

PRELIMINARY OFFICIAL STATEMENT DATED JUNE 11, 2020

This Preliminary Official Statement is subject to completion and amendment and is intended solely for the solicitation of initial bids to purchase the Bonds. Upon sale of the Bonds, the Official Statement will be completed and delivered to the Initial Purchaser.

IN THE OPINION OF BOND COUNSEL, THE BONDS ARE VALID OBLIGATIONS OF MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126, AND INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR PURPOSES OF FEDERAL INCOME TAXATION UNDER STATUTES, REGULATIONS, PUBLISHED RULINGS AND COURT DECISIONS EXISTING ON THE DATE OF SUCH OPINION. SEE “LEGAL MATTERS” HEREIN FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL.

THE BONDS WILL BE DESIGNATED “QUALIFIED TAX-EXEMPT OBLIGATIONS” FOR FINANCIAL INSTITUTIONS. SEE “LEGAL MATTERS—Qualified Tax-Exempt Obligations.”

BOOK-ENTRY-ONLY

\$6,625,000

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126

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

UNLIMITED TAX BONDS

SERIES 2020

Dated: August 1, 2020

Due: September 1, as shown below

Principal of the bonds described above (the “Bonds”) will be payable at maturity or earlier redemption at the principal payment office of the Paying Agent/Registrar, initially The Bank of New York Mellon Trust Co., N.A., Dallas, Texas (the “Paying Agent/Registrar”). Interest on the Bonds will accrue from August 1, 2020 and will be payable on March 1 and September 1 of each year commencing March 1, 2021 (seven months interest) until maturity or prior redemption and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be issued in fully registered form only in denominations of \$5,000 each or integral multiples thereof. The Bonds will be subject to redemption prior to their maturity, as shown below.

The Bonds will be registered and delivered only in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Bonds. Beneficial Owners (as defined herein under “BOOK-ENTRY-ONLY SYSTEM”) of the Bonds will not receive physical certificates representing the Bonds but will receive a credit balance on the books of the DTC participants. 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, as herein defined, directly to DTC, which will, in turn, remit such principal and interest to its participants for subsequent disbursement to the Beneficial Owners. See “BOOK-ENTRY-ONLY SYSTEM.”

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS

Due (Sept. 1)	Principal Amount (a)	Interest Rate	Initial Reoffering Yield (b)	CUSIP Number (d)	Due (Sept. 1)	Principal Amount (a)	Interest Rate	Initial Reoffering Yield (b)	CUSIP Number (d)
2021	\$ 160,000	%	%		2033	\$ 270,000 (c)	%	%	
2022	165,000				2034	280,000 (c)			
2023	175,000				2035	295,000 (c)			
2024	180,000				2036	310,000 (c)			
2025	190,000				2037	320,000 (c)			
2026	200,000 (c)				2038	335,000 (c)			
2027	205,000 (c)				2039	350,000 (c)			
2028	215,000 (c)				2040	365,000 (c)			
2029	225,000 (c)				2041	385,000 (c)			
2030	235,000 (c)				2042	400,000 (c)			
2031	245,000 (c)				2043	420,000 (c)			
2032	260,000 (c)				2044	440,000 (c)			

- (a) The Initial Purchaser (as herein defined) may designate one or more maturities as term bonds. See accompanying “OFFICIAL NOTICE OF SALE” and “OFFICIAL BID FORM.”
- (b) Initial reoffering yield represents the initial offering yield to the public, which has been established by the Initial Purchaser for offers to the public and which may be subsequently changed by the Initial Purchaser and is the sole responsibility of the Initial Purchaser. The initial reoffering yields indicated above represent the lower of the yields resulting when priced to maturity or to the first call date. Accrued interest from August 1, 2020 is to be added to the price.
- (c) The Bonds maturing on or 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 thereon to the date fixed for redemption. See “THE BONDS—Redemption Provisions.”
- (d) CUSIP Numbers have been assigned to the Bonds by the CUSIP Service Bureau and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Initial Purchaser shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.

The Bonds, when issued, will constitute valid and legally binding obligations of Montgomery County Municipal Utility District No. 126 (the “District”) and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District, as further described herein. 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. Investment in the Bonds is subject to special investment considerations described herein. See “INVESTMENT CONSIDERATIONS.”

The Bonds are offered when, as and if issued by the District, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Schwartz, Page & Harding, L.L.P., Houston, Texas, Bond Counsel. Delivery of the Bonds in book-entry form through DTC is expected on or about August 13, 2020.

BIDS DUE: THURSDAY, JULY 9, 2020 AT 9:00 A.M., HOUSTON TIME, HOUSTON, TEXAS
BID AWARD: THURSDAY, JULY 9, 2020 AT 10:00 A.M., HOUSTON TIME, HOUSTON, TEXAS

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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 Schwartz, Page & Harding, L.L.P., 1300 Post Oak Boulevard, Suite 1400, Houston, Texas, 77056 upon payment of the costs of duplication.

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 relevant information actually comes to its attention, the other matters described in this Official Statement until delivery of the Bonds to the Initial Purchaser, and thereafter only as specified in “UPDATING OF OFFICIAL STATEMENT.”

OFFICIAL STATEMENT SUMMARY

The following information 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.

INFECTIOUS DISEASE OUTLOOK (COVID-19)

General..... The World Health Organization has declared a pandemic following the outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus (the “Pandemic”), which is currently affecting many parts of the world, including the United States and Texas. As described herein under “INVESTMENT CONSIDERATIONS—Infectious Disease Outlook (COVID-19)”, federal, state and local governments have all taken actions to respond to the Pandemic, including disaster declarations by both the President of the United States and the Governor of Texas. Such actions are focused on limiting instances where the public can congregate or interact with each other, which affects economic growth within Texas.

Impact..... Since the disaster declarations were made, the Pandemic has negatively affected travel, commerce, and financial markets locally and globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide and within Texas.

Such adverse economic conditions, if they continue, could result in declines in the demand for residential and commercial property in the Houston area and could reduce or negatively affect property values or homebuilding activity within the District. The Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds as well as the District’s share of operations and maintenance expenses payable from ad valorem taxes.

While the potential impact of COVID-19 on the District cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the District’s operations and financial condition. The financial and operating data contained herein are the latest available but are as of dates and for periods prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not indicative of the economic impact of the Pandemic on the District’s financial condition. See “INVESTMENT CONSIDERATIONS—Infectious Disease Outlook (COVID-19).”

HURRICANE HARVEY

Recent Extreme Weather

Events; Hurricane Harvey The greater Houston area, including the District, is subject to occasional severe weather events, including tropical storms and hurricanes. If the District were to sustain damage to its facilities requiring substantial repair or replacement, or if substantial damage were to occur to taxable property within the District as a result of such a weather event, the investment security of the Bonds could be adversely affected.

The greater Houston area has experienced multiple 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 26, 2017 and brought historic levels of rainfall during the successive four days. According to Municipal Operations & Consulting, Inc. (the “Operator”), the water, sewer, and drainage 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, the District is not aware of any homes or other improvements within the District that 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. See “INVESTMENT CONSIDERATIONS—Recent Extreme Weather Events; Hurricane Harvey.”

THE DISTRICT

<i>Description and Location</i>	The District is a political subdivision of the State of Texas, created by order of the Texas Commission on Environmental Quality (the “Commission” or “TCEQ”), dated November 20, 2008. The District is a municipal utility district and operates under the provisions of Chapters 49 and 54 of the Texas Water Code, as amended. The District consists of approximately 330 acres of land. The District is located approximately 25 miles north of the central downtown business district of the City of Houston and lies wholly within the corporate limits of the City of Conroe (the “City”) and within the boundaries of the Willis Independent School District. The District is bounded on the north by League Line Road, on the east by Longmire Drive, and on the west by Lake Conroe. See “THE DISTRICT” and “AERIAL PHOTOGRAPH.”
<i>The Developer</i>	The developer of the land within the District is D.R. Horton - Texas, Ltd. (the “Developer”), a Texas limited partnership. The Developer is wholly owned by D.R. Horton, Inc. (“D.R. Horton”), a Delaware corporation and publicly held company, the stock of which is listed on the New York Stock Exchange under the ticker symbol “DHI.” The Developer owns approximately 52 acres of undeveloped land in the District. See “THE DEVELOPER.”
<i>Status of Development</i>	<p>The development in the District is being marketed as Water Crest on Lake Conroe. Development in the District currently includes 186 developed acres of single-family residential development (670 lots) and approximately 24 acres of single-family residential development (100 lots) served with utilities with paving expected to be completed by September 2020. As of May 4, 2020, the District consisted of 441 completed homes (439 occupied), 71 homes under construction (43 homes under contract and 23 homes are not sold), and 158 vacant developed lots. Homes in the District have an average sales price of approximately \$260,000.</p> <p>The remainder of the District is comprised of approximately 23 acres for recreational facilities (including approximately 4 acres upon which a recreation center has been constructed which includes a playground, two pools and parking lot), approximately 43 undevelopable acres (storm drainage facilities, street right-of-way, open space and undevelopable reserves), approximately 2 acres owned by City of Conroe for a fire station, and approximately 52 developable acres that have not been provided with water, sanitary sewer and storm drainage facilities. See “THE DISTRICT.”</p>
<i>Homebuilder</i>	D.R. Horton is the only homebuilder in the District. See “THE DISTRICT—Status of Development: Homebuilding.”

THE FINANCING

<i>The Issue</i>	\$6,625,000 Montgomery County Municipal Utility District No. 126 Unlimited Tax Bonds, Series 2020, dated August 1, 2020. The Bonds mature serially on September 1 in each of the years from 2021 through 2044, inclusive, in the respective amounts and bearing interest at the rates for each maturity shown on the cover page hereof. Interest on the Bonds will accrue from August 1, 2020 and will be payable March 1 and September 1 of each year commencing March 1, 2021 (seven months interest) until maturity or prior redemption and will be calculated on the basis of 360-day year consisting of twelve 30-day months. The Bonds maturing on or after September 1, 2026 are subject to optional redemption, 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 of the Bonds to be redeemed plus accrued interest thereon to the date fixed for redemption. If less than all the Bonds are redeemed, the particular maturity or maturities and the amounts thereof to be redeemed shall be selected by the District in integral multiples of \$5,000 in any one maturity. If less than all the Bonds within a maturity are redeemed, the Bonds to be redeemed shall be selected by DTC in accordance with its procedures. See “BOOK-ENTRY-ONLY SYSTEM” and “THE BONDS—Redemption Provisions.” The Bonds will be issued in fully registered form only, in denominations of \$5,000 or any integral multiple thereof. See “THE BONDS.”
<i>Book-Entry-Only</i>	The Bonds will be registered in the name of, and delivered only to, Cede & Co., the nominee of DTC, pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the Beneficial Owners. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC, which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the Beneficial Owners of the Bonds. See “BOOK-ENTRY- ONLY SYSTEM.”

<i>Authority for Issuance</i>	The Bonds are issued pursuant to the Article XVI, Section 59 of the Texas Constitution and Chapters 49 and 54 of the Texas Water Code, as amended, the general laws of the State of Texas, an order authorizing the issuance of the Bonds (the “Bond Order”) adopted by the Board of Directors of the District (the “Board”), an order of the Texas Commission on Environmental Quality (the “TCEQ” or “Commission”) and an election held within the District. See “THE BONDS—Authority for Issuance.”
<i>Source of Payment</i>	The Bonds are payable from a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District. 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. See “THE BONDS—Source and Security for Payment.”
<i>Use of Proceeds</i>	Proceeds of the Bonds will be used to finance water, sanitary sewer and drainage facilities as described herein under “USE AND DISTRIBUTION OF BOND PROCEEDS.” In addition, Bond proceeds will be used to capitalize twelve (12) months of interest on the Bonds; to pay interest on funds advanced by the Developer on behalf of the District; and to pay engineering fees, operating costs and administrative costs and certain other costs related to the issuance of the Bonds. See “USE AND DISTRIBUTION OF BOND PROCEEDS.”
<i>Payment Record</i>	The District has previously issued \$3,060,000 principal amount of unlimited tax road bonds in one series and \$4,175,000 principal amount of unlimited tax bonds in one series (the “Previously Issued Bonds”). The District has a total of \$7,065,000 principal amount of bonds outstanding as of June 1, 2020 (the “Outstanding Bonds”). The District has never defaulted on the debt service payments on the Outstanding Bonds.
<i>Municipal Bond Rating and Municipal Bond Insurance</i>	The District has not applied for an underlying rating nor is it expected that the District would have received an investment grade rating had such application been made. The Bonds have qualified for municipal bond insurance and the purchase of municipal bond insurance with an associated rating of at least “AA” from S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC or “Aa” from Moody’s Investors Service is mandatory, at the expense of the Initial Purchaser, including any rating fees associated with the insurance. 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” pursuant to Section 265(b) of the Internal Revenue Code of 1986, as amended. See “LEGAL MATTERS—Qualified Tax-Exempt Obligations.”
<i>Bond Counsel</i>	Schwartz, Page & Harding, L.L.P., Houston, Texas.
<i>Engineer</i>	Edminster, Hinshaw, Russ & Associates, Inc., Houston, Texas.
<i>Disclosure Counsel</i>	McCall, Parkhurst & Horton L.L.P., Houston, Texas.
<i>Financial Advisor</i>	Masterson Advisors LLC, Houston, Texas.
<i>Paying Agent/Registrar</i>	The Bank of New York Mellon Trust Company, N.A., Dallas, Texas.

INVESTMENT CONSIDERATIONS

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

FINANCIAL INFORMATION (UNAUDITED)

2019 Certified Taxable Assessed Valuation	\$91,313,212 (a)
2020 Preliminary Taxable Assessed Valuation	\$128,048,116 (b)
Estimate of Taxable Assessed Valuation as of May 15, 2020	\$141,148,045 (c)

Gross Direct Debt Outstanding.....	\$13,690,000 (d)
Estimated Overlapping Debt	<u>4,601,027</u>
Total Gross Direct Debt and Estimated Overlapping Debt.....	\$18,291,027

Ratios of Gross Direct Debt to:

2020 Preliminary Taxable Assessed Valuation.....	10.69%
Estimate of Taxable Assessed Valuation as of May 15, 2020.....	9.70%

Ratios of Gross Direct and Estimated Overlapping Debt to:

2020 Preliminary Taxable Assessed Valuation.....	14.28%
Estimate of Taxable Assessed Valuation as of May 15, 2020.....	12.96%

2019 Debt Service Tax Rate	\$0.51
2019 Maintenance Tax Rate	<u>0.39</u>
Total	\$0.90

Average Annual Debt Service Requirement (2021-2044).....	\$812,611 (e)
Maximum Annual Debt Service Requirement (2041)	\$871,694 (e)

Tax Rate Required to Pay Average Annual Debt Service (2021-2044) at a 95% Collection Rate

Based upon 2020 Preliminary Taxable Assessed Valuation	\$0.67
Based upon Estimate of Taxable Assessed Valuation as of May 15, 2020	\$0.61

Tax Rate Required to Pay Maximum Annual Debt Service (2041) at a 95% Collection Rate

Based upon 2020 Preliminary Taxable Assessed Valuation	\$0.72
Based upon Estimate of Taxable Assessed Valuation as of May 15, 2020	\$0.66

Status of Development as of May 4, 2020 (f):

Single family - occupied	439
Single family – unoccupied.....	2
Builder connections (43 homes under contract and 23 homes are not sold)	71
Other.....	16

Estimated 2020 Population..... 1,537 (g)

- (a) As certified by the Montgomery Central Appraisal District (the “Appraisal District”). See “TAX PROCEDURES.”
- (b) Provided by the Appraisal District as a preliminary indication of the 2020 taxable value (as of January 1, 2020). Such amount is subject to review and downward adjustment prior to certification. No tax will be levied on such amount until it is certified in the fall of 2020. See “TAX PROCEDURES.”
- (c) Provided by the Appraisal District for informational purposes only. Such amounts reflect an estimate of the taxable appraised value within the District on May 15, 2020. No tax will be levied on such amount. Taxes are levied on taxable value certified by the Appraisal District as of January 1 of each year. See “TAX PROCEDURES.”
- (d) After giving effect to issuance of the Bonds. See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds.”
- (e) See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements.”
- (f) See “THE DISTRICT—Land Use” and “Status of Development.”
- (g) Based upon 3.5 persons per occupied single-family residence.

PRELIMINARY OFFICIAL STATEMENT

\$6,625,000

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126

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

UNLIMITED TAX BONDS

SERIES 2020

This Official Statement provides certain information in connection with the issuance by Montgomery County Municipal Utility District No. 126 (the “District”) of its \$6,625,000 Unlimited Tax Bonds, Series 2020 (the “Bonds”).

The Bonds are issued pursuant to the Article XVI, Section 59 of the Texas Constitution, the general laws of the State of Texas, including, without limitation, Chapters 49 and 54 of the Texas Water Code, as amended, an order authorizing the issuance of the Bonds (the “Bond Order”) adopted by the Board of Directors of the District (the “Board”), an order of the Texas Commission on Environmental Quality (the “TCEQ” or “Commission”) and an election held within the District on May 9, 2009.

This Official Statement includes descriptions, among others, of the Bonds and the Bond Order, and certain other information about the District, D.R. Horton – Texas Ltd. (the “Developer”) and development activity in the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of certain of the documents may be obtained from Schwartz, Page & Harding, L.L.P., Bond Counsel, 1300 Post Oak Boulevard, Suite 1400, Houston, Texas 77056, upon payment of duplication costs therefor.

THE BONDS

General

The following is a description of some of the terms and conditions of the Bonds, which description is qualified in its entirety by reference to the Bond Order, a copy of which is available from Bond Counsel upon payment of the costs of duplication therefor. The Bond Order authorizes the issuance and sale of the Bonds and prescribes the terms, conditions and provisions for the payment of the principal of and interest on the Bonds by the District.

