

OFFICIAL STATEMENT DATED SEPTEMBER 23, 2019

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

The Bonds are not designated as "qualified tax-exempt obligations" for financial institutions. See "TAX MATTERS - Not Qualified Tax-Exempt Obligations."

NEW ISSUE - Book-Entry-Only

RATING: S&P Global Ratings (AGM insured)....."AA"
Moody's Investors Service (AGM insured)....."A2"
Moody's Investors Service (underlying) "Baa3"
See "MUNICIPAL BOND INSURANCE" and "RATINGS."

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 105

(A Political Subdivision of the State of Texas, located within Montgomery County)

\$3,400,000
UNLIMITED TAX BONDS
SERIES 2019

\$10,610,000
UNLIMITED TAX ROAD BONDS
SERIES 2019

Dated: October 1, 2019

Due: September 1, as shown below

The \$3,400,000 Unlimited Tax Bonds, Series 2019 (the "Utility Bonds") and \$10,610,000 Unlimited Tax Road Bonds, Series 2019 (the "Road Bonds" and collectively with the Utility Bonds, the "Bonds") are obligations of Montgomery County Municipal Utility District No. 105 (the "District") and are not obligations of the State of Texas, Montgomery County, or any other political subdivision or entity other than the District. Neither the faith and credit nor the taxing power of the State of Texas, Montgomery County, or any entity other than the District is pledged to the payment of the principal of or interest on the Bonds.

Principal of the Bonds is payable upon presentation at the principal payment office of the paying agent/registrar, initially, The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Paying Agent/Registrar"). Interest accrues from October 1, 2019, and is payable March 1, 2020, and on each September 1 and March 1 (each an "Interest Payment Date") thereafter until the earlier of maturity or redemption. Interest on the Bonds will be payable by check dated as of the Interest Payment Date, and mailed by the Paying Agent/Registrar to registered owners ("Registered Owners") as shown on the records of the Registrar at the close of business on the 15th calendar day of the month next preceding each interest payment date (the "Record Date"). The Bonds are fully registered bonds in principal denominations of \$5,000 or any integral multiple thereof.

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

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under insurance policy on each series of Bonds to be issued concurrently with the delivery of the Bonds by **ASSURED GUARANTY MUNICIPAL CORP.**



See "PRINCIPAL AMOUNTS, MATURITIES, INTEREST RATES, INITIAL REOFFERING YIELDS AND CUSIPS" on the inside cover.

The Utility Bonds are the second series of bonds issued out of an aggregate of \$258,600,000 principal amount of unlimited tax bonds authorized by the District's voters for the purpose of acquiring and/or constructing water, wastewater and drainage facilities (the "Utility System") and for refunding such bonds. The Road Bonds are the third series of bonds issued out of an aggregate of \$149,000,000 principal amount of unlimited tax bonds authorized by the District's voters for the purpose of acquiring and/or constructing a road system to serve the District (the "Road System") and for refunding such bonds. Following the issuance of the Bonds, \$249,000,000 principal amount of unlimited tax bonds for the Utility System and refunding such bonds, \$128,105,000 principal amount of unlimited tax bonds for the Road System and refunding such bonds, and \$69,000,000 principal amount of unlimited tax bonds for parks and recreational facilities and refunding such bonds will remain authorized but unissued.

The Bonds, when issued, will constitute valid and binding obligations of the District and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied 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, or any entity other than the District. Investment in the Bonds is subject to special investment considerations as described herein. See "INVESTMENT CONSIDERATIONS."

The Bonds are offered subject to prior sale, when, as and if issued by the District and accepted by the underwriters of the Bonds (the "Underwriters"), subject to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Allen Boone Humphries Robinson LLP, Bond Counsel. Delivery of the Bonds through the facilities of DTC is expected on or about October 29, 2019.

