
JANUARY 1, 2018	\$ 44,891		\$ 113,577	
Adjustments to Beginning Balance	<u>                    </u>	\$ 44,891	<u>                    </u>	\$ 113,577
Original 2018 Tax Levy	\$ 177,312		\$ 317,512	
Adjustment to 2018 Tax Levy	<u>1,803</u>	<u>\$ 179,115</u>	<u>3,228</u>	<u>\$ 320,740</u>
TOTAL TO BE ACCOUNTED FOR		\$ 224,006		\$ 434,317
TAX COLLECTIONS:				
Prior Year	\$ 42,975		\$ 108,708	
Current Year	<u>86,632</u>	<u>\$ 129,607</u>	<u>155,131</u>	<u>\$ 263,839</u>
TAXES RECEIVABLE - DECEMBER 31, 2018		<u>\$ 94,399</u>		<u>\$ 170,478</u>
TAXES RECEIVABLE BY YEAR:				
2018		\$ 92,483		\$ 165,609
2017		1,880		4,755
2016		32		105
2015		<u>4</u>		<u>9</u>
TOTAL		<u>\$ 94,399</u>		<u>\$ 170,478</u>



**CONROE MUNICIPAL UTILITY DISTRICT NO. 1**  
**TAXES LEVIED AND RECEIVABLE**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	2018	2017	2016	2015
PROPERTY VALUATIONS:				
Land	\$ 28,382,080	\$ 18,445,260	\$ 19,563,840	\$ 18,018,190
Improvements	52,647,350	52,357,990	46,900,670	37,399,960
Personal Property	5,220,756	5,552,728	5,407,431	5,553,297
Exemptions	(2,941,064)	(1,783,084)	(2,439,085)	(2,662,019)
TOTAL PROPERTY VALUATIONS	<u>\$ 83,309,122</u>	<u>\$ 74,572,894</u>	<u>\$ 69,432,856</u>	<u>\$ 58,309,428</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.385	\$ 0.430	\$ 0.460	\$ 0.405
Maintenance	0.215	0.170	0.140	0.195
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.600</u>	<u>\$ 0.600</u>	<u>\$ 0.600</u>	<u>\$ 0.600</u>
ADJUSTED TAX LEVY*	<u>\$ 499,855</u>	<u>\$ 447,438</u>	<u>\$ 416,597</u>	<u>\$ 349,856</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>48.37 %</u>	<u>98.52 %</u>	<u>99.99 %</u>	<u>99.99 %</u>

\* Based upon the adjusted tax levy at the time of the audit for the fiscal year in which the tax was levied.

Maintenance Tax – Maximum tax rate of \$0.60 per \$100 of assessed valuation approved by voters on November 7, 2006.

**CONROE MUNICIPAL UTILITY DISTRICT NO. 1**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**DECEMBER 31, 2018**

S E R I E S - 2 0 1 5

Due During Fiscal Years Ending December 31	Principal Due September 1	Interest Due March 1/ September 1	Total
2019	\$ 95,000	\$ 125,660	\$ 220,660
2020	100,000	123,760	223,760
2021	105,000	121,560	226,560
2022	105,000	118,935	223,935
2023	110,000	116,047	226,047
2024	120,000	112,858	232,858
2025	125,000	109,257	234,257
2026	130,000	105,258	235,258
2027	135,000	100,837	235,837
2028	140,000	96,113	236,113
2029	150,000	91,072	241,072
2030	155,000	85,673	240,673
2031	165,000	79,860	244,860
2032	170,000	73,507	243,507
2033	180,000	66,878	246,878
2034	190,000	59,767	249,767
2035	195,000	52,263	247,263
2036	205,000	44,560	249,560
2037	215,000	36,462	251,462
2038	225,000	27,970	252,970
2039	235,000	19,083	254,083
2040	245,000	9,800	254,800
	<u>\$ 3,495,000</u>	<u>\$ 1,777,180</u>	<u>\$ 5,272,180</u>