Description

The Bonds will be dated August 1, 2020, with interest payable on March 1, 2021 (seven months of interest), and on each September 1 and March 1 thereafter (each an “Interest Payment Date”) until the earlier of maturity or redemption. Interest on the Bonds initially accrues from August 1, 2020, and thereafter, from the most recent Interest Payment Date. The Bonds mature on September 1 in each of the years and in the principal amounts shown under “MATURITIES PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS” on the cover page hereof. The Bonds are issued in fully registered form only in denominations of \$5,000 or any integral multiple of \$5,000 for any one maturity. The Bonds will be registered and delivered only to The Depository Trust Company, New York, New York (“DTC”), in its nominee name of Cede & Co., pursuant to the book-entry system described herein (“Registered Owners”). No physical delivery of the Bonds will be made to the purchasers thereof. See “BOOK-ENTRY-ONLY SYSTEM.” Interest calculations are based upon a three hundred sixty (360) day year comprised of twelve (12) thirty (30) day months.

Authority for Issuance

At an election held within the District on May 9, 2009, voters of the District authorized a total of \$41,320,000 in principal amount of unlimited tax bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities. The Bonds constitute the second issuance of bonds from such authorization. After the issuance of the Bonds, a total of \$30,520,000 in principal amount of unlimited tax bonds for water, sanitary sewer and drainage facilities will remain authorized but unissued. The Bonds are issued by the District pursuant to the terms and provisions of the Bond Order; Article XVI, Section 59 of the Texas Constitution; Chapters 49 and 54 of the Texas Water Code, as amended; and an order of the TCEQ dated June 8, 2020.

Source and Security for Payment

The Bonds, together with the Outstanding Bonds and any additional bonds payable from ad valorem taxes, are secured by and payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property located within the District. See "TAX PROCEDURES." Investment in the Bonds involves certain elements of risk, and all prospective purchasers are urged to examine carefully this Official Statement with respect to the investment security of the Bonds. See "INVESTMENT CONSIDERATIONS." The Bonds are obligations solely of the District and are not obligations of the City of Conroe, Montgomery County, the State of Texas, or any political subdivision or entity other than the District.

Funds

The Bond Order confirms the prior creation of the District's Bond Fund, including the sub-accounts which are used to separate funds received to pay debt service on bonds issued to finance water, wastewater, and storm drainage ("WSD Bonds") from funds received to pay debt service on bonds issued to finance road facilities ("Road Bonds"). The Bond Order also confirms the District's Construction Fund, including the sub-accounts which are used to separate proceeds from WSD Bonds and Road Bonds. Accrued interest on the Bonds plus an amount equal to twelve (12) months of interest on the Bonds will be deposited from the proceeds from sale of the Bonds into the sub-account of the Bond Fund created in respect of WSD Bonds. All remaining proceeds of the Bonds will be deposited in the sub-account of the Construction Fund created in respect of WSD Bonds.

The proceeds from all taxes levied, appraised and collected for and on account of the Bonds authorized by the Bond Order shall be deposited, as collected, into the sub-account of the Bond Fund created in respect of WSD Bonds. The Bond Fund, which constitutes a trust fund for the benefit of the owners of the Outstanding Bonds, the Bonds and any additional tax bonds issued by the District, is to be kept separate from all other funds of the District, and funds in the sub-accounts created in respect of WSD Bonds are to be used for payment of debt service on the Bonds and any of the District's duly authorized WSD Bonds, whether heretofore, hereunder, or hereafter issued, payable in whole or part from taxes. Amounts on deposit in the sub-accounts of the Bond Fund created in respect of WSD Bonds may also be used to pay the fees and expenses of the Paying Agent/Registrar, to defray the expenses of assessing and collecting taxes levied for payment of interest on and principal of the Bonds and any of the Districts duly authorized WSD Bonds, whether heretofore, hereunder, or hereafter issued, payable in whole or in part from taxes, and to pay any tax anticipation notes issued in respect of debt service due to or become due on WSD Bonds, together with interest thereon, as such tax anticipation notes become due. Funds otherwise on deposit in the Bond Fund, including funds in a sub-account created in respect of Road Bonds, will not be allocated to the payment of the Bonds.

Record Date

The record date for payment of the interest on any regularly scheduled interest payment date is defined as the 15th day of the month (whether or not a business day) preceding such interest payment date.

Redemption Provisions

The District reserves the right, at its option, to redeem the Bonds maturing on and 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 equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption. If fewer than all of the Bonds are to be redeemed, the particular maturity or maturities and the amounts thereof to be redeemed shall be determined by the District. If fewer than all of the Bonds of the same maturity are to be redeemed, the particular Bonds shall be selected by DTC in accordance with its procedures. See "BOOK-ENTRY-ONLY SYSTEM." Notice of each exercise of the reserved right of optional redemption shall be given by the Paying Agent/Registrar at least thirty (30) calendar days prior to the redemption date, in the manner specified in the Bond Order.

By the redemption date, due provision shall be made with the Paying Agent/Registrar for payment of the principal of the Bonds or portions thereof to be redeemed, plus accrued interest to the redemption date. 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.

Method of Payment of Principal and Interest

The Board has appointed The Bank of New York Mellon Trust Company, N.A., having its principal corporate trust office and its principal payment office in Dallas, Texas, as the initial Paying Agent/Registrar for the Bonds. The principal of and interest on the Bonds shall be paid to DTC, which will make distribution of the amounts so paid. See "BOOK-ENTRY-ONLY SYSTEM."

Registration

Section 149(a) of the Internal Revenue Code of 1986, as amended, requires that all tax-exempt obligations (with certain exceptions that do not include the Bonds) be in registered form in order for the interest payable on such obligations to be excludable from a Beneficial Owner's income for federal income tax purposes. The Bonds will be issued as fully- registered securities registered in the name of Cede & Co. pursuant to the Book-Entry-Only System described herein. One fully-registered Bond will be issued for each maturity of the Bonds and will be deposited with DTC. See "BOOK- ENTRY-ONLY SYSTEM." So long as any Bonds remain outstanding, the District will maintain at least one paying agent/registrars in the State of Texas for the purpose of maintaining the Register on behalf of the District.

Replacement of Paying Agent/Registrar

Provision is made in the Bond Order for replacement of the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, the new paying agent/registrars shall be required to accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any paying agent/registrars selected by the District shall be a duly qualified and competent trust or banking corporation or organization organized and doing business under the laws of the United States of America or of any State thereof, with a combined capital and surplus of at least \$25,000,000, which is subject to supervision of or examination by federal or state banking authorities, and which is a transfer agent duly registered with the United States Securities and Exchange Commission.

Legal Investment and Eligibility to Secure Public Funds in Texas

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

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

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

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

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

Issuance of Additional Debt

The District's voters have authorized the issuance of a total of \$41,320,000 unlimited tax bonds for the purpose of acquiring or constructing water, sanitary sewer and storm drainage facilities and could authorize additional amounts. Following the issuance of the Bonds, the District will have \$30,520,000 of unlimited tax bonds authorized but unissued for said improvements and facilities authorized but unissued. The District's voters have also authorized the issuance of a total of \$6,000,000 unlimited tax bonds for the purpose of acquiring or constructing road facilities and could authorize additional amounts. The District currently has \$2,940,000 unlimited tax bonds authorized but unissued for said road facilities. The District's voters have also authorized a total of \$51,420,000 of unlimited tax refunding bonds for the purpose of refunding outstanding bonds of the District and could authorize additional amounts. The District currently has \$51,420,000 unlimited tax refunding bonds authorized but unissued. The District's voters have also authorized issuance of a total of \$4,100,000 unlimited tax bonds for the purpose of acquiring or constructing recreational facilities and could authorize additional amounts. See "Financing Recreational Facilities" below.

The Bond Order imposes no limitation on the amount of additional parity bonds which may be authorized for issuance by the District's voters or the amount ultimately issued by the District.

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

Financing Road Facilities

Pursuant to the provisions of the Texas Constitution and Chapter 54 Texas Water Code, as amended, conservation and reclamation districts created pursuant to said Chapter 54 are authorized to develop and finance with property taxes certain road facilities following the granting of road powers by the TCEQ and a successful District election to approve the issuance of road bonds payable from taxes. The TCEQ granted road powers to the District and at an election held within the District on May 9, 2009, voters of the District authorized a total of \$6,000,000 unlimited tax bonds for financing and constructing road facilities. The District has issued \$3,060,000 in road bonds from said authorization and could issue additional amounts. See “—Issuance of Additional Debt” herein and “INVESTMENT CONSIDERATIONS—Future Debt.”

Financing Recreational Facilities

Conservation and reclamation districts in certain counties are authorized to develop and finance with property taxes certain recreational facilities after a district election has been successfully held to approve the issuance of bonds payable from taxes and/or a maintenance tax to support recreational facilities.

The District is authorized to issue bonds payable from an ad valorem tax to pay for the development and maintenance of recreational facilities if (i) the District duly adopts a plan for the facilities; (ii) the bonds are authorized at an election; (iii) the bonds payable from any source do not exceed 1% of the value of the taxable property in the District at the time of issuance of the bonds, or an amount greater than the estimated cost of the plan, whichever amount is smaller; (iv) the District obtains any necessary governmental consents allowing the issuance of such bonds; (v) the issuance of the bonds is approved by the TCEQ in accordance with its rules with respect to same; and (vi) the bonds are approved by the Attorney General of Texas. The District may issue bonds for such purposes payable solely from net operating revenues without an election. In addition, the District is authorized to levy an operation and maintenance tax to support recreational facilities at a rate not to exceed 10 cents per \$100 of assessed valuation of taxable property in the District, after such tax is approved at an election. Said maintenance tax is in addition to any other maintenance tax authorized to be levied by the District.

At an election held within the District on May 9, 2009, voters of the District authorized a total of \$4,100,000 unlimited tax bonds for the purpose of acquiring or constructing recreational facilities and could authorize additional amounts.

Issuance of bonds for recreational facilities could dilute the investment security for the Bonds.

Abolishment

Under Texas law, the District may be abolished and dissolved by the City of Conroe (the “City”) without the District’s consent. If the District is abolished, the City will assume the District’s assets and obligations (including the Bonds) and abolish the District within ninety (90) days thereafter. Prior to abolishment and dissolution by the City, the District shall have the opportunity to discharge any obligations of the District by selling its bonds or by causing the City to sell bonds of the City in an amount necessary to discharge such obligations. Abolishment of the District by the City is a policymaking matter within the discretion of the Mayor and the City Council of the City, and, therefore, the District makes no representation that abolishment will or will not occur. Moreover, no representation is made concerning the ability of the City to make debt service payments should abolishment occur. See “UTILITY AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF CONROE” for a discussion of certain limitations on the City’s right to abolish 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 water and wastewater systems with the water and wastewater systems of the district or districts with which it is consolidating, subject to voter approval. In their consolidation agreement, the consolidating districts may agree to assume each other’s bonds, notes and other obligations. If each district assumes the other’s bonds, notes and other obligations, taxes may be levied uniformly on all taxable property within the consolidated district in payment of same. If the districts do not assume each other’s bonds, notes and other obligations, each district’s taxes are levied on property in each of the original districts to pay said debts created by the respective original district as if no consolidation had taken place. No representation is made concerning whether the District will consolidate with any other district, but the District currently has no plans to do so.

Remedies in Event of Default

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Order, or defaults in the observance or performance of any other covenants, conditions, or obligations set forth in the Bond Order, the Registered Owners have the right to seek a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Order. Except for mandamus, the Bond Order does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners. Certain traditional legal remedies may also not be available. See “INVESTMENT CONSIDERATIONS—Registered Owners' Remedies.”

Defeasance

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

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

There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Bond Order does not contractually limit such investments, Registered Owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under Texas law.

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company, New York, New York, (“DTC”) while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book- Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District and the Financial Advisor believe the source of such information to be reliable, but neither of the District or the Financial Advisor take any responsibility for the accuracy or completeness thereof.

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

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

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.6 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 of “AA+” from S&P Global Ratings, a division of S&P Global, Inc.. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to

augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

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

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

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

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

USE AND DISTRIBUTION OF BOND PROCEEDS

The construction costs were compiled by Edminster, Hinshaw, Russ & Associates, Inc., the District's engineer (the "Engineer"), based on the estimated cost of facilities and were submitted to the TCEQ in the District's bond application. Non-construction costs are based upon either contract amounts, or estimates of various costs by the Engineer and the District's financial advisor, Masterson Advisors LLC (the "Financial Advisor"), at the time the District's bond application was filed with the TCEQ. Surplus funds, if any, may be expended for any lawful purpose for which surplus construction funds may be used. Certain uses of surplus funds require TCEQ approval.

Proceeds from the Bonds will be used to fund construction expenses for clearing and grubbing to serve Water Crest, Section 5, and construction and engineering expenses for water, sanitary sewer and drainage facilities to serve: (1) Water Crest, Section 3, (2) Water Crest, Section 4, (3) Water Crest, Section 5, (4) Water Crest, Section 7, and (5) Water Crest, Section 13. Bond proceeds will also be used to capitalize twelve (12) months of interest to pay for certain geotechnical investigation reports and to pay operating costs and certain costs associated with the issuance of the Bonds.

CONSTRUCTION RELATED COSTS

Construction Costs Approved by the TCEQ.....	\$ 4,603,759
Total Construction Related Costs	\$ 4,603,759

NON-CONSTRUCTION COSTS

Underwriter's Discount (estimated at 3%)	\$ 198,750
Capitalized Interest (estimated 12 months at 4.50%)	298,125
Developer Interest.....	838,595
Operating Costs.....	262,500
Total Non-Construction Related Costs	\$ 1,597,970

ISSUANCE COSTS AND FEES

Issuance Costs and Professional Fees	\$ 353,052
Bond Application Report Costs.....	47,031
State Regulatory Fees	23,188
Total Issuance Costs and Fees	\$ 423,271

TOTAL BOND ISSUE	\$ 6,625,000
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In the instance that TCEQ-approved estimated amounts exceed actual costs, the difference comprises a surplus which may be expended for uses approved under the rules of the TCEQ. In the instance that actual costs exceed previously approved estimated amounts and contingencies, additional TCEQ approval and the issuance of additional bonds may be required.

THE DISTRICT

General

The District is a municipal utility district created by an order of the Texas Commission on Environmental Quality (the "Commission" or "TCEQ"), dated November 20, 2008. The District operates under the provisions of Chapters 49 and 54 of the Texas Water Code, as amended, and other general statutes of Texas applicable to municipal utility districts. The District, which lies wholly within the corporate limits of the City, is subject to the continuing supervisory jurisdiction of the TCEQ.

The District is empowered, among other things, to finance, purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation and treatment of wastewater; and the control and diversion of storm water. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District may also provide solid waste disposal and collection services. The District is also empowered to establish, operate and maintain fire-fighting facilities, separately or jointly with one or more conservation and reclamation districts, municipalities or other political subdivisions, after approval by the TCEQ and the voters of the District. Additionally, the District may, subject to certain limitations, develop and finance recreational facilities and may also, subject to the granting of road powers by the TCEQ and certain limitations, develop and finance roads. See "THE BONDS—Authority for Issuance—Issuance of Additional Debt," "—Financing Recreational Facilities," and "—Financing Road Facilities."

Construction and operation of the District's storm drainage system is subject to the regulatory jurisdiction of additional State of Texas and local agencies. See "THE SYSTEM."

Description and Location

The District currently consists of approximately 330 acres of land in south Montgomery County. The District is located approximately 25 miles north of the central downtown business district of the City of Houston and lies wholly within the corporate limits of the City of Conroe and within the boundaries of the Willis Independent School District. The District is bounded on the north by League Line Road, on the east by Longmire Drive, and the west by Lake Conroe. See "AERIAL PHOTOGRAPH."

Land Use

The District currently includes approximately 186 developed acres of single-family residential development (670 lots), approximately 24 acres of single-family residential development (100 lots) served with utilities with paving expected to be completed by September 2020, approximately 23 acres for recreational facilities, approximately 43 undevelopable acres (storm drainage facilities, street right-of-way, open space and undevelopable reserves), approximately 2 acres owned by City of Conroe for a fire station, and approximately 52 developable acres that have not been provided with water, sanitary sewer and storm drainage facilities. The table below represents a detailed breakdown of the current acreage and development in the District.

<u>Single-Family Residential</u>	Approximate <u>Acres</u>	<u>Lots</u>
Water Crest on Lake Conroe:		
Section 1.....	23	107
Section 2.....	14	51
Section 3.....	12	31
Section 4.....	19	28
Section 5.....	16	67
Section 7.....	15	22
Section 8.....	11	45
Section 9.....	16	77
Section 10.....	26	95
Section 11.....	4	14
Section 13.....	20	96
Section 14.....	10	37
Section 15 (a).....	<u>24</u>	<u>100</u>
Subtotal.....	210	770
<i>Recreational Facilities (b)</i>	23	---
<i>Fire Station Site (c)</i>	2	---
<i>Future Development</i>	52	---
<i>Non-Developable (d)</i>	<u>43</u>	<u>---</u>
	330	770

- (a) Utilities have been constructed and paving is expected to be completed by September 2020.
 (b) Includes recreation center on approximately 4 acres.
 (c) Owned by City of Conroe for future fire station.
 (d) Includes detention and storm drainage facilities, street right-of-way, open space and undevelopable reserves.

Status of Development

Single-Family Residential: The development in the District is being marketed as Water Crest on Lake Conroe. As of May 4, 2020, the District consisted of 441 completed homes (439 occupied), 71 homes under construction (43 homes under contract and 23 homes are not sold), and 158 vacant developed lots. Homes in the District have an average sales price of approximately \$260,000. As of May 4, 2020, the estimated population in the District based upon 3.5 persons per occupied single-family residence was 1,537. In addition, there are approximately 23 acres within the District for recreational facilities, including approximately 4 acres upon which a recreation center has been constructed which includes a playground, two pools and parking lot.