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

\$3,400,000 Unlimited Tax Bonds, Series 2019

\$1,775,000 Serial Bonds

Maturity (September 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Nos. 61371T (b)	Maturity (September 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Nos. 61371T (b)
2020	\$85,000	4.000%	1.450%	DA4	2029(c)	\$120,000	2.000%	2.250%	DK2
2021	95,000	3.000%	1.500%	DB2	****	****	****	****	****
2022	100,000	4.000%	1.550%	DC0	2032(c)	135,000	2.375%	2.650%	DN6
2023	100,000	3.000%	1.650%	DD8	2033(c)	135,000	2.500%	2.700%	DP1
2024	105,000	3.000%	1.750%	DE6	2034(c)	140,000	2.500%	2.750%	DQ9
2025(c)	110,000	2.000%	1.850%	DF3	2035(c)	145,000	2.625%	2.800%	DR7
2026(c)	110,000	2.000%	1.950%	DG1	****	****	****	****	****
2027(c)	115,000	2.000%	2.050%	DH9	2038(c)	160,000	2.750%	2.950%	DU0
2028(c)	120,000	2.000%	2.150%	DJ5					

\$1,625,000 Term Bonds

- \$255,000 Term Bond due September 1, 2031 (c)(d) Interest Rate 2.250% (Price: \$96.949) (a) CUSIP No. 61371T DM8 (b)
- \$305,000 Term Bond due September 1, 2037 (c)(d) Interest Rate 2.750% (Price: \$97.920) (a) CUSIP No. 61371T DT3 (b)
- \$510,000 Term Bond due September 1, 2041 (c)(d) Interest Rate 3.000% (Price: \$100.000) (a) CUSIP No. 61371T DX4 (b)
- \$555,000 Term Bond due September 1, 2044 (c)(d) Interest Rate 3.000% (Price: \$99.649) (a) CUSIP No. 61371T EA3 (b)

\$10,610,000 Unlimited Tax Road Bonds, Series 2019

\$5,515,000 Serial Bonds

Maturity (September 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Nos. 61371T (b)	Maturity (September 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Nos. 61371T (b)
2020	\$270,000	3.000%	1.450%	EB1	2029(c)	\$380,000	2.000%	2.250%	EL9
2021	300,000	4.000%	1.500%	EC9	2030(c)	390,000	2.125%	2.450%	EM7
2022	310,000	3.000%	1.550%	ED7	2031(c)	405,000	2.250%	2.550%	EN5
2023	320,000	3.000%	1.650%	EE5	****	****	****	****	****
2024	330,000	3.000%	1.750%	EF2	2034(c)	440,000	2.500%	2.750%	ER6
2025(c)	340,000	2.000%	1.850%	EG0	2035(c)	455,000	2.625%	2.800%	ES4
2026(c)	350,000	2.000%	1.950%	EH8	****	****	****	****	****
2027(c)	360,000	2.000%	2.050%	EJ4	2038(c)	495,000	2.750%	2.950%	EV7
2028(c)	370,000	2.000%	2.150%	EK1					

\$5,095,000 Term Bonds

- \$845,000 Term Bond due September 1, 2033 (c)(d) Interest Rate 2.500% (Price: \$97.701) (a) CUSIP No. 61371T EQ8 (b)
- \$950,000 Term Bond due September 1, 2037 (c)(d) Interest Rate 2.750% (Price: \$97.920) (a) CUSIP No. 61371T EU9 (b)
- \$1,575,000 Term Bond due September 1, 2041 (c)(d) Interest Rate 3.000% (Price: \$100.000) (a) CUSIP No. 61371T EY1 (b)
- \$1,725,000 Term Bond due September 1, 2044 (c)(d) Interest Rate 3.000% (Price: \$99.649) (a) CUSIP No. 61371T EZ8 (b)

- (a) Information with respect to the initial reoffering yields of the Bonds is the responsibility of the Underwriters (herein defined). Initial reoffering yields represent the initial offering price, which may be changed for subsequent purchasers. The initial yield indicated above represents the lower of the yields resulting when priced to maturity or to the first call date.
- (b) CUSIP numbers have been assigned to the Bonds by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association and are included solely for the convenience of the owners of the Bonds.
- (c) Bonds maturing on September 1, 2025, and thereafter, shall be subject to redemption and payment at the option of the District, in whole or from time to time in part on September 1, 2024, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption.
- (d) Subject to mandatory redemption as provided under "THE BONDS - Redemption of the Bonds - *Mandatory Redemption*."