**CONROE MUNICIPAL UTILITY DISTRICT NO. 1**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**DECEMBER 31, 2018**

S E R I E S - 2 0 1 6			
Due During Fiscal Years Ending December 31	Principal Due September 1	Interest Due March 1/ September 1	Total
2019	\$ 55,000	\$ 41,990	\$ 96,990
2020	55,000	40,780	95,780
2021	55,000	39,460	94,460
2022	55,000	38,030	93,030
2023	55,000	36,518	91,518
2024	55,000	34,868	89,868
2025	55,000	33,135	88,135
2026	55,000	31,320	86,320
2027	55,000	29,450	84,450
2028	55,000	27,525	82,525
2029	55,000	25,600	80,600
2030	55,000	23,538	78,538
2031	55,000	21,475	76,475
2032	55,000	19,275	74,275
2033	55,000	17,075	72,075
2034	50,000	14,875	64,875
2035	50,000	12,750	62,750
2036	50,000	10,625	60,625
2037	50,000	8,500	58,500
2038	50,000	6,375	56,375
2039	50,000	4,250	54,250
2040	50,000	2,125	52,125
	\$ 1,175,000	\$ 519,539	\$ 1,694,539

**CONROE MUNICIPAL UTILITY DISTRICT NO. 1**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**DECEMBER 31, 2018**

ANNUAL REQUIREMENTS  
FOR ALL SERIES

Due During Fiscal Years Ending December 31	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2019	\$ 150,000	\$ 167,650	\$ 317,650
2020	155,000	164,540	319,540
2021	160,000	161,020	321,020
2022	160,000	156,965	316,965
2023	165,000	152,565	317,565
2024	175,000	147,726	322,726
2025	180,000	142,392	322,392
2026	185,000	136,578	321,578
2027	190,000	130,287	320,287
2028	195,000	123,638	318,638
2029	205,000	116,672	321,672
2030	210,000	109,211	319,211
2031	220,000	101,335	321,335
2032	225,000	92,782	317,782
2033	235,000	83,953	318,953
2034	240,000	74,642	314,642
2035	245,000	65,013	310,013
2036	255,000	55,185	310,185
2037	265,000	44,962	309,962
2038	275,000	34,345	309,345
2039	285,000	23,333	308,333
2040	295,000	11,925	306,925
	<u>\$ 4,670,000</u>	<u>\$ 2,296,719</u>	<u>\$ 6,966,719</u>

**CONROE MUNICIPAL UTILITY DISTRICT NO. 1  
CHANGES IN LONG-TERM BOND DEBT  
FOR THE YEAR ENDED DECEMBER 31, 2018**

Description	Original Bonds Issued	Bonds Outstanding January 1, 2018
Conroe Municipal Utility District No. 1 Unlimited Tax Bonds - Series 2015	\$ 3,750,000	\$ 3,585,000
Conroe Municipal Utility District No. 1 Unlimited Tax Bonds - Series 2016	<u>1,280,000</u>	<u>1,230,000</u>
<b>TOTAL</b>	<u>\$ 5,030,000</u>	<u>\$ 4,815,000</u>

Bond Authority:	<u>Utility Facilities</u>	<u>Refunding Bonds</u>
Amount Authorized by Voters	\$ 29,560,000	\$ 29,560,000
Amount Issued	<u>5,030,000</u>	<u>                    </u>
Remaining to be Issued	<u>\$ 24,530,000</u>	<u>\$ 29,560,000</u>

Debt Service Fund cash balance as of December 31, 2018: \$ 465,845

Average annual debt service payment (principal and interest) for remaining term  
of all debt: \$ 316,669

<u>Current Year Transactions</u>				
<u>Bonds Sold</u>	<u>Retirements</u>		<u>Bonds Outstanding December 31, 2018</u>	<u>Paying Agent</u>
	<u>Principal</u>	<u>Interest</u>		
\$	\$ 90,000	\$ 127,235	\$ 3,495,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	<u>55,000</u>	<u>43,090</u>	<u>1,175,000</u>	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
<u>\$ - 0 -</u>	<u>\$ 145,000</u>	<u>\$ 170,325</u>	<u>\$ 4,670,000</u>	