Homebuilding: The sole homebuilder in the District is D.R. Horton, who is the Developer.

Future Development

The District is planned as a primarily residential development. Approximately 52 developable acres of land in the District are not yet served with water distribution, sanitary sewer collection and treatment or storm drainage facilities necessary for the construction of taxable improvements. While the District anticipates future development of this acreage, there can be no assurances given as to whether or when any of such undeveloped land will ultimately be developed. The District anticipates issuing additional bonds to accomplish full development of the District. See “INVESTMENT CONSIDERATIONS— Future Debt.” The Engineer has stated that under current development plans, the remaining authorized but unissued bonds after issuance of the Bonds (\$30,520,000) should be sufficient to finance the construction of water, sanitary sewer, storm drainage, recreational and road facilities to complete development of the District.

UTILITY AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF CONROE

The District operates pursuant to a Utility Services and Development Agreement between the City and David B. Hendricks and Houston Intercontinental Trade Center, L.P., on behalf of the proposed District, dated as of March 13, 2008, as assigned to the District on March 30, 2011, and supplemented on November 8, 2012 (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 City agreed to extend water distribution and wastewater collection lines to the District’s boundary and provide sufficient water supply and wastewater treatment plant capacity to serve the District at full development, and the District assumed responsibility for acquiring and constructing the water distribution, wastewater collection and drainage facilities to serve development occurring within the boundaries of the District (the “Facilities”).

The Utility Agreement provides that the Facilities shall be designed and constructed in accordance with the requirements and criteria of the City and all applicable regulatory authorities. The City agrees to provide the District with its ultimate requirements for water supply capacity as needed and when required by the District without capital charges of any kind. The City represents that it has sufficient capacity in the City’s wastewater treatment plant to serve the development of the District as needed and when required by the District and that it shall provide these services to the District when needed. The City agrees to make any necessary improvements to its wastewater treatment plant, at no cost to the District, if at any time it does not have sufficient capacity to serve the development in the District.

The District is currently a wholesale water customer of the City, and it is the District’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. All revenues from the Facilities belong exclusively to the District.

Under certain circumstances, the City has the right to require that all existing Facilities be conveyed to the City and that any new Facilities to be acquired or constructed to serve the District be conveyed to the City, reserving a security interest therein in favor of the District for the purpose of securing the performance of the City under the Utility Agreement. Upon conveyance of the Facilities to the City, the Facilities shall be operated, maintained and managed by the City at its sole cost and expense.

Under the Utility Agreement, the District is authorized to issue bonds to finance the construction and acquisition of the Facilities, parks and recreational facilities, and eligible road facilities and related appurtenances. Before the District is authorized to issue bonds, the District must provide the City with a copy of a TCEQ order authorizing issuance of such bonds, if applicable, 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 \$0.90 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 District must also provide the City with a copy of the applicable preliminary official statement and draft bond order before issuing bonds.

Bonds issued by the District must provide that the District reserves the right to redeem the bonds on any interest payment date subsequent to the fifteenth anniversary of the date of issuance without premium and may be sold only after the taking of public bids. Such bonds, other than refunding bonds, may not be sold for less than 95% of par; provided, however, that the net effective interest rate on such bonds, taking into account any discount or premium as well as the interest rate borne by such bonds, will not exceed 2% above the highest average interest rate reported by the Daily Bond Buyer in its weekly “20 Bond Index” during the one-month period next preceding the date notice of the sale of such bonds is given, and that bids for the Bonds will be received not more than 45 days after notice of sale of the Bonds is given. Bonds issued by the District may not have a maturity of more than 25 years and may not provide for more than 18 months of capitalized interest, unless required by the rules of the TCEQ.

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 storm 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 storm drainage facilities, which it may increase or decrease over time. The annual rebate payment is to be deposited in the District's debt service fund. During the fiscal year ended July 31, 2019, the District recorded revenue in the amount of \$4,688 per the Utility Agreement.

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. The term of the Utility Agreement expires upon the earlier of the dissolution of the District by the City or the expiration of 40 years from the date the Bonds are issued.

THE DEVELOPER

Role of a Developer

In general, the activities of a landowner or developer in a municipal utility district such as the District include designing the project, defining a marketing program and setting building schedules; securing necessary governmental approvals and permits for development; arranging for the construction of streets and the installation of utilities; and selling or leasing improved tracts or commercial reserves to other developers or third parties. While a developer is required by the TCEQ to pave streets in areas being financed with bond proceeds, 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.

D. R. Horton - Texas, Ltd.

The developer of the land within the District is D.R. Horton - Texas, Ltd. (the "Developer"), a Texas limited partnership. The Developer is wholly owned by D.R. Horton, Inc. ("D.R. Horton"), a Delaware corporation and publicly held company, the stock of which is listed on the New York Stock Exchange under the ticker symbol "DHL."

D.R. Horton is subject to the information requirements of the Securities and Exchange Act of 1934, as amended, and in accordance therewith files reports and other information with the Securities and Exchange Commission ("SEC"). Reports, proxy statements and other information filed by D.R. Horton can be inspected at the office of the SEC at Judiciary Plaza, Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the Regional Office of the SEC located at Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511. Copies of such material can be obtained from the Public Reference Section of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. Copies of the above reports, proxy statements and other information may also be inspected at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005. The SEC maintains a World Wide Web site on the Internet at <http://www.sec.gov> that contains reports, proxy information statements and other information regarding registrants that file electronically with the SEC.

In addition, D.R. Horton makes available on its web site <http://www.drhorton.com> its annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K (and any amendments to those reports) filed pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as soon as practicable after they have electronically filed with the SEC as well as other financial institutions. Unless otherwise specified, information contained on D.R. Horton's website, available by hyperlink from D.R. Horton's website or on the SEC's website, is not incorporated into this Official Statement.

Neither the Developer, D.R. Horton nor any affiliates of D.R. Horton are responsible for, liable for, or has made any commitment for payment of the Bonds or other obligations of the District. Neither the Developer, D.R. Horton, nor any affiliates of D.R. Horton have any legal commitment to the District or the holders of the Bonds to continue development of the land within the District, and the Developer may sell or otherwise dispose of property within the District, or any assets, at any time. Further, the financial condition of the Developer and D.R. Horton is subject to change, and financial information concerning such entities will not be provided by the District after the sale of the Bonds.

Development Financing

All funds required by the Developer for development activities are provided by D.R. Horton, affiliates of D.R. Horton, or from lot sales. The Developer's ability to continue development within the District is dependent in part on its continued receipt of funds from D.R. Horton or affiliates of D.R. Horton. Neither D.R. Horton nor such affiliates are legally obligated to continuing providing funds for the development of the District, to provide funds to pay taxes on property in the District owned by the Developer, or to pay any other obligations of the Developer.

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 staggered terms and elections are held in May in even numbered years. None of the Board members reside in the District; however, each of the Board members owns land within the District subject to a deed of trust in favor of the Developer. The current members and officers of the Board, along with their titles and terms, are listed as follows:

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
James D. Poole	President	May 2024
Irving A. Wolf	Vice President	May 2022
Adam Soffar	Secretary	May 2024
Dan Dominey	Asst. Secretary	May 2022
Henry Paul Herridge	Asst. Secretary	May 2024

The District has no full-time employees but instead contracts with the entities described below for professional services:

Tax Assessor/Collector

Land and improvements in the District are being appraised for taxation by the Montgomery Central Appraisal District. The District contracts with Assessments of the Southwest to act as Tax Assessor/Collector for the District.

System Operator

The operator of the District's water, wastewater and storm sewer systems is Municipal Operations & Consulting, Inc.

Bookkeeper

The District contracts with Municipal Accounts & Consulting, L.P. (the "Bookkeeper") for bookkeeping services for the District.

Engineer

The District's consulting engineer is Edminster, Hinshaw, Russ & Associates, Inc. (the "Engineer").

Auditor

As required by the Texas Water Code, the District retains an independent auditor to audit the District's financial statements annually, which annual audit is filed with the TCEQ. The District's financial statements for the year ended July 31, 2019, were audited by McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountants. The District has engaged McCall Gibson Swedlund Barfoot PLLC to audit its financial statements for the period ending July 31, 2020. See "APPENDIX A" for a copy of the District's July 31, 2019, financial statements.

Bond Counsel and General Counsel

Schwartz, Page & Harding, L.L.P. ("Bond Counsel") serves as bond counsel to the District. The fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. In addition, Schwartz, Page & Harding, L.L.P. serves as general counsel to the District on matters other than the issuance of bonds.

Disclosure Counsel

The District has engaged McCall, Parkhurst & Horton, L.L.P. as disclosure counsel ("Disclosure Counsel"). The fees paid to Disclosure Counsel in connection with the issuance of the Bonds are contingent upon the sale and delivery of the Bonds.

Financial Advisor

Masterson Advisors LLC (the "Financial Advisor") serves as financial advisor to the District. The fee to be paid the Financial Advisor is contingent upon the sale and delivery of the Bonds.

THE ROADS

Two major collector streets, Crest Royale Parkway and Forest Crest Parkway, currently exist within the District's boundaries. Both roadways meet City of Conroe criteria for collector roadway designation. Crest Royale Parkway and Forest Crest Parkway have been accepted by the City of Conroe.

These roads lie within the public right-of-way. In addition to the roadway, public utilities such as underground water, sewer and storm drainage facilities are also located within the right-of-way. The right-of-way is also shared by streetlights, sidewalks and franchise utilities (power, gas, telephone and cable).

All roadways are designed and constructed in accordance with City standards, rules and regulations. Upon acceptance of roadway facilities, the City will be responsible for operation and maintenance thereof.

THE SYSTEM

Regulation

Construction and operation of the District's water, sanitary sewer and storm drainage system (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 and the City. 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 Agreement. See "UTILITY AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF CONROE." The City has committed to provide water supply and wastewater capacity to the District adequate to serve the proposed development in 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 is constructing 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 670 lots in Water Crest, Sections 1 through 5, 7 through 11, and 13 through 14. The water distribution, wastewater collection and storm drainage facilities have been constructed to serve 100 lots in Water Crest, Section 15 will be completed in September 2020. Water distribution and sanitary sewer collection systems are owned, maintained and operated by the District. See “THE DISTRICT—Land Use.”

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 rainstorm of such intensity to statistically have a one percent chance of occurring in any given year. Generally speaking, homes must be built above the 100-year flood plain in order to meet local regulatory requirements and to be eligible for federal flood insurance. An engineering or regulatory determination that an area is above the 100-year flood plain is not an assurance that homes built in such area will not be flooded, and a number of neighborhoods in the greater Houston area that are above the 100-year flood plain have flooded multiple times in the last several years. According to the Engineer, there is currently one acre of land within the District officially within the 100-year flood plain. Such acre will not be developed. See “INVESTMENT CONSIDERATIONS—Recent Extreme Weather Events; Hurricane Harvey.”

The National Weather Service recently completed a rainfall study known as NOAA Atlas 14, Volume 11 Participation-Frequency Atlas of the United States (“Atlas 14”). Floodplain boundaries within the District may be redrawn based on the Atlas 14 study based on a higher statistical rainfall amount, resulting in the application of more stringent floodplain regulations applying to a larger area and potentially leaving less developable property within the District. The application of 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.

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FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)

2019 Certified Taxable Assessed Valuation	\$91,313,212	(a)
2020 Preliminary Taxable Assessed Valuation	\$128,048,116	(b)
Estimated Taxable Assessed Valuation as of May 15, 2020	\$141,148,045	(c)

Gross Direct Debt Outstanding (the Bonds and the Outstanding Bonds) \$13,690,000

Ratios of Gross Direct Debt to:

2020 Preliminary Taxable Assessed Valuation	10.69%
Estimated Taxable Assessed Valuation as of May 15, 2020	9.70%

- (a) As certified by the Montgomery Central Appraisal District (the "Appraisal District"). See "TAX PROCEDURES."
- (b) Provided by the Appraisal District as a preliminary indication of the 2020 taxable value (as of January 1, 2020). Such amount is subject to review and downward adjustment prior to certification. No tax will be levied on such amount until it is certified in the fall of 2020. See "TAX PROCEDURES."
- (c) Provided by the Appraisal District for informational purposes only. Such amounts reflect an estimate of the taxable appraised value within the District on May 15, 2020. No tax will be levied on such amount. Taxes are levied on taxable value certified by the Appraisal District as of January 1 of each year. See "TAX PROCEDURES."

Cash and Investment Balances (unaudited as of June 11, 2020)

General Fund	Cash and Temporary Investments	\$720,618	
Water, Sewer and Drainage Capital Projects Fund	Cash and Temporary Investments	\$389,401	
Water, Sewer and Drainage Bond Fund	Cash and Temporary Investments	\$374,120	(a)(b)
Road Bond Fund	Cash and Temporary Investments	\$274,779	(a)
Road Capital Projects Fund	Cash and Temporary Investments	\$96,978	

- (a) The District will capitalize twelve (12) months of interest on the Bonds, which will be deposited to the Water, Sewer and Drainage Debt Service Fund. Neither Texas law nor the Bond Order requires the District to maintain any minimum balance in the Debt Service Funds. Although all of the District's debt, including the Outstanding Bonds and the Bonds, is payable from an unlimited tax pledge on parity, a pro rata portion of the District's ad valorem tax revenue will be allocated to bonds sold for road facilities (the "Road Bonds"), and a portion will be allocated to bonds sold for water, sewer and drainage facilities including the Bonds (the "WSD Bonds"). See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds." The Road Bond Fund is not pledged to the WSD Bonds and the WSD&R Bond Fund is not pledged to the Road Bonds.
- (b) Includes approximately \$15,797 collected from the City rebate. See "UTILITY AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF CONROE."

Investments of the District

The District has adopted an Investment Policy as required by the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended. 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 owning, long term securities or derivative products in the District's investment portfolio.

Outstanding Bonds (as of June 1, 2020)

Series	Original Principal Amount	Outstanding Bonds (as of 6/1/2020)
2016 (a)	\$ 3,060,000	\$ 2,890,000
2019	4,175,000	4,175,000
Total		\$ 7,065,000

- (a) Unlimited tax road bonds.

ESTIMATED OVERLAPPING DEBT STATEMENT

Estimated Overlapping Debt

Other governmental entities whose boundaries overlap the District have outstanding bonds payable from ad valorem taxes. The following statement of direct and estimated overlapping ad valorem tax debt was developed from information contained in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas or other publicly available information. Except for the amount relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person is entitled to rely upon such information as being accurate or complete. Political subdivisions overlapping the District are authorized by Texas law to levy and collect ad valorem taxes for operation, maintenance, and/or general revenue purposes in addition to taxes for payment of their debt, and some are presently levying and collecting such taxes.

Taxing Jurisdiction	Outstanding Bonds	As of	Overlapping	
			Percent	Amount
Montgomery County.....	\$ 509,380,000	4/30/2020	0.09%	\$ 458,442
City of Conroe.....	327,340,000	4/30/2020	0.61%	1,996,774
Willis Independent School District.....	141,038,989	4/30/2020	1.40%	1,974,546
Lone Star College System.....	570,885,000	4/30/2020	0.03%	171,266
Total Estimated Overlapping Debt.....				\$ 4,601,027
The District.....	13,690,000 (a)	Current	100.00%	13,690,000
Total Direct and Estimated Overlapping Debt.....				\$ 18,291,027
Ratio of Estimated Direct and Overlapping Debt to 2020 Preliminary Taxable Assessed Valuation.....				14.28%
Ratio of Estimated Direct and Overlapping Debt to May 15, 2020 Estimated Taxable Assessed Valuation.....				12.96%

(a) Includes the Bonds and the Outstanding Bonds.

Overlapping Taxes for 2019

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, 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 overlapping the District and the 2019 tax rate of 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.

	2019 Tax Rate per \$100 of Taxable <u>Assessed Valuation</u>
Montgomery County.....	\$ 0.447500
Montgomery County Hospital District.....	0.058900
Willis Independent School District.....	1.270000
Lone Star Community College System.....	0.107800
City of Conroe.....	<u>0.437500</u>
Total Overlapping Tax Rate.....	\$ 2.321700
The District	<u>0.900000</u>
Total Tax Rate.....	\$ 3.221700

TAX DATA

Debt Service Tax

The Board covenants in the Bond Order to levy and assess, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax adequate to provide funds to pay the principal of and interest on the Bonds and the Outstanding Bonds. For tax year 2019, the District has levied a tax rate of \$0.51 for debt service. See “Tax Rate Distribution” and “Tax Roll Information” below, and “TAX PROCEDURES” and “INVESTMENT CONSIDERATIONS—Factors Affecting Taxable Values and Tax Payment.”

Maintenance Tax

The Board has the statutory authority to levy and collect an annual ad valorem tax for the operation and maintenance of the District, if such a maintenance tax is authorized by the District’s voters. A maintenance tax election was held on May 9, 2009, and voters of the District authorized, among other things, the Board to levy a maintenance tax at a rate not to exceed \$1.50 per \$100 assessed valuation for general operations and maintenance costs. At the same election, voters authorized the Board to levy a maintenance tax for operations and maintenance costs of recreational facilities at a rate not to exceed \$0.10 per \$100 assessed valuation. The District levied a \$0.39 maintenance and operations tax rate for 2019. It has not levied a maintenance and operations tax for recreational facilities to date. A maintenance tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds. See “Debt Service Tax” above.

Tax Rate Distribution

	2019	2018	2017	2016	2015
Debt Service	\$ 0.510	\$ 0.340	\$ 0.420	\$ 0.460	\$ -
Maintenance and Operations (a)	0.390	0.560	0.480	0.440	0.900
Total	\$ 0.900	\$ 0.900	\$ 0.900	\$ 0.900	\$ 0.900

(a) See “INVESTMENT CONSIDERATIONS—District Operations.”