USE OF INFORMATION IN OFFICIAL STATEMENT

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

All of the summaries of the statutes, resolutions, orders, contracts, audits, engineering and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions and reference is made to such documents, copies of which are available from Bond Counsel, for further information.

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

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

Assured Guaranty Municipal Corp. ("AGM") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "MUNICIPAL BOND INSURANCE" and "APPENDIX B - Specimen Municipal Bond Insurance Policy."

References to web site addresses presented herein are for information purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this final official statement for purposes of, and as that term is defined in, Rule 15c2-12 of the United States Securities and Exchange Commission.

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INTRODUCTION

This Official Statement provides certain information in connection with the issuance by Montgomery County Municipal Utility District No. 105 (the "District") of its \$3,400,000 Unlimited Tax Bonds, Series 2019 (the "Utility Bonds") and \$10,610,000 Unlimited Tax Road Bonds, Series 2019 (the "Road Bonds, and collectively with the Utility Bonds, the "Bonds").

The Utility Bonds are issued pursuant to a resolution (the "Utility Bond Resolution") adopted by the Board of Directors of the District (the "Board") on the date of sale of the Utility Bonds, Article XVI, Section 59 of the Texas Constitution, the general laws of the State of Texas, including particularly Chapters 49 and 54 of the Texas Water Code, as amended, an order from the Texas Commission on Environmental Quality (the "TCEQ"), and an election held within the District and passed by a majority of the participating voters.

The Road Bonds are issued pursuant to a resolution (the "Road Bond Resolution") adopted by the Board on the date of sale of the Road Bonds, Article III, Section 52 of the Texas Constitution, the general laws of the State of Texas, including particularly Chapters 49 and 54 of the Texas Water Code, as amended, and an election held within the District and passed by a majority of the participating voters.

The Utility Bond Resolution and the Road Bond Resolution are collectively referred to herein as the "Bond Resolutions."

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

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

SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Utility Bonds, the District has accepted the bid resulting in the lowest net effective interest rate to the District, which was tendered by SAMCO Capital Markets, Inc. (the "Utility Bonds Underwriter") to purchase the Utility Bonds bearing the interest rates shown under "PRINCIPAL AMOUNTS, MATURITIES, INTEREST RATES, INITIAL REOFFERING YIELDS AND CUSIPS" at a price of 97.027656% of the par value thereof plus accrued interest to the date of delivery, which resulted in a net effective interest rate of 2.953000%, as calculated pursuant to Chapter 1204 of the Texas Government Code.

After requesting competitive bids for the Road Bonds, the District has accepted the bid resulting in the lowest net effective interest rate to the District, which was tendered by SAMCO Capital Markets, Inc. (the "Road Bonds Underwriter") to purchase the Road Bonds bearing the interest rates shown under "PRINCIPAL AMOUNTS, MATURITIES, INTEREST RATES, INITIAL REOFFERING YIELDS AND CUSIPS" at a price of 97.00% of the par value thereof plus accrued interest to the date of delivery, which resulted in a net effective interest rate of 2.951497%, as calculated pursuant to Chapter 1204 of the Texas Government Code.

The Utility Bonds Underwriter and the Road Bonds Underwriter are collectively referred to herein as the "Underwriters."

Prices and Marketability

Subject to certain hold-the-offering-price requirements described in each Official Notice of Sale, the District has no control over the reoffering yields or prices of the Bonds or 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 prices of the Bonds may be greater than the difference between the bid and asked prices of bonds of comparable maturity and quality issued by more traditional municipal entities, as bonds of such entities are more generally bought, sold or traded in the secondary market.

The delivery of the Bonds is conditioned upon the receipt by the District of a certificate executed and delivered by the Underwriters on or before the date of delivery of the Bonds stating the prices at which a substantial amount of the Bonds of each maturity has been sold to the public. For this purpose, the term

“public” shall not include any person who is a bondhouse, broker or similar person acting in the capacity of underwriter or wholesaler. Otherwise, the District has no understanding with the Underwriters regarding the reoffering yields or prices of the Bonds. Information concerning reoffering yields or prices is the responsibility of the Underwriters.