**CONROE MUNICIPAL UTILITY DISTRICT NO. 1**  
**COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES**  
**GENERAL FUND - FIVE YEARS**

	Amounts		
	2018	2017	2016
<b>REVENUES</b>			
Property Taxes	\$ 124,904	\$ 97,734	\$ 113,597
Tax Rebate			
Miscellaneous Revenues	<u>5,707</u>	<u>3,400</u>	<u>2,093</u>
<b>TOTAL REVENUES</b>	<u>\$ 130,611</u>	<u>\$ 101,134</u>	<u>\$ 115,690</u>
<b>EXPENDITURES</b>			
Professional Fees	\$ 108,810	\$ 66,730	\$ 72,661
Contracted Services	19,217	18,355	16,301
Other	19,698	41,300	18,304
Capital Outlay	<u>373,186</u>		
<b>TOTAL EXPENDITURES</b>	<u>\$ 520,911</u>	<u>\$ 126,385</u>	<u>\$ 107,266</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>\$ (390,300)</u>	<u>\$ (25,251)</u>	<u>\$ 8,424</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In (Out)	<u>\$ - 0 -</u>	<u>\$ (99,260)</u>	<u>\$ - 0 -</u>
<b>NET CHANGE IN FUND BALANCE</b>	\$ (390,300)	\$ (124,511)	\$ 8,424
<b>BEGINNING FUND BALANCE</b>	<u>809,487</u>	<u>933,998</u>	<u>925,574</u>
<b>ENDING FUND BALANCE</b>	<u>\$ 419,187</u>	<u>\$ 809,487</u>	<u>\$ 933,998</u>

		Percentage of Total Revenues				
2015	2014	2018	2017	2016	2015	2014
\$ 259,995	\$ 208,218	95.6 %	96.6 %	98.2 %	96.5 %	95.9 %
7,773	7,246				2.9	3.3
1,713	1,703	4.4	3.4	1.8	0.6	0.8
<u>\$ 269,481</u>	<u>\$ 217,167</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 52,644	\$ 135,224	83.3 %	66.0 %	62.8 %	19.5 %	62.3 %
13,531	16,220	14.7	18.1	14.1	5.0	7.5
14,268	21,598	15.1	40.8	15.8	5.3	9.9
		285.7				
<u>\$ 80,443</u>	<u>\$ 173,042</u>	<u>398.8 %</u>	<u>124.9 %</u>	<u>92.7 %</u>	<u>29.8 %</u>	<u>79.7 %</u>
<u>\$ 189,038</u>	<u>\$ 44,125</u>	<u>(298.8) %</u>	<u>(24.9) %</u>	<u>7.3 %</u>	<u>70.2 %</u>	<u>20.3 %</u>
<u>\$ 50,690</u>	<u>\$ - 0 -</u>					
\$ 239,728	\$ 44,125					
685,846	641,721					
<u>\$ 925,574</u>	<u>\$ 685,846</u>					



**CONROE MUNICIPAL UTILITY DISTRICT NO. 1**  
**COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES**  
**DEBT SERVICE FUND - FIVE YEARS**

	Amounts		
	2018	2017	2016
<b>REVENUES</b>			
Property Taxes	\$ 315,941	\$ 319,412	\$ 235,933
Penalty and Interest	2,557	3,584	3,388
Miscellaneous Revenues	1,475	2,684	369
Tax Rebate	5,444	5,859	19,650
<b>TOTAL REVENUES</b>	<b>\$ 325,417</b>	<b>\$ 331,539</b>	<b>\$ 259,340</b>
<b>EXPENDITURES</b>			
Tax Collection Expenditures	\$ 15,395	\$ 15,921	\$ 11,571
Debt Service Principal	145,000	135,000	80,000
Debt Service Interest and Fees	171,825	161,575	130,873
<b>TOTAL EXPENDITURES</b>	<b>\$ 332,220</b>	<b>\$ 312,496</b>	<b>\$ 222,444</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>\$ (6,803)</b>	<b>\$ 19,043</b>	<b>\$ 36,896</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds From Issuance of Long-Term Debt	\$ - 0 -	\$ - 0 -	\$ 44,090
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ (6,803)</b>	<b>\$ 19,043</b>	<b>\$ 80,986</b>
<b>BEGINNING FUND BALANCE</b>	<b>228,835</b>	<b>209,792</b>	<b>128,806</b>
<b>ENDING FUND BALANCE</b>	<b>\$ 222,032</b>	<b>\$ 228,835</b>	<b>\$ 209,792</b>
<b>TOTAL ACTIVE RETAIL WATER CONNECTIONS</b>	N/A	N/A	N/A
<b>TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS</b>	N/A	N/A	N/A