Historical Tax Collections

The following statement of tax collections set forth in condensed form the historical tax collection experience of the District. This summary has been prepared for inclusion herein, based upon information from District records. Reference is made to such records for further and more complete information.

Tax Year	Certified Taxable Assessed Valuation	Tax Rate	Total Tax Levy	Total Collections as of May 31, 2020	
				Amount	Percent
2015	\$ 14,622,873	\$0.900	\$ 131,606	\$ 131,606	100.00%
2016	35,013,885	0.900	315,125	315,125	100.00%
2017	45,377,958	0.900	408,402	407,609	99.81%
2018	56,817,263	0.900	511,355	509,557	99.65%
2019	91,313,212	0.900	821,819	808,222	98.35%

Taxes are due upon receipt of bill therefor and become delinquent after January 31 of the following year or 30 days after the date billed, whichever is later, or, if billed after January 10, they are delinquent on the first day of the month next following the 21st day after such taxes are billed. No split payments are allowed and no discounts are allowed.

Principal Taxpayers

The following table represents the principal taxpayers, the type of property, the certified taxable assessed value of such property and such property's certified assessed value as a percentage of the 2019 Certified Taxable Assessed Valuation of \$91,313,212, which represents ownership as of January 1, 2019. Principal taxpayer lists related to the 2020 Preliminary Taxable Assessed Valuation, of \$128,048,116, which is subject to review and downward adjustment prior to certification, and the Estimated Taxable Assessed Valuation as of May 15, 2020 of \$141,148,045 are not available.

<u>Taxpayer</u>	<u>Type of Property</u>	<u>2019 Certified Taxable Assessed Valuation</u>	<u>% of 2019 Certified Taxable Assessed Valuation</u>
DR Horton Texas Ltd. (a)	Land & Improvements	\$ 13,901,950	15.22%
Individual	Land & Improvements	399,920	0.44%
Individual	Land & Improvements	384,070	0.42%
Individual	Land & Improvements	366,820	0.40%
Individual	Land & Improvements	363,000	0.40%
Individual	Land & Improvements	362,450	0.40%
Individual	Land & Improvements	360,750	0.40%
Individual	Land & Improvements	354,760	0.39%
Individual	Land & Improvements	349,750	0.38%
Individual	Land & Improvements	345,500	0.38%
Total		<u>\$ 17,188,970</u>	<u>18.82%</u>

(a) See "THE DEVELOPER."

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 "TAX PROCEDURES—Valuation of Property for Taxation"). The following represents the composition of certified property comprising the 2017 through 2019 Certified Taxable Assessed Valuations. Differences in value from other information herein are due to differences in dates of information provided. Breakdowns of the 2020 Preliminary Taxable Assessed Valuation, which is subject to review and downward revision prior to certification, and the Estimated Taxable Assessed Valuation as of May 15, 2020 are not available.

	<u>2019 Certified Taxable Assessed Valuation</u>	<u>2018 Certified Taxable Assessed Valuation</u>	<u>2017 Certified Taxable Assessed Valuation</u>
Land	\$ 35,343,140	\$ 22,219,750	\$ 20,153,760
Improvements	59,863,070	37,515,520	26,159,980
Personal Property	841,473	599,613	551,626
Exemptions	<u>(4,734,471)</u>	<u>(3,517,620)</u>	<u>(1,487,408)</u>
Total	<u>\$ 91,313,212</u>	<u>\$ 56,817,263</u>	<u>\$ 45,377,958</u>

Tax Adequacy for Debt Service

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 of taxable assessed valuation which would be required to meet average annual and maximum debt service requirements if no growth in the District's tax base occurred beyond the 2020 Preliminary Taxable Assessed Valuation of \$128,048,116 and the Estimated Taxable Assessed Valuation as of May 15, 2020 of \$141,148,045. The calculations contained in the following table merely represent the tax rates required to pay principal and interest on the Bonds and the Outstanding Bonds when due, assuming no further increase or any decrease in taxable assessed 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 "INVESTMENT CONSIDERATIONS—Factors Affecting Taxable Values and Tax Payments."

Average Annual Debt Service Requirement (2021-2044)	\$812,611
\$0.67 Tax Rate on 2020 Preliminary Taxable Assessed Valuation at 95% collections	\$815,026
\$0.61 Tax Rate on Estimated Taxable Assessed Valuation as of May 15, 2020 at 95% collections	\$817,953
Maximum Annual Debt Service Requirement (2041)	\$871,694
\$0.72 Tax Rate on 2020 Preliminary Taxable Assessed Valuation at 95% collections	\$875,849
\$0.66 Tax Rate on Estimated Taxable Assessed Valuation as of May 15, 2020 at 95% collections	\$884,998

No representations or suggestions are made that the 2020 Preliminary Taxable Assessed Valuation, which is subject to review and downward revision prior to certification, or and the estimated values of land and improvements provided by the Appraisal District as of May 15, 2020, for the District will be certified as taxable value by the Appraisal District, and no person should rely upon such amounts or their inclusion herein as assurance of their attainment. See "TAX PROCEDURES."

TAX PROCEDURES

Property Tax Code and County-Wide Appraisal District

The Texas Tax Code (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 a single appraisal district with the responsibility for recording and appraising property for all taxing units within a county and a single appraisal review board with the 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 wholly within Montgomery County, including the District. Such appraisal values are subject to review and change by the Montgomery County Appraisal Review Board (the "Appraisal Review Board"). Under certain circumstances, taxpayers and taxing units (such as the District) may appeal the orders of the Appraisal Review Board by filing a 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. Absent any such appeal, the appraisal roll, as prepared by the Appraisal District and approved by the Appraisal Review Board, must be used by each taxing jurisdiction in establishing its tax roll and tax rate. The District is eligible, along with all other conservation and reclamation districts within Montgomery County, to participate in the nomination of and vote for a member of the Board of Directors of the Appraisal District

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property and tangible personal property in the District is subject to taxation by the District; however, it is expected that no effort will be made by the District to collect taxes on personal property other than on personal property rendered for taxation, business inventories and the property of privately owned utilities. Principal categories of exempt property include: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; farm products owned by the producer; all oil, gas and mineral interests owned by an institution of higher education; certain property owned by exclusively charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; solar and wind-powered energy devices; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years or older or under a disability for purposes of payment of disability insurance benefits under the Federal Old-Age Survivors and Disability Insurance Act to the extent deemed advisable by the Board. The District would be required to call an election on such residential homestead exemption upon petition by at least twenty percent (20%) of the number of qualified voters who voted in the District's preceding election and would be required to offer such an exemption if a majority of voters approve it at such election. For the 2020 tax year, the District has not granted any such exemptions. The District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between \$5,000 and \$12,000 of assessed valuation depending upon the disability rating of the veteran, if such rating is less than 100%. A veteran who receives a disability rating of 100% is entitled to an exemption for the full value of the veteran's residence homestead. Additionally, subject to certain conditions, the surviving spouse of a

disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if (i) the residence homestead was donated by a charitable organization at no cost to the disabled veteran or, (ii) the residence was donated by a charitable organization at some cost to the disabled veteran if such cost is less than or equal to fifty percent (50%) of the total good faith estimate of the market value of the residence as of the date the donation is made. Also, the surviving spouse of (i) a member of the armed forces or, ii) a first responder as defined under Texas law, who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

A "Freeport Exemption" applies to goods, wares, merchandise, other tangible personal property and ores, other than oil, natural gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining oil 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 certain tangible personal property, as defined by the Property Tax Code, acquired in or imported into Texas for storage purposes and which 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. The exemption excludes oil, natural gas, petroleum products, aircraft and certain special inventory including dealer's motor vehicles, dealer's vessel and outboard motor vehicle, dealer's heavy equipment and retail manufactured housing inventory. The exemption applies to covered property if it 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. 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. However, taxing units who took official action as allowed by prior law before October 1, 2011, to tax goods-in-transit property, and who pledged such taxes for the payment of debt, may continue to impose taxes against the goods-in-transit property until the debt is discharged without further action, if cessation of the imposition would impair the obligations of the contract by which the debt was created. The District has not exercised its option to tax goods-in-transit personal property but may choose to do so in the future.

General Residential Homestead Exemption

Texas law 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, but not less than \$5,000 if any exemption is granted, from ad valorem taxation. The law provides, however, that 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. For the 2020 tax year, the District has not granted a general residential homestead exemption.

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. Assessments under the Property Tax Code are to be based upon one hundred percent (100%) of market value. The appraised value of residential homestead property may be limited to the lesser of the market value of the property, or the sum of the appraised value of the property for the last year in which it was appraised, plus ten percent (10%) of such appraised value multiplied by the number of years since the last appraisal, plus the market value of all new improvements to the property. Once an appraisal roll is prepared and approved by the Appraisal Review Board, it is used by the District in establishing its tax rate. The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraised values. The plan must provide for appraisal of all real property by 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.

District and Taxpayer Remedies

Under certain circumstances, taxpayers and taxing units, including the District, may appeal orders of the Appraisal Review Board by filing a petition for review in district court within forty-five (45) days after notice is received that a final order has been entered. In such event, the property value in question may be determined by the court, or by a jury, if requested by any party. Additionally, taxing units may bring suit against the Appraisal District to comply with the Property Tax Code. The District may challenge the exclusion of property from the appraisal rolls or the grant, in whole or in part, of an exemption.

Texas law provides for notice and hearing procedures prior to the adoption of an ad valorem tax rate by the District. Additionally, under certain circumstances, an election would be required to determine whether to approve the adopted total tax rate. See "Rollback of Operations and Maintenance Tax Rate." The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property values, appraisals that are higher than renditions and appraisals of property not previously on an appraisal roll.

Agricultural, Open Space, Timberland and Inventory Deferment

The Property Tax Code permits land designated for agricultural use (including wildlife management), open space, or timberland to be appraised at its value based on the land's capacity to produce agriculture 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. Landowners wishing to avail themselves of any of such designations must apply for the designation, and the Appraisal District 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 and not as to others. If a claimant receives the 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 for the three (3) to five (5) years prior to the loss of the designation for agricultural, timberland or open space land. According to the District's Tax Assessor/Collector, as of January 1, 2019, no land within the District was designated for agricultural use, open space, inventory deferment, or timberland.

Tax Abatement

The City and Montgomery County may designate all or part of the District as a reinvestment zone, and the District, Montgomery County, and the City may thereafter enter into tax abatement agreements with the owners of property within the zone. The tax abatement agreements may exempt from ad valorem tax, by the applicable taxing jurisdictions, and by the District, for a period of up to ten (10) years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with a comprehensive plan. According to the District's Tax Assessor/Collector, to date, none of the area within the District has been designated as a reinvestment zone.

Levy and Collection of Taxes

The District is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. The District adopts its tax rate each year after it receives a tax roll certified by the Appraisal District. Taxes are due upon receipt of a bill therefor, and become delinquent after January 31 of the following year or 30 days after the date billed, whichever is later, or, if billed after January 10, they are delinquent on the first day of the month next following the 21st day after such taxes are billed. A delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid beginning the first calendar month it is delinquent. A delinquent tax also incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent plus a one percent (1%) penalty 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. However, a tax delinquent on July 1 incurs a total penalty of twelve percent (12%) of the amount of the delinquent tax without regard to the number of months the tax has been delinquent, which penalty remains at such rate without further increase. If the tax is not paid by July 1, an additional penalty of up to the amount of the compensation specified in the District's contract with its delinquent tax collection attorney, but not to exceed twenty percent (20%) of the total tax, penalty and interest, may, under certain circumstances, be imposed by the District. With respect to personal property taxes that become delinquent on or after February 1 of a year and that remain delinquent sixty (60) days after the date on which they become delinquent, as an alternative to the penalty described in the foregoing sentence, an additional penalty on personal property of up to the amount specified in the District's contract with its delinquent tax attorney, but not to exceed twenty percent (20%) of the total tax, penalty and interest, may, under certain circumstances, be imposed by the District prior to July 1. The District's contract with its delinquent tax collection attorney currently specifies a twenty percent (20%) additional penalty. The District may waive penalties and interest on delinquent taxes only for the items specified in the Texas Tax Code. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency of taxes under certain circumstances. The owner of a residential homestead property who is (i) a

person sixty-five (65) years of age or older, (ii) under a disability for purpose of payment of disability insurance benefits under the Federal Old Age Survivors and Disability Insurance Act, or (iii) qualifies as a disabled veteran under Texas law, is also entitled by law to pay current taxes on a residential homestead in installments or to defer the payment of taxes without penalty during the time of ownership. Additionally, a person who is delinquent on taxes for a residential homestead is entitled to an agreement with the District to pay such taxes in installments over a period of between 12 and 36 months (as determined by the District) when such person has not entered into another installment agreement with respect to delinquent taxes with the District in the preceding 24 months.

Rollback of Operation and Maintenance Tax Rate

During the 86th Regular Legislative Session, Senate Bill 2 ("SB 2") was passed and signed by the Governor, with an effective date (as to those provisions discussed herein) of January 1, 2020, and the provisions described herein are effective beginning with the 2020 tax year. See "TAX DATA—Tax Rate Distribution" 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 municipal utility districts differently based on their current operation and maintenance tax rate or on the percentage of projected build-out that a 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 herein as "Low Tax Rate Districts." Districts that have financed, completed, and issued bonds to pay for all land, 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.

Low Tax Rate Districts: Low Tax Rate Districts 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 in the district, 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 Low Tax Rate District is the current year's debt service and contract tax rate plus the operation and maintenance tax rate that would impose 1.08 times the amount of operation and maintenance tax imposed by the district in the preceding year on a residence homestead appraised at the average appraised value of a residence homestead in the district in that year, subject to certain homestead exemptions.

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 in the district, subject to certain homestead exemptions, 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 the operation and maintenance tax rate that would impose 1.035 times the amount of operation and maintenance tax imposed by the district in the preceding year on a residence homestead appraised at the average appraised value of a residence homestead in the district in that year, subject to certain homestead exemptions, 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 Low Tax Rate District and a Developed District, the district will be subject to the operation and maintenance tax threshold applicable to Low Tax Rate Districts.

Developing Districts: Districts that do not meet the classification of a Low Tax Rate District 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 imposed by such district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead in the district, 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 the operation and maintenance tax rate that would impose 1.08 times the amount of operation and maintenance tax imposed by the district in the preceding year on a residence homestead appraised at the average appraised value of a residence homestead in the district in that year, subject to certain homestead exemptions..

The District: A determination as to a district's status as a Low Tax Rate District, Developed District or Developing District will be made by the Board of Directors on an annual basis, beginning with the 2020 tax rate. 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 against which the tax is levied. In addition, on January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of each taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of other such taxing units. See "ESTIMATED OVERLAPPING DEBT STATEMENT." 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. Further, personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalties, and interest.

Except with respect to (i) owners of residential homestead property who are sixty-five (65) years of age or older or under a disability as described above and who have filed an affidavit as required by law and (ii) owners of residential homesteads who have entered into an installment agreement with the District for payment of delinquent taxes as described above and who are not in default under said agreement, at any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, or by taxpayer redemption rights (a taxpayer may redeem property that is a residence homestead or was designated for agricultural use within two (2) years after the deed issued at foreclosure is filed of record and may redeem all other property within six (6) months after the deed issued at foreclosure is filed of record) or by bankruptcy proceedings which restrict the collection of taxpayer debt. The District's ability to foreclose its tax lien or collect penalties and interest may be limited on property owned by a financial institution which is under receivership by the Federal Deposit Insurance Corporation pursuant to the Federal Deposit Insurance Act, 12 U.S.C. 1825, as amended. Generally, the District's tax lien and a federal tax lien are on par with the ultimate priority being determined by applicable federal law. See "INVESTMENT CONSIDERATIONS—Tax Collection Limitations."

DISTRICT OPERATIONS

The following statement sets forth in condensed form the General Operating Fund for the District as shown in the District's audited financial statement for the fiscal years ended July 31, 2016 through 2019 and an unaudited summary for the period ended May 31, 2020, provided by the District's bookkeeper. Such figures are included for informational purposes only. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Reference is made to "APPENDIX A" for further and complete information.

	8/1/2019 to 5/31/2020 (a)	Fiscal Year Ended July 31			
		2019	2018	2017	2016
Revenues					
Property Taxes	\$ 351,246	\$ 316,355	\$ 219,435	\$ 151,090	\$ 131,594
Water Service	296,019	261,322	179,840	124,344	112,497
Wastewater Service	285,292	224,808	129,826	83,460	53,580
Water Authority Fees	162,229	130,692	98,649	60,499	40,823
Penalty and Interest	13,009	7,506	11,146	4,634	8,679
Tap Connection and Inspection Fees	145,950	118,807	77,155	47,479	97,420
Miscellaneous Revenues	58,974	4,780	5,436	3,465	3,110
Total Revenues	<u>\$ 1,312,719</u>	<u>\$ 1,064,270</u>	<u>\$ 721,487</u>	<u>\$ 474,971</u>	<u>\$ 447,703</u>
Expenditures					
Professional Fees	\$ 107,576	\$ 157,738	\$ 133,280	\$ 128,166	\$ 182,484
Contracted Services	22,229	45,420	36,691	34,539	36,370
Purchased Water Service/Water Authority Fees	307,699	271,318	202,264	130,237	130,060
Purchased Wastewater Service	213,871	165,391	109,541	62,537	53,159
Repairs and Maintenance	196,510	107,833	62,174	31,272	88,319
Other Operating Expenditures	58,155	167,480	108,072	106,444	59,434
Total Expenditures	<u>\$ 906,041</u>	<u>\$ 915,180</u>	<u>\$ 652,022</u>	<u>\$ 493,195</u>	<u>\$ 549,826</u>
Revenues Over (Under) Expenditures	<u>\$ 406,678</u>	<u>\$ 149,090</u>	<u>\$ 69,465</u>	<u>\$ (18,224)</u>	<u>\$ (102,123)</u>
Other Sources (Developer Advance)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,000</u>	<u>\$ 19,856</u>	<u>\$ 193,000</u>
Fund Balance (Beginning of Year)	<u>\$ 323,577</u>	<u>\$ 174,487</u>	<u>\$ 70,022</u>	<u>\$ 68,390</u>	<u>\$ (22,487)</u>
Fund Balance (End of Year)	<u><u>\$ 730,255</u></u>	<u><u>\$ 323,577</u></u>	<u><u>\$ 174,487</u></u>	<u><u>\$ 70,022</u></u>	<u><u>\$ 68,390</u></u>

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

DEBT SERVICE REQUIREMENTS

The following sets forth the debt service requirements for the Outstanding Bonds plus the estimated debt service requirements for the Bonds at an assumed interest rate of 3.50%.