Subject to certain hold-the-offering-price requirements described in each official Notice of Sale, the prices and other terms with respect to the offering and sale of the Bonds may be changed from time-to-time by the Underwriters after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Bonds into investment accounts.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Securities Laws

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

MUNICIPAL BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. (“AGM”) will issue its Municipal Bond Insurance Policy for the Bonds (the “Policy”). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

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

Assured Guaranty Municipal Corp.

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

AGM’s financial strength is rated “AA” (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”), “AA+” (stable outlook) by Kroll Bond Rating Agency, Inc. (“KBRA”) and “A2” (stable outlook) by Moody’s Investors Service, Inc. (“Moody’s”). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM’s long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance

policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings

On August 13, 2019, Moody's announced it had affirmed AGM's insurance financial strength rating of "A2" (stable outlook). AGM can give no assurance as to any further ratings action that Moody's may take.

On June 27, 2019, S&P announced it had affirmed AGM's financial strength rating of "AA" (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On December 21, 2018, KBRA announced it had affirmed AGM's insurance financial strength rating of "AA+" (stable outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

Capitalization of AGM

At June 30, 2019:

- The policyholders' surplus of AGM was approximately \$2,530 million.
- The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. ("MAC") (as described below) were approximately \$1,082 million. Such amount includes 100% of AGM's contingency reserve and 60.7% of MAC's contingency reserve.
- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately \$1,853 million. Such amount includes (i) 100% of the net unearned premium reserve and deferred ceding commission income of AGM, (ii) the net unearned premium reserves and net deferred ceding commissions of AGM's wholly owned subsidiary Assured Guaranty (Europe) plc ("AGE"), and (iii) 60.7% of the net unearned premium reserve of MAC.

The policyholders' surplus of AGM and the contingency reserves, net unearned premium reserves and deferred ceding commission income of AGM and MAC were determined in accordance with statutory accounting principles. The net unearned premium reserves and net deferred ceding commissions of AGE were determined in accordance with accounting principles generally accepted in the United States of America.

Incorporation of Certain Documents by Reference

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

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2018 (filed by AGL with the SEC on March 1, 2019);
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2019 (filed by AGL with the SEC on May 10, 2019); and
- (iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2019 (filed by AGL with the SEC on August 8, 2019).

All consolidated financial statements of AGM and all other information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 1633 Broadway, New York, New York 10019, Attention: Communications Department

(telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

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

Miscellaneous Matters

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

RATINGS

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

The Bonds are expected to receive an insured rating of "A2" (stable outlook) from Moody's solely in reliance upon the issuance of the Policy issued by AGM at the time of delivery of the Bonds. Moody's has assigned an underlying credit rating of "Baa3" to the Bonds. An explanation of the rating may be obtained from Moody's, 7 World Trade Center at 250 Greenwich Street, New York, New York 10007.

A credit rating is not a recommendation to buy, sell, or hold securities. Furthermore, there is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by S&P or Moody's, if in their judgment, circumstances so warrant. Any such revisions or withdrawal of such ratings may have an adverse effect on the market price of the Bonds. The District will pay the rating fees charged by Moody's.

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OFFICIAL STATEMENT SUMMARY

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

THE BONDS

The Issuer	Montgomery County Municipal Utility District No. 105 (the "District"), a political subdivision of the State of Texas, is located in Montgomery County, Texas. See "THE DISTRICT."
The Issue	<p>\$3,400,000 Unlimited Tax Bonds, Series 2019 (the "Utility Bonds") and \$10,610,000 Unlimited Tax Road Bonds, Series 2019 (the "Road Bonds," and collectively with the Utility Bonds, the "Bonds"), are dated October 1, 2019. Interest accrues from October 1, 2019, at the rates set forth on the inside cover page hereof, and is payable March 1, 2020, and each September 1 and March 1 thereafter until the earlier of stated maturity or redemption. The Bonds maturing on or after September 1, 2025, are subject to redemption, in whole or from time to time in part, on September 1, 2024, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. See "THE BONDS – Redemption of the Bonds – <i>Optional Redemption</i>"</p> <p>The Utility Bonds maturing on September 1, 2020 through September 1, 2029, inclusive, September 1, 2032 through September 1, 2035, inclusive, and September 1, 2038 are serial bonds. The Utility Bonds maturing on September 1 in the years 2031, 2037, 2041 and 2044 are term bonds (the "Utility Term Bonds") and are subject to certain mandatory redemption provisions set out herein under "THE BONDS – Redemption of the Bonds – <i>Mandatory Redemption</i>."</p> <p>The Road Bonds maturing on September 1, 2020 through September 1, 2031, inclusive, September 1, 2034 through September 1, 2035, inclusive, and September 1, 2038 are serial bonds. The Road Bonds maturing on September 1 in the years 2033, 2037, 2041 and 2044 are term bonds (the "Road Term Bonds") and are subject to certain mandatory redemption provisions set out herein under "THE BONDS – Redemption of the Bonds – <i>Mandatory Redemption</i>."</p>
Book-Entry-Only System.....	The Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in principal denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the Beneficial Owners (hereinafter defined) thereof. Principal of and interest on the Bonds will be payable by The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Paying Agent/Registrar"), to Cede & Co., 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 "THE BONDS – Book-Entry-Only System."
Source of Payment	Principal of and interest on the Bonds are payable from the proceeds of a continuing direct annual ad valorem tax levied, without legal limitation as to rate or amount, against all taxable