		Percentage of Total Revenues				
2015	2014	2018	2017	2016	2015	2014
\$	\$	97.0 %	96.3 %	91.0 %	%	%
1,823		0.8	1.1	1.3	89.3	
218		0.5	0.8	0.1	10.7	
		1.7	1.8	7.6		
\$ 2,041	\$ - 0 -	100.0 %	100.0 %	100.0 %	100.0 %	%
\$ 9,114	\$	4.7 %	4.8 %	4.5 %	446.5 %	%
		44.6	40.7	30.8		
59,305		52.8	48.7	50.5	2,905.7	
\$ 68,419	\$ - 0 -	102.1 %	94.2 %	85.8 %	3,352.2 %	%
\$ (66,378)	\$ - 0 -	(2.1) %	5.8 %	14.2 %	(3,252.2) %	N/A %
\$ 195,184	\$ - 0 -					
\$ 128,806	\$ - 0 -					
\$ 128,806	\$ - 0 -					
N/A	N/A					
N/A	N/A					

**CONROE MUNICIPAL UTILITY DISTRICT NO. 1  
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS  
DECEMBER 31, 2018**

District Mailing Address - Conroe Municipal Utility District No. 1  
c/o Allen Boone Humphries Robinson LLP  
3200 Southwest Freeway, Suite 2600  
Houston, TX 77027

District Telephone Number - (713) 860-6400

<b>Board Members</b>	Term of Office (Elected or Appointed)	Fees of Office for the year ended December 31, 2018	Expense Reimbursements for the year ended December 31, 2018	Title
David Townsend	05/18 – 05/22 (Elected)	\$ 1,050	\$ 189	President
Diane Moore	05/18 – 05/22 (Elected)	\$ 1,200	\$ 96	Vice President
Charles R. Atkinson	05/16 – 05/20 (Elected)	\$ 1,200	\$ 122	Assistant Vice President
Julie Crum	05/18 – 05/22 (Elected)	\$ 1,200	\$ 140	Secretary
Alton Hues	11/16 – 05/20 (Appointed)	\$ 900	\$ 245	Assistant Secretary

Notes: 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 developers or with any of the District's consultants.

Submission date of most recent District Registration Form (TWC Sections 36.054 and 49.054):  
May 15, 2018.

The limit on Fees of Office that a Director may receive during a fiscal year is the maximum amount allowed by law as set by Board Resolution on August 14, 2006. Fees of Office are the amounts actually paid to a Director during the District's current fiscal year.

**CONROE MUNICIPAL UTILITY DISTRICT NO. 1  
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS  
DECEMBER 31, 2018**

<b>Consultants:</b>	<u>Date Hired</u>	<u>Fees for the year ended December 31, 2018</u>	<u>Title</u>
Allen Boone Humphries Robinson LLP	08/14/06	\$ 91,779	General Counsel
McCall Gibson Swedlund Barfoot PLLC	01/19/10	\$ 11,300 \$ 1,900	Audit Related AUP Related
Municipal Accounts & Consulting, L.P.	11/17/06	\$ 19,217	Bookkeeper
Perdue, Brandon, Fielder, Collins & Mott, L.L.P.	08/14/09	\$ 657	Delinquent Tax Attorney
Vogt Engineering, L.P.	08/14/06	\$ 8,743	Engineer
Mark Burton	11/17/06	\$ -0-	Investment Officer
Masterson Advisors LLC	07/17/18	\$ -0-	Financial Advisor
Utility Tax Service	05/22/07	\$ 9,162	Tax Assessor/ Collector