Year	Outstanding Bonds Debt Service Requirements	Plus: Debt Service on the Bonds			Total Debt Service Requirements
		Principal	Interest	Total	
2020	\$ 407,719				\$ 407,719
2021	410,969	\$ 160,000	\$ 251,198	\$ 411,198	822,167
2022	408,419	165,000	226,275	391,275	799,694
2023	410,644	175,000	220,500	395,500	806,144
2024	407,519	180,000	214,375	394,375	801,894
2025	408,669	190,000	208,075	398,075	806,744
2026	412,819	200,000	201,425	401,425	814,244
2027	416,719	205,000	194,425	399,425	816,144
2028	420,369	215,000	187,250	402,250	822,619
2029	418,769	225,000	179,725	404,725	823,494
2030	422,069	235,000	171,850	406,850	828,919
2031	424,606	245,000	163,625	408,625	833,231
2032	426,713	260,000	155,050	415,050	841,763
2033	428,331	270,000	145,950	415,950	844,281
2034	429,494	280,000	136,500	416,500	845,994
2035	429,919	295,000	126,700	421,700	851,619
2036	430,044	310,000	116,375	426,375	856,419
2037	429,869	320,000	105,525	425,525	855,394
2038	429,194	335,000	94,325	429,325	858,519
2039	427,963	350,000	82,600	432,600	860,563
2040	431,419	365,000	70,350	435,350	866,769
2041	429,119	385,000	57,575	442,575	871,694
2042	316,500	400,000	44,100	444,100	760,600
2043	308,250	420,000	30,100	450,100	758,350
2044	-	440,000	15,400	455,400	455,400
Total	\$ 9,886,100	\$ 6,625,000	\$ 3,399,273	\$ 10,024,273	\$ 19,910,373

Maximum Annual Debt Service Requirement (2041) \$871,694
Average Annual Debt Service Requirements (2021-2044) \$812,611

INVESTMENT CONSIDERATIONS

General

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. 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 and Security of Payment." The collection by the District of delinquent taxes owed to it and the enforcement by Registered Owners (as hereinafter defined) 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" below.

Infectious Disease Outlook (COVID-19)

The World Health Organization has declared a pandemic following the outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus (the "Pandemic"), which is currently affecting many parts of the world, including the United States and Texas. On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States in connection with COVID-19. On March 13, 2020, the President of the United States (the "President") declared the Pandemic a national emergency and the Texas Governor (the "Governor") declared COVID-19 an imminent threat of disaster for all counties in Texas (collectively, the "disaster declarations"). On March 25, 2020, in response to a request from the Governor, the President issued a Major Disaster Declaration for the State of Texas.

Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency that would in any way prevent, hinder, or delay necessary action in coping with this disaster and issuing executive orders that have the force and effect of law. The Governor has issued a number of executive orders relating to COVID-19 preparedness and mitigation. Many of the federal, state and local actions and policies under the aforementioned disaster declarations are focused on limiting instances where the public can congregate or interact with each other, which affects economic growth within Texas.

Since the disaster declarations were made, the Pandemic has negatively affected travel, commerce, and financial markets locally and globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide and within Texas. Stock values and crude oil prices, in the U.S. and globally, have seen significant declines attributed to COVID-19 concerns. Texas may be particularly at risk from any global slowdown, given the prevalence of international trade in the state and the risk of contraction in the oil and gas industry and spillover effects into other industries.

Such adverse economic conditions, if they continue, could result in declines in the demand for residential and commercial property in the Houston area and could reduce or negatively affect property values within the District. The Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds as well as the District's share of operations and maintenance expenses payable from ad valorem taxes.

While the potential impact of COVID-19 on the District cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the District's operations and financial condition. The financial and operating data contained herein are the latest available, but are as of dates and for periods prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not indicative of the economic impact of the Pandemic on the District's financial condition.

Potential Effects of Oil Price Declines on the Houston Area

The recent declines in oil prices in the U.S. and globally, which at times have led to the lowest prices in three decades, may lead to adverse conditions in the oil and gas industry, including but not limited to reduced revenues, declines in capital and operating expenditures, business failures, and layoffs of workers. The economy of the Houston area has, in the past, been particularly affected by adverse conditions in the oil and gas industry, and such conditions and their spillover effects into other industries could result in declines in the demand for residential and commercial property in the Houston area and could reduce or negatively affect property values or homebuilding activity within the District. As previously stated, the Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds as well as the District's share of operations and maintenance expenses payable from ad valorem taxes.

Recent Tropical Weather Events; Hurricane Harvey

The greater Houston area, including the District, is subject to occasional severe weather events, including tropical storms and hurricanes. If the District were to sustain damage to its facilities requiring substantial repair or replacement, or if substantial damage were to occur to taxable property within the District as a result of such a weather event, the investment security of the Bonds could be adversely affected.

The greater Houston area has experienced multiple 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 26, 2017, and brought historic levels of rainfall during the successive four days. According to the Operator, the water, sewer, and drainage 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, the District is not aware of any homes or other improvements within the District that 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.

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.

Dependence on Major Taxpayers and the Developer

The ten principal taxpayers represent \$17,188,970 (18.82%) of the 2019 Certified Taxable Assessed Valuation of \$91,313,212. The Developer represents \$13,901,950 (15.22%) of such value. This represents ownership as of January 1, 2019. Principal taxpayer lists related to the 2020 Preliminary Taxable Assessed Valuation and the Estimated Taxable Assessed Valuation as of May 15, 2020 are currently not available. If the Developer or, in the future, another principal taxpayer were to default in the payment of taxes in an amount which exceeds the District’s debt service fund surplus available for payment of the Bonds, 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 force the District to levy a high tax rate to pay principal and interest on its debt, thereby hindering growth and leading to further defaults in the payment of taxes. The District is not required by law or the Bond Order to maintain any specified amount of surplus in its debt service fund. See “Tax Collection Limitations” in this section, “TAX DATA—Principal Taxpayers,” “TAX PROCEDURES—Levy and Collection of Taxes.”

The Developer has informed the Board that its current plans are to continue building homes on the remaining developed lots in the District and developing the remaining developable acreage; however, neither the Developer nor any future developer is obligated to implement development plans on any particular schedule or at all. Thus, the furnishing of information related to any proposed development should not be interpreted as such a commitment. The District makes no representation about the probability of development continuing in a timely manner or about the ability of the Developer or any other landowner within the District to implement any plan of development. Furthermore, there is no restriction on any landowner’s right to sell land. The District can make no prediction as to the effects that current or future economic or governmental circumstances may have on any plans of the Developer or any other landowner. See “THE DEVELOPER.”

Economic Factors and Interest Rates

A substantial percentage of the taxable value of the District results from the current market value of single-family residences, undeveloped land and developed lots. The market value of such homes and lots is related to general economic conditions affecting the demand for residences. Demand for lots of this type and the construction of residential dwellings thereon can be significantly affected by factors such as interest rates, credit availability, construction costs, energy availability and the prosperity and demographic characteristics of the urban center toward which the marketing of lots is directed. Decreased levels of construction activity would tend to restrict the growth of property values in the District or could adversely impact such values. See “THE DISTRICT—Status of Development.”

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

Competition

The demand for and construction of single-family homes in the District could be affected by competition from other developments in the City of Houston, The Woodlands and the City of Conroe, many of which have a more mature development status. In addition to competition for new home sales from other developments, there are numerous previously owned homes in the area of the District. Such homes could represent additional competition for new homes proposed to be sold within the District.

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

Landowner Obligation to the District

There are no commitments from or obligations of any landowner to the District to proceed at any particular rate or according to any specified plan with the development of land or the 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 value.

Undeveloped Acreage and Vacant Lots

There are approximately 52 developable acres of land within the District that have not been provided with road, water, wastewater and storm drainage facilities necessary for the construction of taxable improvements. In addition, as of May 4, 2020, 158 lots were vacant and available for home construction. The District makes no representation as to when or if development of the undeveloped acreage will occur or that the lot sales and building program will be successful. The District makes no representation as to when or if development of this acreage will occur. See “THE DISTRICT—Land Use.”

Maximum Impact on District Tax Rates

Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of owners of property within the District to pay their taxes. The 2020 Preliminary Taxable Assessed Valuation is \$128,048,116, and the Estimated Taxable Assessed Valuation as of May 15, 2020, is \$141,148,045. After issuance of the Bonds, the maximum annual debt service requirement will be \$871,694 (2041), and the average annual debt service requirement will be \$812,611 (2021-2044, inclusive).

Assuming no increase or decrease from the 2020 Preliminary Taxable Assessed Valuation and the Estimated Taxable Assessed Valuation as of May 15, 2020, the issuance of no additional debt, and no other funds available for the payment of debt service, tax rates of \$0.72 and \$0.67, respectively, based on the 2020 Preliminary Taxable Assessed Valuation and \$0.66 and \$0.61, respectively, based on the Estimated Taxable Assessed Valuation as of May 15, 2020, per \$100 of taxable assessed valuation at a ninety-five percent (95%) collection rate would be necessary to pay both the maximum annual debt service requirement and the average annual debt service requirements. See “DEBT SERVICE REQUIREMENTS.”

No representations or suggestions are made that the 2020 Preliminary Taxable Assessed Valuation, which is subject to review and downward revision prior to certification, or that the estimated values of land and improvements provided by the Appraisal District as of May 15, 2020 for the District will be certified as taxable value by the Appraisal District, and no person should rely upon such amounts or their inclusion herein as assurance of their attainment. See “TAX PROCEDURES.”

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 \$41,320,000 in principal amount of unlimited tax bonds has been authorized by the District’s voters for financing water, sanitary sewer, and storm drainage facilities, and, after the issuance of the Bonds, \$30,520,000 in principal amount of said unlimited tax bonds will remain authorized but unissued. Further, a total of \$6,000,000 principal amount of unlimited tax bonds for financing road facilities has been authorized by the District’s voters, of which \$2,940,000 in principal amount remains authorized but unissued, and a total of \$4,100,000 principal amount of unlimited tax bonds has been authorized by the District’s voters for the purpose of acquiring or constructing recreational facilities, all of which remains unissued. In addition, voters have authorized \$51,420,000 principal amount in unlimited tax refunding bonds, all of which remains unissued, and 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.

After reimbursements are made with Bond proceeds, the District will continue to owe the Developer approximately \$10,800,000 (estimated as of May 31, 2020) plus interest for advances made for the engineering and construction of water, sanitary sewer and storm drainage facilities and road facilities. The District intends to issue additional bonds in order to fully reimburse the Developer for facilities constructed or under construction and to provide water, sanitary sewer, storm drainage and major storm drainage facilities to the remainder of undeveloped but developable land (52 acres). See “THE BONDS—Issuance of Additional Debt”. 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. 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. Except with respect to additional bonds for roads, the issuance of additional bonds is subject to approval by the TCEQ pursuant to its rules regarding issuance and feasibility of bonds. See “Overlapping Debt and Taxes” in this section and “THE BONDS—Issuance of Additional Debt” and “—Financing of Recreational Facilities.”

Environmental and Air Quality 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 TCEQ may impact new industrial, commercial and residential development in the Houston area. Under the Clean Air Act (“CAA”) Amendments of 1990, the eight-county Houston Galveston area (“HGB area”)—Harris, Galveston, Brazoria, Chambers, Fort Bend, Waller, Montgomery and Liberty counties—has been designated a nonattainment area under three separate federal ozone standards: the one-hour (124 parts per billion (“ppb”) and eight-hour (84 ppb) standards promulgated by the EPA in 1997 (the “1997 Ozone Standards”); the tighter, eight-hour ozone standard of 75 ppb promulgated by the EPA in 2008 (the “2008 Ozone Standard”), and the EPA’s most-recent promulgation of an even lower, 70 ppb eight-hour ozone standard in 2015 (the “2015 Ozone Standard”). While the State of Texas has been able to demonstrate steady progress and improvements in air quality in the HGB area, the HGB area remains subject to CAA nonattainment requirements.

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

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

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

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

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

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

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

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

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

The 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. The District is in the process of preparing its Notice of Intent and Stormwater Management Plan to apply for coverage under the MS4 Permit by the July 23, 2019 deadline. In order to maintain compliance with the MS4 Permit, the District continues to develop, implement, and maintain the required plans, as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff. Costs associated with these compliance activities could be substantial in the future.

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 officially became final on December 23, 2019 but the repeal itself has become the subject of litigation in multiple jurisdictions.

On January 23, 2020, the EPA and USACE finalized a replacement definition of “waters of the United States.” The definition outlines the categories of waters that would be considered “waters of the United States,” including traditional navigable waters, perennial and intermittent tributaries to those waters, certain ditches, certain lakes, ponds and impoundments, and wetlands adjacent to jurisdictional waters. The 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; farm and stock watering ponds; stormwater control features; and waste treatment systems. The EPA published the new rule in the Federal Register on April 21, 2020. The new rule will go into effect on June 22, 2020 and will likely become the subject of further litigation.

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.

Tax Collection Limitations

The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other state and local taxing authorities on the property against which taxes are levied, and such lien may be enforced by foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time consuming and expensive collection procedures, (b) a bankruptcy court's stay of tax collection procedure against a taxpayer, or (c) market conditions limiting the proceeds from a foreclosure sale of taxable property. While the District has a lien on taxable property within the District for taxes levied against such property, such lien can be foreclosed only in a judicial proceeding. Attorney's fees and other costs of collecting any such taxpayer's delinquencies could substantially reduce the net proceeds to the District from a tax foreclosure sale. Finally, a bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes against such taxpayer. In addition to the automatic stay against collection of delinquent taxes afforded a taxpayer during the pendency of a bankruptcy, a bankruptcy could affect payment of taxes in two other ways: first, a debtor's confirmation plan may allow a debtor to make installment payments on delinquent taxes for up to six years; and, second, a debtor may challenge, and a bankruptcy court may reduce, the amount of any taxes assessed against the debtor, including taxes that have already been paid. See “TAX PROCEDURES—District's Rights in the Event of Tax Delinquencies.”

Registered Owners' Remedies

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Order, the Beneficial Owners have the right to seek a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Order. Except for mandamus, the Bond Order does not specifically provide for remedies to protect and enforce the interests of the Beneficial 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 Beneficial Owners.

Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages so that in the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Order may not be reduced to a judgment for money damages. Even if a judgment against the District for money damages could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the Beneficial 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 Beneficial 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.

Bankruptcy Limitation to Registered Owners' Rights

Subject to the requirements of Texas law, the District may voluntarily proceed under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. Section 901-946, if the District: (1) is authorized to file for federal bankruptcy protection by Texas 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. Under Texas law, the District must also obtain the approval of the Commission prior to filing bankruptcy. Such law requires that the Commission investigate the financial conditions of the District and authorize the District to proceed only if the District has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

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 the District decides in the future to proceed voluntarily under the federal Bankruptcy Code, the District could develop and file a plan for the adjustment of its debts. If such a plan were confirmed by the bankruptcy court, it could, among other things, affect the Registered Owners by reducing or eliminating the interest rate or the principal amount, modifying or abrogating collateral or security arrangements, substituting (in whole or in part) other securities, and otherwise compromising and modifying the rights and remedies of such Registered Owner's claim against the District.

A district may not be forced into bankruptcy involuntarily.

Continuing Compliance with Certain Covenants

The Bond Order contains covenants by the District intended to preserve the exclusion from gross income of interest on the Bonds. Failure by the District to comply with such covenants in the Bond Order on a continuous basis prior to maturity of the Bonds could result in interest on the Bonds becoming taxable retroactively to the date of original issuance. See "LEGAL MATTERS—Tax Exemption."

Marketability

The District has no agreement with the Initial Purchaser regarding the reoffering yields or prices of the Bonds and has no control over trading of the Bonds in the secondary market. Moreover, there is no assurance that a secondary market will be made in the Bonds. If there is a secondary market, the difference between the bid and asked price 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 generally bought, sold or traded in the secondary market.

Future and Proposed Legislation

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under Federal or state law and could affect the market price or marketability of the Bonds. Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

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

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

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

MUNICIPAL BOND RATING AND MUNICIPAL BOND INSURANCE

The District has not applied for an underlying rating nor is it expected that the District would have received an investment grade rating had such application been made.

The Bonds have qualified for municipal bond insurance and the purchase of municipal bond insurance with an associated rating of at least “AA” from S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC or “Aa” from Moody’s Investors Service is mandatory, at the expense of the Initial Purchaser, including any rating fees associated with the insurance. See “INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance.”

LEGAL MATTERS

Legal Opinions

The District will furnish to the Initial Purchaser a transcript of certain certified proceedings incident to the issuance and authorization of the Bonds, including a certified copy of the approving legal opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Attorney General has examined a transcript of proceedings authorizing the issuance of the Bonds, and that based upon such examination, the Bonds are valid and binding obligations of the District payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District. The District will also furnish the approving legal opinion of Schwartz, Page & Harding, L.L.P., Houston, Texas, Bond Counsel, to the effect that, based upon an examination of such transcript, the Bonds are valid and binding obligations of the District under the Constitution and laws of the State of Texas, except to the extent that enforcement of the rights and remedies of the Registered Owners of the Bonds may be limited by laws relating to bankruptcy, reorganization, or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District and to the effect that interest on the Bonds is excludable from gross income for federal income tax purposes under the statutes, regulations, published rulings and court decisions existing on the date of such opinion, assuming compliance by the District with certain covenants relating to the use and investment of the proceeds of the Bonds. See “Tax Exemption” below. The legal opinion of Bond Counsel will further state that the Bonds are payable, both as to principal and interest, from the levy of ad valorem taxes, without legal limitation as to rate or amount, upon all taxable property within the District. Bond Counsel's opinion will also address the matters described below.

In addition to serving as Bond Counsel, Schwartz, Page & Harding, L.L.P., also serves as counsel to the District on matters not related to the issuance of bonds. The legal fees to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds are based upon a percentage of bonds actually issued, sold and delivered, and, therefore, such fees are contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed upon for the District by McCall, Parkhurst & Horton L.L.P., Houston, Texas, as Disclosure Counsel.

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.

Legal Review

In its capacity as Bond Counsel, Schwartz, Page & Harding, L.L.P., has reviewed the information appearing in this Official Statement under the captioned sections “THE BONDS,” “THE DISTRICT—General,” “UTILITY AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF CONROE,” “MANAGEMENT OF THE DISTRICT—Bond Counsel and General Counsel,” “TAX PROCEDURES,” and “LEGAL MATTERS” solely to determine whether such information fairly summarizes the law and documents referred to therein. Such firm has not independently verified factual information contained in this Official Statement, nor has such firm 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 such firm's limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the other information contained herein.

Tax Exemption

On the date of initial delivery of the Bonds, Bond Counsel will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof, and (2) the Bonds will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under Section 57(a)(5) of the Internal Revenue Code of 1986, as amended (the "Code"). 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.

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

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinion is not a guarantee of a result. Existing Law, upon which Bond Counsel has based its opinion, is subject to change by Congress, administrative interpretation by the Department of the Treasury and to subsequent judicial interpretation. There can be no assurance that Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of ownership of the Bonds.

Qualified Tax-Exempt Obligations

Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer's taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a "financial institution" allocable to tax-exempt obligations, other than "private activity bonds," that are designated by a "qualified small issuer" as "qualified tax-exempt obligations." A "qualified small issuer" is any governmental issuer (together with any "on-behalf of" and "subordinate" issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term "financial institution" as any "bank" described in Section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to "qualified tax-exempt obligations" provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a "bank," as defined in Section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase "qualified tax-exempt obligations" shall be reduced by twenty-percent (20%) as a "financial institution preference item."

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

Collateral Federal Income Tax Consequences

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on Existing Law which is subject to change or modification retroactively.

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences. The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, including financial institutions, life insurance and property and casualty insurance companies, owners of interests in a FASIT, 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, certain S corporations with accumulated earnings and profits and excess passive investment income, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health-insurance premium assistance credit, and individuals allowed an earned income credit. THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIFIC PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP, AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

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

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

State, Local and Foreign Taxes

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

Tax Accounting Treatment of Original Issue Discount and Premium Bonds

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

Under Existing Law, 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. See "Tax Exemption" herein for a discussion of certain collateral federal tax consequences.

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

Under Existing Law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date 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 Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and 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, 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 ORIGINAL ISSUE DISCOUNT BONDS AND WITH RESPECT TO THE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP, REDEMPTION, SALE OR OTHER DISPOSITION OF SUCH ORIGINAL ISSUE DISCOUNT BONDS.

The initial public offering price to be paid for certain maturities of the Bonds may be greater than the amount payable on such Bonds at maturity (the "Premium Bonds"). An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity. PURCHASERS OF THE PREMIUM BONDS SHOULD CONSULT WITH THEIR OWN TAX ADVISORS WITH RESPECT TO THE DETERMINATION OF AMORTIZABLE BOND PREMIUM WITH RESPECT TO THE PREMIUM BONDS FOR FEDERAL INCOME TAX PURPOSES AND WITH RESPECT TO THE STATE AND LOCAL TAX CONSEQUENCES OF OWNING PREMIUM BONDS.

REGISTRATION AND QUALIFICATION UNDER SECURITIES LAWS

The offer and sale of the Bonds have not been registered or qualified under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder; the Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; and the Bonds have not been registered or qualified under the securities laws of any other jurisdiction.

The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

NO MATERIAL ADVERSE CHANGE

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

NO LITIGATION CERTIFICATE

With the delivery of the Bonds, the President or Vice President and Secretary or Assistant Secretary of the Board will, on behalf of the District, execute and deliver to the Initial Purchaser a certificate dated as of the date of delivery, to the effect that no litigation of any nature of which the District has notice is pending against or, to the knowledge of the District's certifying officers, threatened against the District, either in state or federal courts, contesting or attacking the Bonds; restraining or enjoining the authorization, execution or delivery of the Bonds; affecting the provision made for the payment of or security for the Bonds; in any manner questioning the authority or proceedings for the authorization, execution or delivery of the Bonds; or affecting the validity of the Bonds, the corporate existence or boundaries of the District or the title of the then present officers and directors of the Board.

SALE AND DISTRIBUTION OF THE BONDS

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

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

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

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

Financial Advisor

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

Consultants

In approving this Official Statement, the District has relied upon the following consultants in addition to the Financial Advisor.

Engineer: The information contained in this Official Statement relating to engineering and to the description of the System and, in particular that information included in the sections entitled "THE DISTRICT," "THE ROADS" and "THE SYSTEM" (as it relates to District facilities) has been provided by Edminster, Hinshaw, Russ & Associates, Inc. and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

Appraisal District: The information contained in this Official Statement relating to the Assessed Valuations of the District has been provided by the Montgomery Central Appraisal District and has been included herein in reliance upon the authority of such entity as experts in assessing the values of property in Montgomery County, including the District.

Tax Assessor Collector: The information contained in this Official Statement relating to the historical breakdown of the Certified Taxable Assessed Valuations, principal taxpayers, and certain other historical data concerning tax rates and tax collections has been provided by Assessments of the Southwest and is included herein in reliance upon Assessments of the Southwest as an expert in collecting taxes.

Auditor: The financial statements of the District as of and for the fiscal year ended July 31, 2019, included in this offering document, have been audited by McCall Gibson Swedlund Barfoot, PLLC, Certified Public Accountants, as stated in their report appearing herein. See "APPENDIX A."

Bookkeeper: The information related to the "unaudited" summary of the District's General Operating Fund as it appears in "THE SYSTEM—District Operations" has been provided by Municipal Operations & 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 OF OFFICIAL STATEMENT

For the period beginning on the date of the award of the sale of the Bonds to the Initial Purchaser and ending on the ninety-first (91st) day after the "end of the underwriting period," (as defined in Rule 15c(2)-12(f)(2) of the United States Securities and Exchange Commission (the "SEC")), if any event shall occur of which the District has knowledge and as a result of which it is necessary to amend or supplement this Official Statement in order to make the statements herein, in light of the circumstances when this Official Statement is delivered to a prospective purchaser, not materially misleading, the District will promptly notify the Initial Purchaser of the occurrence of such event and will cooperate in the preparation of a revised Official Statement, or amendments or supplements hereto, so that the statements in this Official Statement, as revised, amended or supplemented, will not, in light of the circumstances when this Official Statement is delivered to a prospective purchaser, be materially misleading. The District assumes no responsibility for supplementing this Official Statement thereafter.

CERTIFICATION OF OFFICIAL STATEMENT

The District, acting through its Board in its official capacity and in reliance upon the experts listed above, 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.

CONTINUING DISCLOSURE OF INFORMATION

In the Bond Order, 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").

Annual Reports

The District will provide annually to the MSRB certain updated financial information and operating data. The information to be updated includes all quantitative financial information and operating data of the general type included in this OFFICIAL STATEMENT under the headings "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)," "DISTRICT OPERATIONS," "TAX DATA," (most of which information is contained in the District's annual audited financial statements) and in "APPENDIX A." The District will update and provide this information within six (6) months after the end of each fiscal year ending in or after 2020.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12. The updated information will include audited financial statements, if the District commissions an audit and the audit is completed by the required time. If the audit of such financial statements is not complete within such period, then the District will provide unaudited financial statements by the required time, and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in the Bond Order or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

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

Event Notices

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other events affecting the tax-exempt status of the Bonds; (7) modifications to rights of Beneficial Owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of CFR § 240.15c2-12 (the "Rule"); (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of an definitive agreement relating to any such actions, other than pursuant to its terms, if material; (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 obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, any of which affect security holders, 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 obligated person, any of which reflect financial difficulties. The terms "financial obligation" and "material" when used in this paragraph shall have the meanings ascribed to them under federal securities laws.

Neither the Bonds nor the Bond Order makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information from the MSRB

The District has agreed to provide the foregoing information only to the MSRB. Investors can access continuing disclosure information filed with the MSRB at www.emma.msrb.org.

Limitations and Amendments

The District has agreed to update information and to provide notices of specified events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although Holders and beneficial owners of the Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

The District may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or operations of the District, but only if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with SEC Rule 15c2-12, taking into account any amendments and interpretations of SEC Rule 15c2-12 to the date of such amendment, as well as changed circumstances, and either the Holders of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the District (such as a nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. The District may also amend or repeal the agreement if the SEC amends or repeals the applicable provisions of SEC Rule 15c2-12 or a court of final jurisdiction determines that such provisions are invalid but in either case, only to the extent that its right to do so would not prevent the Initial Purchaser from lawfully purchasing the Bonds in the offering described herein. 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 reason for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance With Prior Undertakings

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

MISCELLANEOUS

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

This Official Statement was approved by the Board of Directors of Montgomery County Municipal Utility District No. 126, as of the date shown on the cover page.

/s/ _____
President, Board of Directors

ATTEST:

/s/ _____
Secretary, Board of Directors

AERIAL PHOTO
(Approximate boundaries as of June 2020)



LAKE CONROE

LEAGUE LINE RD.

LONGMIRE RD.

MONTGOMERY COUNTY MUNICIPAL
UTILITY DISTRICT NO. 126

PHOTOGRAPHS

(Taken June 2020)













APPENDIX A

District Audited Financial Statements for the fiscal year ended July 31, 2019

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126

MONTGOMERY COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

JULY 31, 2019

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126

MONTGOMERY COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

JULY 31, 2019

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Montgomery County Municipal Utility District No. 126
Montgomery County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Montgomery County Municipal Utility District No. 126 (the "District"), as of and for the year ended July 31, 2019, 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.

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 July 31, 2019, 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
Certified Public Accountants
Houston, Texas

November 14, 2019

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JULY 31, 2019

Management's discussion and analysis of Montgomery County Municipal Utility District No. 126's (the "District") financial performance provides an overview of the District's financial activities for the year ended July 31, 2019.

USING THIS ANNUAL REPORT

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The District's annual report includes two financial statements combining the government-wide financial statements and the fund financial statements. The government-wide 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 all of the District's assets, liabilities, and, if applicable, deferred inflows and outflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

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

FUND FINANCIAL STATEMENTS

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JULY 31, 2019

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 current period. 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 exceeded assets by \$4,234,808 as of July 31, 2019. A comparative analysis of government-wide changes in net position is presented below:

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JULY 31, 2019

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Summary of Changes in the Statement of Net Position		
	2019	2018	Change Positive (Negative)
Current and Other Assets	\$ 865,738	\$ 727,497	\$ 138,241
Capital Assets (Net of Accumulated Depreciation)	9,987,512	6,620,405	3,367,107
Total Assets	<u>\$ 10,853,250</u>	<u>\$ 7,347,902</u>	<u>\$ 3,505,348</u>
Due to Developer	\$ 11,948,479	\$ 7,693,156	\$ (4,255,323)
Bonds Payable	2,975,000	3,060,000	85,000
Other Liabilities	164,579	184,696	20,117
Total Liabilities	<u>\$ 15,088,058</u>	<u>\$ 10,937,852</u>	<u>\$ (4,150,206)</u>
Net Position:			
Net Investment in Capital Assets	\$ (4,187,089)	\$ (3,384,058)	\$ (803,031)
Restricted	277,876	270,615	7,261
Unrestricted	(325,595)	(476,507)	150,912
Total Net Position	<u><u>\$ (4,234,808)</u></u>	<u><u>\$ (3,589,950)</u></u>	<u><u>\$ (644,858)</u></u>

The following table provides a summary of the District's operations for the years ended July 31, 2019 and July 31, 2018.

	Summary of Changes in the Statement of Activities		
	2019	2018	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 511,356	\$ 408,401	\$ 102,955
Charges for Services	745,081	498,496	246,585
Other Revenues	15,001	12,666	2,335
Total Revenues	<u>\$ 1,271,438</u>	<u>\$ 919,563</u>	<u>\$ 351,875</u>
Expenses for Services	<u>1,916,296</u>	<u>929,063</u>	<u>(987,233)</u>
Change in Net Position	\$ (644,858)	\$ (9,500)	\$ (635,358)
Net Position, Beginning of Year	<u>(3,589,950)</u>	<u>(3,580,450)</u>	<u>(9,500)</u>
Net Position, End of Year	<u><u>\$ (4,234,808)</u></u>	<u><u>\$ (3,589,950)</u></u>	<u><u>\$ (644,858)</u></u>

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JULY 31, 2019

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The Districts' combined fund balances as of July 31, 2019, were \$734,717, an increase of \$154,248 from the prior year.

The General Fund fund balance increased by \$149,090, primarily due to service and property tax revenues exceeding operating and administrative costs.

The Debt Service Fund fund balance increased by \$4,973, primarily due to the structure of the District's long-term debt obligations.

The Capital Projects Fund fund balance increased by \$185.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors adopted an unappropriated budget for the current fiscal year. Actual revenues were \$220,060 more than budgeted revenues due to higher than anticipated revenues across all categories with the exception of water authority fees, penalty and interest revenues and miscellaneous revenues. Actual expenditures were \$161,830 more than budgeted expenditures due to higher than anticipated costs across all categories except contracted services and purchased water service/water authority fees.

CAPITAL ASSETS

Capital assets as of July 31, 2019, total \$9,987,512 (net of accumulated depreciation) and include the water, wastewater and drainage systems. Completed capital projects in the current fiscal year included water, sewer, and drainage infrastructure for Water Crest, Sections 1, 2, 3, 4, 5 and 14, clearing/grubbing on Water Crest, Phase 1 and Forest Creek Parkway extension.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2019	2018	Change Positive (Negative)
Capital Assets, Net of Accumulated Depreciation:			
Water System	\$ 1,773,537	\$ 1,328,280	\$ 445,257
Wastewater System	2,356,828	1,491,547	865,281
Drainage System	5,857,147	3,800,578	2,056,569
Total Net Capital Assets	<u>\$ 9,987,512</u>	<u>\$ 6,620,405</u>	<u>\$ 3,367,107</u>

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JULY 31, 2019

LONG-TERM DEBT ACTIVITY

As of July 31, 2019, the District had total bond debt payable of \$2,975,000. The changes in the long-term debt position of the District during the fiscal year ended July 31, 2019, are summarized as follows:

Bond Debt Payable, August 1, 2018	\$ 3,060,000
Less: Bond Principal Paid	<u>85,000</u>
Bond Debt Payable, July 31, 2019	<u>\$ 2,975,000</u>

The District's Series 2016 bonds are not rated.

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 Montgomery County Municipal Utility District No. 126, c/o Schwartz, Page & Harding, L.L.P., 1300 Post Oak Boulevard, Suite 1400, Houston, Texas 77056.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
JULY 31, 2019

	<u>General Fund</u>	<u>Debt Service Fund</u>
ASSETS		
Cash	\$ 108,429	\$ 35,141
Investments	258,345	299,759
Receivables:		
Property Taxes	3,184	2,044
Penalty and Interest on Delinquent Taxes		
Service Accounts	61,233	
Due from Other Funds	19,887	
Capital Assets (Net of Accumulated Depreciation)		
TOTAL ASSETS	<u><u>\$ 451,078</u></u>	<u><u>\$ 336,944</u></u>
LIABILITIES		
Accounts Payable	\$ 34,117	\$ 395
Accrued Interest Payable		
Due to Developers		
Due to Other Funds		19,887
Security Deposits	90,200	
Long-Term Liabilities:		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
TOTAL LIABILITIES	<u><u>\$ 124,317</u></u>	<u><u>\$ 20,282</u></u>
DEFERRED INFLOWS OF RESOURCES		
Property Taxes	<u><u>\$ 3,184</u></u>	<u><u>\$ 2,044</u></u>
FUND BALANCES		
Restricted for Authorized Construction	\$	\$
Restricted for Debt Service		314,618
Unassigned	<u>323,577</u>	
TOTAL FUND BALANCES	<u><u>\$ 323,577</u></u>	<u><u>\$ 314,618</u></u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 451,078</u></u>	<u><u>\$ 336,944</u></u>
NET POSITION		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
TOTAL NET POSITION		

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

Capital Projects Fund	Total	Adjustments	Statement of Net Position
\$ 104	\$ 143,674	\$	\$ 143,674
96,418	654,522		654,522
	5,228		5,228
		1,081	1,081
	61,233		61,233
	19,887	(19,887)	
		9,987,512	9,987,512
<u>\$ 96,522</u>	<u>\$ 884,544</u>	<u>\$ 9,968,706</u>	<u>\$ 10,853,250</u>
\$	\$ 34,512	\$	\$ 34,512
		39,867	39,867
		11,948,479	11,948,479
	19,887	(19,887)	
	90,200		90,200
		85,000	85,000
		2,890,000	2,890,000
<u>\$ -0-</u>	<u>\$ 144,599</u>	<u>\$ 14,943,459</u>	<u>\$ 15,088,058</u>
<u>\$ -0-</u>	<u>\$ 5,228</u>	<u>\$ (5,228)</u>	<u>\$ -0-</u>
\$ 96,522	\$ 96,522	\$ (96,522)	\$
	314,618	(314,618)	
	323,577	(323,577)	
<u>\$ 96,522</u>	<u>\$ 734,717</u>	<u>\$ (734,717)</u>	<u>\$ -0-</u>
<u>\$ 96,522</u>	<u>\$ 884,544</u>		
		\$ (4,187,089)	\$ (4,187,089)
		277,876	277,876
		(325,595)	(325,595)
		<u>\$ (4,234,808)</u>	<u>\$ (4,234,808)</u>

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JULY 31, 2019

Total Fund Balances - Governmental Funds	\$	734,717
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.		9,987,512
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Deferred inflows of resources related to property tax revenues and penalty and interest receivable on delinquent taxes for the 2018 and prior tax levies became part of recognized revenue in the governmental activities of the District.		6,309
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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:

Due to Developer	\$ (11,948,479)	
Accrued Interest Payable	(39,867)	
Bonds Payable	<u>(2,975,000)</u>	<u>(14,963,346)</u>
Total Net Position - Governmental Activities		<u>\$ (4,234,808)</u>

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

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MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JULY 31, 2019

	<u>General Fund</u>	<u>Debt Service Fund</u>
REVENUES		
Property Taxes	\$ 316,355	\$ 192,327
Water Service	261,322	
Wastewater Service	224,808	
Water Authority Fees	130,692	
Penalty and Interest	7,506	1,219
Tap Connection and Inspection Fees	118,807	
Investment and Miscellaneous Revenues	4,780	4,607
Tax Rebate		4,688
	<hr/>	<hr/>
TOTAL REVENUES	\$ 1,064,270	\$ 202,841
EXPENDITURES/EXPENSES		
Service Operations:		
Professional Fees	\$ 157,738	\$
Contracted Services	45,420	14,124
Purchased Water Service/Water Authority Fees	271,318	
Purchased Wastewater Service	165,391	
Repairs and Maintenance	107,833	
Depreciation		
Other	167,480	2,213
Conveyance of Assets		
Debt Service:		
Bond Principal		85,000
Bond Interest		96,531
	<hr/>	<hr/>
TOTAL EXPENDITURES/EXPENSES	\$ 915,180	\$ 197,868
NET CHANGE IN FUND BALANCES	\$ 149,090	\$ 4,973
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION - AUGUST 1, 2018	<hr/> 174,487	<hr/> 309,645
FUND BALANCES/NET POSITION - JULY 31, 2019	<hr/> \$ 323,577	<hr/> \$ 314,618

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 508,682	\$ 2,674	\$ 511,356
	261,322		261,322
	224,808		224,808
	130,692		130,692
	8,725	727	9,452
	118,807		118,807
926	10,313		10,313
	4,688		4,688
<u>\$ 926</u>	<u>\$ 1,268,037</u>	<u>\$ 3,401</u>	<u>\$ 1,271,438</u>
\$	\$ 157,738	\$	\$ 157,738
596	60,140		60,140
	271,318		271,318
	165,391		165,391
	107,833		107,833
		400,942	400,942
145	169,838		169,838
		487,273	487,273
	85,000	(85,000)	
	96,531	(708)	95,823
<u>\$ 741</u>	<u>\$ 1,113,789</u>	<u>\$ 802,507</u>	<u>\$ 1,916,296</u>
\$ 185	\$ 154,248	\$ (154,248)	\$
		(644,858)	(644,858)
<u>96,337</u>	<u>580,469</u>	<u>(4,170,419)</u>	<u>(3,589,950)</u>
<u><u>\$ 96,522</u></u>	<u><u>\$ 734,717</u></u>	<u><u>\$ (4,969,525)</u></u>	<u><u>\$ (4,234,808)</u></u>

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JULY 31, 2019

Net Change in Fund Balances - Governmental Funds	\$ 154,248
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied.	2,674
Governmental funds report penalty and interest revenue on property taxes when collected. However, in the Statement of Activities, revenue is recorded when penalties and interest are assessed.	727
Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.	(400,942)
In the Statement of Activities, conveyance of assets to other governmental entities is recorded as an expense.	(487,273)
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.	85,000
Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end.	708
Change in Net Position - Governmental Activities	<u>\$ (644,858)</u>

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2019

NOTE 1. CREATION OF DISTRICT

Montgomery County Municipal Utility District No. 126 of Montgomery County, Texas (the “District”) was created on November 20, 2008, 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, roads, 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 organizational meeting on February 20, 2009.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

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

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

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:

- 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.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

- 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.

Fund Financial Statements

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

Governmental Funds

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

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

Debt Service Fund - To account for ad valorem taxes and financial resources restricted, committed or assigned for serving bond debt and the costs 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.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

The District uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both “measurable and available.” Measurable means the amount can be determined. Available means collectable within the current period or soon enough thereafter to pay current liabilities. The District considers revenues reported in the governmental funds to be available if they are collectable within sixty 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 taxes collected during the year and taxes collected after year-end, which were considered available to defray the expenditures of the current year. Deferred inflows of resources related to property tax revenues are those taxes which the District does not reasonable expect to be collected soon enough in the subsequent period to finance current expenditures.

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis. As of July 31, 2019, the Debt Service Fund owed the General Fund \$19,887 for maintenance tax collections.

Capital Assets

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

The District chose to early implement GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. Interest costs will no longer be capitalized as part of the asset but will be shown as an expenditure in the fund financial statements and as an expense in the government-wide financial statements.

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (Continued)

	<u>Years</u>
Water System	10-45
Wastewater System	10-45
Storm Drainage System	10-45

Budgeting

In compliance with governmental accounting principles, the Board of Directors annually adopts an unappropriated budget for the General Fund. The budget was 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 directors are considered to be “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.

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. The District does not have any nonspendable fund balances.

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2019

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

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

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

Unassigned: all other spendable amounts in the General Fund.

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

Accounting Estimates

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

NOTE 3. LONG-TERM DEBT

	<u>Series 2016 Road</u>
Amount Outstanding – July 31, 2019	\$ 2,975,000
Interest Rates	2.00% - 3.625%
Maturity Dates – Serially Beginning/Ending	September 1, 2019/2041
Interest Payment Dates	September 1/ March 1
Callable Dates	September 1, 2024*

* Or any date thereafter at a price of par plus accrued interest in whole or in part, at the option of the District. Series 2016 term bonds maturing on September 1, 2041, are subject to mandatory redemption by random selection beginning September 1, 2038.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2019

NOTE 3. LONG-TERM DEBT (Continued)

The following is a summary of transaction regarding bonds payable for the year ended July 31, 2019:

	August 1, 2018	Additions	Retirements	July 31, 2019
Bonds Payable	\$ 3,060,000	\$ -0-	\$ 85,000	\$ 2,975,000
		Amount Due Within One Year		\$ 85,000
		Amount Due After One Year		2,890,000
		Bonds Payable		\$ 2,975,000

As of July 31, 2019, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2020	\$ 85,000	\$ 94,831	\$ 179,831
2021	90,000	93,081	183,081
2022	95,000	90,994	185,994
2023	95,000	88,619	183,619
2024	100,000	86,181	186,181
2025-2029	550,000	384,905	934,905
2030-2034	650,000	291,484	941,484
2035-2039	775,000	168,160	943,160
2040-2042	535,000	29,635	564,635
	\$ 2,975,000	\$ 1,327,890	\$ 4,302,890

During the year ended July 31, 2019, the District levied an ad valorem debt service tax of \$0.34 per \$100 of assessed valuation, which resulted in a tax levy of \$193,179 on the adjusted taxable valuation of \$56,817,263 for the 2018 tax year. The bond order 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. See Note 7 for the maintenance tax levy.

The District's tax calendar is as follows:

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2019

NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS

The bond order states that the District is required to provide continuing disclosure of annual financial information and operating data with respect to the District to certain information repositories. The information, along with the audited annual financial statements, is of the general type included in the annual audit report, and must be filed within six months after the end of each fiscal year of the District.

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 use.

NOTE 5. DEPOSITS AND INVESTMENTS

Deposits

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

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year-end, the carrying amount of the District's deposits was \$143,674 and the bank balance was \$201,702. 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 July 31, 2019, as listed below:

	<u>Cash</u>
GENERAL FUND	\$ 108,429
DEBT SERVICE FUND	35,141
CAPITAL PROJECTS FUND	<u>104</u>
TOTAL DEPOSITS	<u><u>\$ 143,674</u></u>

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2019

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

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.

All investments are recorded at cost, which the District considers to be fair value. The District also invests in Texas Cooperative Liquid Assets Securities System Trust ("Texas CLASS"). Texas CLASS is a public funds investment pool under Section 2256.016 of the Public Funds Investment Act, Texas Government Code, as amended. Texas CLASS is not SEC-registered. Public Trust Advisors, LLC serves as the pool's administrator and investment advisor. Wells Fargo Bank N.A. serves as custodian of the pool. The fair value of the District's position in the pool is the same as the value of pool shares. As of July 31, 2019, 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	\$ 258,345	\$ 258,345
<u>DEBT SERVICE FUND</u>		
Texas CLASS	299,759	299,759
<u>CAPITAL PROJECTS FUND</u>		
Texas CLASS	96,418	96,418
TOTAL INVESTMENTS	<u><u>\$ 654,522</u></u>	<u><u>\$ 654,522</u></u>

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2019

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Credit risk the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At July 31, 2019, 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 investments in Texas CLASS to have a maturity of less than one year due to the fact the share positions can usually be redeemed at the discretion of the District, unless there has been a significant change in value.

Restrictions

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

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended July 31, 2019 is as follows:

	August 1, 2018	Increases	Decreases	July 31, 2019
Capital Assets Subject to Depreciation				
Water System	\$ 1,423,508	\$ 515,272	\$	\$ 1,938,780
Wastewater System	1,598,399	965,261		2,563,660
Drainage System	4,071,593	2,287,516		6,359,109
Total Capital Assets Subject to Depreciation	<u>\$ 7,093,500</u>	<u>\$ 3,768,049</u>	<u>\$ - 0 -</u>	<u>\$ 10,861,549</u>
Accumulated Depreciation				
Water System	\$ 95,228	\$ 70,015	\$	\$ 165,243
Wastewater System	106,852	99,980		206,832
Drainage System	271,015	230,947		501,962
Total Accumulated Depreciation	<u>\$ 473,095</u>	<u>\$ 400,942</u>	<u>\$ - 0 -</u>	<u>\$ 874,037</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u><u>\$ 6,620,405</u></u>	<u><u>\$ 3,367,107</u></u>	<u><u>\$ - 0 -</u></u>	<u><u>\$ 9,987,512</u></u>

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2019

NOTE 7. MAINTENANCE TAX

On May 9, 2009, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$1.50 per \$100 of assessed valuation of taxable property within the District. This maintenance tax is to be used by the General Fund to pay expenditures of operating the District's waterworks and wastewater system and for any other lawful purposes. During the year ended July 31, 2019, the District levied an ad valorem maintenance tax rate of \$0.56 per \$100 of assessed valuation, which resulted in a tax levy of \$318,177 on the adjusted taxable valuation of \$56,817,263 for the 2018 tax year.

On May 9, 2009, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$0.10 per \$100 of assessed valuation of taxable property within the District to be used by the General Fund to pay expenditures for maintenance and other authorized purposes related to recreational facilities. As of the end of the current fiscal year, the District has not yet levied this particular tax.

NOTE 8. UTILITY SERVICES AND DEVELOPMENT AGREEMENT

On March 13, 2008, and as supplemented on November 8, 2012, the District entered into the Utility Services and Development Agreement with the City of Conroe (the "City"). Pursuant to this agreement, the City agreed to consent to the creation of the District within its City limits. The District is responsible for acquiring and constructing the water distribution, wastewater collection and drainage facilities (the "facilities") to serve development within the District.

The agreement provides that the facilities shall be designed and constructed in accordance with the City's requirements. The City agrees to provide the District with its ultimate requirements for water supply capacity and wastewater treatment capacity without charging the District any type of capital charge.

In accordance with the agreement, the City is to provide water supply and wastewater services to the District at rates established by the City for general application to commercial customers of the City.

In accordance with the agreement, the District is authorized to issue bonds for the purpose of financing the construction and acquisition of the facilities. Prior to issuing any bonds, the District must provide the City with a copy of the Commission order authorizing the issuance of the bonds and such order must provide that under the Commission rules governing the issuance of bonds it is feasible to sell the bonds at a District tax rate that does not exceed \$0.90 per \$100 of assessed valuation. The agreement 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.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2019

NOTE 8. UTILITY SERVICES AND DEVELOPMENT AGREEMENT (Continued)

The agreement provides that the City will pay an annual rebate to the District. The annual rebate is equal to the total assessed value in the District for the given year multiplied by the portion of the City's tax rate that is attributable to water, sewer and drainage facilities. This annual rebate is to be deposited into the District's Debt Service Fund. During the current fiscal year, the District recorded revenue in the amount of \$4,688 per this agreement.

The term of the agreement is the earlier of the dissolution of the District by the City or 40 years. The City's right to dissolve the District is restricted per the agreement. Under the terms of the agreement, the City agrees that it will not dissolve the District until 90% of the District's facilities have been developed and the Developers have been reimbursed for advancing funds to construct the facilities to the maximum extent permitted by the rules of the Commission or the City assumes any obligations for such payment by the District under such rules.

NOTE 9. UNREIMBURSED DEVELOPER 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, drainage and road infrastructure until such time as the District can sell bonds. An estimated \$11,948,479, including operating advances, is owed to the Developers at year end. Reimbursement to the Developers will come from future bond sales, subject to the approval of the Commission, as necessary.

NOTE 10. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The District carries commercial insurance for its fidelity bonds and participates in the Texas Municipal League Intergovernmental Risk Pool (TML) to provide general liability, automobile, and errors and omissions 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.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2019

NOTE 11. COMPROMISE AND SETTLEMENT AGREEMENT

Effective as of January 1, 2016, the District entered into the Compromise and Settlement, Mutual Release, and Amendment and Restatement of Operations and Maintenance Agreement (the “Compromise and Settlement Agreement”) with Aqua Operations, Inc., Aqua Development, Inc., and Aqua Texas, Inc. (collectively, “Aqua”). Pursuant to this agreement: (i) the District and Aqua amend and restate the terms of their previous Operations and Maintenance Agreement (the “Operations Agreement”), (ii) Aqua agrees to cease providing operations, maintenance, and management services to the District as previously provided under the Operations Agreement, (iii) the District and Aqua agree to release each other from all prior claims under the Operations Agreement, and (iv) Aqua agrees to transfer to the District its rights to all its Certificates of Convenience and Necessity affecting land located within the jurisdictional boundaries of the District (the “CCNs”) for certain compensation from the District (the “Compensation”).

Upon completion of the transfer of the CCNs to the District, the District must pay Aqua the Compensation at a rate of \$10.00 for each “Connection” to the District’s water distribution and sanitary sewer collection (as further defined in the Compromise and Settlement Agreement) for each month of the term of the Compromise and Settlement Agreement, ending November 30, 2038, including all months prior to the completion of the transfer of the CCNs to the District. At any time during the term of the Compromise and Settlement Agreement, the District may terminate the Compromise and Settlement Agreement by making an “Accelerated Payment” to Aqua constituting the full amount of the Compensation using a formula set forth in the Compromise and Settlement Agreement based on the number of existing “Connections,” the number of projected additional “Connections,” and the length of time remaining in the term of the Compromise and Settlement Agreement.

NOTE 12. SUBSEQUENT EVENT – BOND SALE

On September 26, 2019, subsequent to year end, the District issued its \$4,175,000 Series 2019 Unlimited Tax Bonds. Proceeds from the bonds were used to reimburse developers for: construction and engineering costs for water, wastewater and drainage facilities for Water Crest, Sections 1, 2 and 3 and Crest Royale Parkway; Water Crest, Phase 1 clearing and grubbing; storm water compliance; and developer advances. Additional proceeds were used to pay capitalized interest and issuance costs of the bonds.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126

REQUIRED SUPPLEMENTARY INFORMATION

JULY 31, 2019

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JULY 31, 2019

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Property Taxes	\$ 214,560	\$ 316,355	\$ 101,795
Water Service	240,700	261,322	20,622
Wastewater Service	171,900	224,808	52,908
Water Authority Fees	134,100	130,692	(3,408)
Penalty and Interest	15,000	7,506	(7,494)
Tap Connection and Inspection Fees	61,000	118,807	57,807
Investment and Miscellaneous Revenues	<u>6,950</u>	<u>4,780</u>	<u>(2,170)</u>
TOTAL REVENUES	<u>\$ 844,210</u>	<u>\$ 1,064,270</u>	<u>\$ 220,060</u>
EXPENDITURES			
Services Operations:			
Professional Fees	\$ 107,600	\$ 157,738	\$ (50,138)
Contracted Services	45,600	45,420	180
Purchased Water Service/Water Authority Fees	272,900	271,318	1,582
Purchased Wastewater Service	146,700	165,391	(18,691)
Repairs and Maintenance	77,700	107,833	(30,133)
Other	<u>102,850</u>	<u>167,480</u>	<u>(64,630)</u>
TOTAL EXPENDITURES	<u>\$ 753,350</u>	<u>\$ 915,180</u>	<u>\$ (161,830)</u>
NET CHANGE IN FUND BALANCE	\$ 90,860	\$ 149,090	\$ 58,230
FUND BALANCE - AUGUST 1, 2018	<u>174,487</u>	<u>174,487</u>	<u></u>
FUND BALANCE - JULY 31, 2019	<u><u>\$ 265,347</u></u>	<u><u>\$ 323,577</u></u>	<u><u>\$ 58,230</u></u>

See accompanying independent auditor's report.

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MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126

**SUPPLEMENTARY INFORMATION – REQUIRED BY THE
WATER DISTRICT FINANCIAL MANAGEMENT GUIDE**

JULY 31, 2019

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
SERVICES AND RATES
FOR THE YEAR ENDED JULY 31, 2019

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

<u> X </u>	Retail Water	<u> </u>	Wholesale Water	<u> X </u>	Drainage
<u> X </u>	Retail Wastewater	<u> </u>	Wholesale Wastewater	<u> </u>	Irrigation
<u> </u>	Parks/Recreation	<u> </u>	Fire Protection	<u> </u>	Security
<u> </u>	Solid Waste/Garbage	<u> </u>	Flood Control	<u> </u>	Roads
<u> </u>	Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)				
<u> </u>	Other (specify): _____				

2. RETAIL SERVICE PROVIDERS

a. RETAIL RATES FOR A 3/4" METER (OR EQUIVALENT):

Based on the rate order effective March 14, 2019.

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate per 1,000 Gallons over Minimum Use	Usage Levels
WATER:	\$ 31.20	3,000	N	\$ 3.28 \$ 3.89 \$ 4.44 \$ 7.77	3,001 to 15,000 15,001 to 25,000 25,001 to 35,000 35,001 and above
WASTEWATER:	\$ 32.36	3,000	N	\$ 4.50	3,001 and above
SURCHARGE:					
Lone Star GCD Fees	\$0.06 per 1,000 gallons				
SJRA Fees	\$3.15 per 1,000 gallons				

District employs winter averaging for wastewater usage?	<u> </u>	<u> X </u>
	Yes	No

Total monthly charges per 10,000 gallons usage: Water: \$54.16 Wastewater: \$63.86 Surcharge: \$32.10

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
SERVICES AND RATES
FOR THE YEAR ENDED JULY 31, 2019

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered			x 1.0	
≤¾"	<u>434</u>	<u>428</u>	x 1.0	<u>428</u>
1"	<u>2</u>	<u>2</u>	x 2.5	<u>5</u>
1½"	<u>2</u>	<u>2</u>	x 5.0	<u>10</u>
2"	<u>4</u>	<u>4</u>	x 8.0	<u>32</u>
3"			x 15.0	
4"	<u>2</u>	<u>2</u>	x 25.0	<u>50</u>
6"			x 50.0	
8"			x 80.0	
10"			x 115.0	
Total Water Connections	<u><u>444</u></u>	<u><u>438</u></u>		<u><u>525</u></u>
Total Wastewater Connections	<u><u>421</u></u>	<u><u>419</u></u>	x 1.0	<u><u>419</u></u>

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

Gallons pumped into system:	41,231,000	Water Accountability Ratio: 98.6% (Gallons billed, leaks and flushing/Gallons pumped)
Gallons billed to customers:	40,260,000	
Leaks and flushing:	405,000	

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
SERVICES AND RATES
FOR THE YEAR ENDED JULY 31, 2019

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

Does the District have Debt Service standby fees? Yes ☐ No ☒

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

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes ☒ No ☐

County in which District is located:

Montgomery County, Texas

Is the District located within a city?

Entirely ☒ Partly ☐ Not at all ☐

City in which District is located:

Conroe, Texas.

Are Board Members appointed by an office outside the District?

Yes ☐ No ☒

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED JULY 31, 2019

PROFESSIONAL FEES:	
Auditing	\$ 13,250
Engineering	51,843
Legal	92,645
TOTAL PROFESSIONAL FEES	<u>\$ 157,738</u>
PURCHASED SERVICES FOR RESALE:	
Purchased Water Service/Water Authority Fees	\$ 271,318
Purchased Wastewater Service	165,391
TOTAL PURCHASED SERVICES FOR RESALE	<u>\$ 436,709</u>
CONTRACTED SERVICES:	
Bookkeeping	\$ 20,045
Operations and Billing	25,375
TOTAL CONTRACTED SERVICES	<u>\$ 45,420</u>
REPAIRS AND MAINTENANCE	<u>\$ 107,833</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 7,350
Insurance	2,868
Office Supplies and Postage	11,330
Payroll Taxes	562
Other	841
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 22,951</u>
TAP CONNECTIONS	<u>\$ 68,596</u>
OTHER EXPENDITURES:	
Laboratory Fees	\$ 6,890
Permit Fees	2,794
Reconnection Fees	3,710
Inspection Fees	28,950
Regulatory Assessment	2,312
CCN Connection Costs	28,630
Other	2,647
TOTAL OTHER EXPENDITURES	<u>\$ 75,933</u>
TOTAL EXPENDITURES	<u>\$ 915,180</u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
INVESTMENTS
JULY 31, 2019

<u>Funds</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	\$ 258,345	\$ -0-
<u>DEBT SERVICE FUND</u>					
Texas CLASS	XXXX0002	Varies	Daily	\$ 299,759	\$ -0-
<u>CAPITAL PROJECTS FUND</u>					
Texas CLASS	XXXX0003	Varies	Daily	\$ 96,418	\$ -0-
TOTAL - ALL FUNDS				\$ 654,522	\$ -0-

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED JULY 31, 2019

	<u>Maintenance Taxes</u>		<u>Debt Service Taxes</u>	
TAXES RECEIVABLE -				
AUGUST 1, 2018	\$	1,362	\$	1,192
Adjustments to Beginning				
Balance		<u>\$</u>	<u>\$</u>	1,192
		1,362		
Original 2018 Tax Levy	\$	318,702	\$	193,498
Adjustment to 2018 Tax Levy		<u>(525)</u>	<u>(319)</u>	<u>193,179</u>
TOTAL TO BE				
ACCOUNTED FOR		\$		\$
		319,539		194,371
TAX COLLECTIONS:				
Prior Years	\$	949	\$	830
Current Year		<u>315,406</u>	<u>191,497</u>	<u>192,327</u>
		316,355		
TAXES RECEIVABLE -				
JULY 31, 2019		<u><u>\$</u></u>	<u><u>\$</u></u>	2,044
		3,184		
TAXES RECEIVABLE BY				
YEAR:				
2018	\$	2,771	\$	1,682
2017		<u>413</u>	<u>362</u>	
TOTAL		<u><u>\$</u></u>	<u><u>\$</u></u>	2,044
		3,184		

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED JULY 31, 2019

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
PROPERTY VALUATIONS:				
Land	\$ 22,219,750	\$ 20,153,760	\$ 19,129,650	\$ 14,686,580
Improvements	37,515,520	26,159,980	16,874,410	5,300
Personal Property	599,613	551,626	93,955	
Exemptions	<u>(3,517,620)</u>	<u>(1,487,408)</u>	<u>(1,084,130)</u>	<u>(69,007)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 56,817,263</u>	<u>\$ 45,377,958</u>	<u>\$ 35,013,885</u>	<u>\$ 14,622,873</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.34	\$ 0.42	\$ 0.46	\$ 0.00
Maintenance	<u>0.56</u>	<u>0.48</u>	<u>0.44</u>	<u>0.90</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.90</u>	<u>\$ 0.90</u>	<u>\$ 0.90</u>	<u>\$ 0.90</u>
ADJUSTED TAX LEVY*	<u>\$ 511,356</u>	<u>\$ 408,401</u>	<u>\$ 315,125</u>	<u>\$ 131,606</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>99.13 %</u>	<u>99.81 %</u>	<u>100.00 %</u>	<u>100.00 %</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 \$1.50 per \$100 of assessed valuation approved by voters on May 9, 2009.

See accompanying independent auditor's report.

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MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
LONG-TERM DEBT SERVICE REQUIREMENTS
JULY 31, 2019

S E R I E S - 2 0 1 6 R O A D			
Due During Fiscal Years Ending July 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2020	\$ 85,000	\$ 94,831	\$ 179,831
2021	90,000	93,081	183,081
2022	95,000	90,994	185,994
2023	95,000	88,619	183,619
2024	100,000	86,181	186,181
2025	100,000	83,431	183,431
2026	105,000	80,356	185,356
2027	110,000	77,131	187,131
2028	115,000	73,756	188,756
2029	120,000	70,231	190,231
2030	120,000	66,631	186,631
2031	125,000	62,800	187,800
2032	130,000	58,575	188,575
2033	135,000	54,103	189,103
2034	140,000	49,375	189,375
2035	145,000	44,388	189,388
2036	150,000	39,225	189,225
2037	155,000	33,888	188,888
2038	160,000	28,275	188,275
2039	165,000	22,384	187,384
2040	170,000	16,313	186,313
2041	180,000	9,969	189,969
2042	185,000	3,353	188,353
	<u>\$ 2,975,000</u>	<u>\$ 1,327,890</u>	<u>\$ 4,302,890</u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
CHANGES IN LONG-TERM DEBT BOND DEBT
FOR THE YEAR ENDED JULY 31, 2019

Description	Original Bonds Issued	Bonds Outstanding August 1, 2018
Montgomery County Municipal Utility District No. 126 Unlimited Tax Road Bonds - Series 2016	\$ 3,060,000	\$ 3,060,000
Bond Authority:	Tax Bonds (Utilities)	Refunding Bonds
Amount Authorized by Voters	\$ 41,320,000	\$ 51,420,000
Amount Issued		
Remaining to be Issued	\$ 41,320,000	\$ 51,420,000
Debt Service Fund cash balance as of July 31, 2019:		\$ 334,900
Average annual debt service payment (principal and interest) for remaining term of all debt:		\$ 187,082

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

See accompanying independent auditor's report.

<u>Current Year Transactions</u>				
<u>Bonds Sold</u>	<u>Retirements</u>		<u>Bonds Outstanding July 31, 2019</u>	<u>Paying Agent</u>
	<u>Principal</u>	<u>Interest</u>		
<u>\$ -0-</u>	<u>\$ 85,000</u>	<u>\$ 96,531</u>	<u>\$ 2,975,000</u>	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
<u>Road Bonds</u>				
\$ 6,000,000				
<u>3,060,000</u>				
<u>\$ 2,940,000</u>				

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND – FIVE YEARS

	Amounts		
	2019	2018	2017
REVENUES			
Property Taxes	\$ 316,355	\$ 219,435	\$ 151,090
Water Service	261,322	179,840	124,344
Wastewater Service	224,808	129,826	83,460
Water Authority Fees	130,692	98,649	60,499
Penalty and Interest	7,506	11,146	4,634
Tap Connection and Inspection Fees	118,807	77,155	47,479
Investment and Miscellaneous Revenues	4,780	5,436	3,465
TOTAL REVENUES	<u>\$ 1,064,270</u>	<u>\$ 721,487</u>	<u>\$ 474,971</u>
EXPENDITURES			
Professional Fees	\$ 157,738	\$ 133,280	\$ 128,166
Contracted Services	45,420	36,691	34,539
Purchased Water Service/Water Authority Fees	271,318	202,264	130,237
Purchased Wastewater Service	165,391	109,541	62,537
Repairs and Maintenance	107,833	62,174	31,272
Other	167,480	108,072	106,444
Capital Outlay			
TOTAL EXPENDITURES	<u>\$ 915,180</u>	<u>\$ 652,022</u>	<u>\$ 493,195</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 149,090</u>	<u>\$ 69,465</u>	<u>\$ (18,224)</u>
OTHER FINANCING SOURCES (USES)			
Developer Advances	<u>\$ -0-</u>	<u>\$ 35,000</u>	<u>\$ 19,856</u>
NET CHANGE IN FUND BALANCE	\$ 149,090	\$ 104,465	\$ 1,632
BEGINNING FUND BALANCE (DEFICIT)	<u>174,487</u>	<u>70,022</u>	<u>68,390</u>
ENDING FUND BALANCE (DEFICIT)	<u><u>\$ 323,577</u></u>	<u><u>\$ 174,487</u></u>	<u><u>\$ 70,022</u></u>

* First year audit.

See accompanying independent auditor's report.

		Percentage of Total Revenues					
2016	2015*	2019	2018	2017	2016	2015*	
\$ 131,594	\$ 22,157	29.7 %	30.4 %	31.8 %	29.1 %	12.0	
112,497	29,656	24.6	24.9	26.2	24.9	16.0	
53,580	12,180	21.1	18.0	17.6	11.8	6.6	
40,823	404	12.3	13.7	12.7	9.0	0.2	
8,679	1,112	0.7	1.5	1.0	1.9	0.6	
97,420	119,102	11.2	10.7	10.0	21.5	64.3	
8,047	474	0.4	0.8	0.7	1.8	0.3	
<u>\$ 452,640</u>	<u>\$ 185,085</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0</u>	
\$ 182,484	\$ 111,627	14.8 %	18.5 %	27.0 %	40.3 %	60.3	
36,370	37,356	4.3	5.1	7.3	8.0	20.2	
134,997	32,240	25.5	28.0	27.4	29.8	17.4	
53,159		15.5	15.2	13.2	11.7		
88,319	8,355	10.1	8.6	6.6	19.5	4.5	
59,434	55,200	15.7	15.0	22.4	13.1	29.8	
	28,215					15.2	
<u>\$ 554,763</u>	<u>\$ 272,993</u>	<u>85.9 %</u>	<u>90.4 %</u>	<u>103.9 %</u>	<u>122.4 %</u>	<u>147.4</u>	
<u>\$ (102,123)</u>	<u>\$ (87,908)</u>	<u>14.1 %</u>	<u>9.6 %</u>	<u>(3.9) %</u>	<u>(22.4) %</u>	<u>(47.4)</u>	
<u>\$ 193,000</u>	<u>\$ 80,000</u>						
\$ 90,877	\$ (7,908)						
<u>(22,487)</u>	<u>(14,579)</u>						
<u>\$ 68,390</u>	<u>\$ (22,487)</u>						

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FIVE YEARS

	Amounts		
	2019	2018	2017
REVENUES			
Property Taxes	\$ 192,327	\$ 192,514	\$ 157,945
Penalty and Interest	1,219	1,526	1,692
Investment and Miscellaneous Revenues	4,607	3,670	577
Tax Rebate	4,688	3,327	2,846
TOTAL REVENUES	<u>\$ 202,841</u>	<u>\$ 201,037</u>	<u>\$ 163,060</u>
EXPENDITURES			
Tax Collection Expenditures	\$ 15,587	\$ 13,738	\$ 10,811
Debt Service Principal	85,000		
Debt Service Interest and Fees	97,281	98,131	29,153
TOTAL EXPENDITURES	<u>\$ 197,868</u>	<u>\$ 111,869</u>	<u>\$ 39,964</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 4,973</u>	<u>\$ 89,168</u>	<u>\$ 123,096</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from Issuance of Long-Term Debt	\$ -0-	\$ -0-	\$ 97,381
NET CHANGE IN FUND BALANCE	\$ 4,973	\$ 89,168	\$ 220,477
BEGINNING FUND BALANCE (DEFICIT)	<u>309,645</u>	<u>220,477</u>	<u></u>
ENDING FUND BALANCE (DEFICIT)	<u>\$ 314,618</u>	<u>\$ 309,645</u>	<u>\$ 220,477</u>
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>438</u>	<u>298</u>	<u>223</u>
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	<u>419</u>	<u>281</u>	<u>212</u>

* First year audit.

** Information unavailable at time of audit.

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2016	2015*	2019	2018	2017	2016	2015*
\$	\$	94.8 %	95.7 %	96.9 %		%
		0.6	0.8	1.0		
		2.3	1.8	0.4		
		2.3	1.7	1.7		
\$	\$	100.0 %	100.0 %	100.0 %		%
\$	\$	7.7 %	6.8 %	6.6 %		%
		41.9				
		48.0	48.8	17.9		
\$	\$	97.6 %	55.6 %	24.5 %		%
\$	\$	2.4 %	44.4 %	75.5 %	N/A %	N/A
\$	\$					
\$	\$					
\$	\$					
\$ N/A	\$ N/A					
167	**					
156	**					

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
JULY 31, 2019

District Mailing Address - Montgomery County Municipal Utility District No. 126
c/o Schwartz, Page & Harding, L.L.P.
1300 Post Oak Boulevard, Suite 1400
Houston, TX 77056

District Telephone Number - (713) 623-4531

Board Members:	Term of Office (Elected or Appointed)	Fees of Office for the year ended <u>July 31, 2019</u>	Expense Reimbursements for the year ended <u>July 31, 2019</u>	<u>Title</u>
James D. Poole	05/2016 05/2020 (Elected)	\$ 1,650	\$ -0-	President
Irving A. Wolf	05/2018 05/2022 (Elected)	\$ 1,350	\$ -0-	Vice President
Adam Soffar	05/2016 05/2020 (Elected)	\$ 1,200	\$ -0-	Secretary
Dan Dominey	05/2018 05/2022 (Elected)	\$ 1,800	\$ -0-	Assistant Secretary
Henry Paul Herridge	10/2017 05/2020 (Appointed)	\$ 1,950	\$ -0-	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: June 11, 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 February 20, 2009. Fees of Office are the amounts actually paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
JULY 31, 2019

Consultants:	Date Hired	Fees / Compensation for the year ended July 31, 2019	Title
Schwartz, Page & Harding, L.L.P.	02/20/09	\$ 94,287	General Counsel
McCall Gibson Swedlund Barfoot PLLC	07/09/15	\$ 12,250 \$ 1,000	Auditor Other Services
Municipal Accounts & Consulting, L.P.	02/20/09	\$ 22,509	Bookkeeper
Perdue, Brandon, Fielder, Collins & Mott, L.L.P.	02/13/14	\$ 760	Delinquent Tax Attorney
Edminster, Hinshaw, Russ & Associates, Inc.	02/20/09	\$ 51,989	Engineer
Masterson Advisors LLC	05/10/18	\$ -0-	Financial Advisor
Municipal Operations & Consulting, L.P.	01/01/16	\$ 241,074	Operator
Mark Burton	02/20/09	\$ -0-	Investment Officer
Assessments of the Southwest, Inc.	06/07/13	\$ 8,417	Tax Assessor/ Collector

See accompanying independent auditor's report.