property within the District. The Bonds are obligations of the District and are not obligations of the State of Texas, Montgomery County, or any entity other than the District. See “THE BONDS— Source of Payment.”

Use and Distribution of Bond Proceeds Proceeds of the Utility Bonds will be used to reimburse the Developer (hereinafter defined) for certain costs of constructing the Utility System (herein defined), as shown herein under “THE BONDS – Use and Distribution of Bond Proceeds – Utility Bonds.” Additionally, proceeds from the Utility Bonds will be used to pay for engineering costs related to the financed facilities, twelve (12) months of capitalized interest, developer interest, and certain costs of issuance of the Utility Bonds.

Proceeds of the Road Bonds will be used to reimburse the Developer for certain costs of constructing the Road System (hereinafter defined), as shown herein under “THE BONDS – Use and Distribution of Bond Proceeds – Road Bonds.” Additionally, proceeds from the Road Bonds will be used to pay for engineering costs related to the financed facilities, six (6) months of capitalized interest, developer interest, and certain costs of issuance of the Road Bonds.

Not Qualified Tax-Exempt Obligations The Bonds are **not** designated as “qualified tax-exempt obligations” for financial institutions. See “TAX MATTERS – NOT Qualified Tax-Exempt Obligations.”

Municipal Bond Insurance Assured Guaranty Municipal Corp. (“AGM”). See “MUNICIPAL BOND INSURANCE.”

Ratings..... S&P Global Ratings (AGM insured) – “AA”. Moody’s Investors Service (“Moody’s”) (AGM insured) – “A2”. Moody’s (underlying) – “Baa3”. See “MUNICIPAL BOND INSURANCE” and “RATINGS.”

Outstanding Bonds The Utility Bonds are the second series of bonds issued for the purpose of acquiring and/or constructing water, wastewater and drainage facilities to serve the District (the “Utility System”) and the Road Bonds are the District’s third series of bonds issued for the purpose of acquiring and/or constructing a road system to serve the District (the “Road System”). The District has previously issued the following bonds: \$6,700,000 Unlimited Tax Road Bonds, Series 2016; \$6,200,000 Unlimited Tax Bonds, Series 2017; and \$3,585,000 Unlimited Tax Road Bonds, Series 2018. As of October 1, 2019 (excluding the Bonds), an aggregate of \$15,980,000 principal amount of unlimited tax bonds previously issued will remain outstanding (the “Outstanding Bonds”).

Payment Record..... The District has never defaulted on the timely payment of principal and interest on its bonded indebtedness.

Authority for Issuance..... The Utility Bonds are the second series of bonds issued out of an aggregate of \$258,600,000 principal amount of unlimited tax bonds authorized by the District’s voters for the purpose of acquiring and/or constructing the Utility System and for refunding such bonds and the Road Bonds are the third series of bonds issued out of an aggregate of \$149,000,000 principal amount of unlimited tax bonds authorized by the District’s voters for the purpose of acquiring and/or constructing the Road System and for refunding such bonds. Following the issuance of the Bonds, \$249,000,000 principal amount of unlimited tax bonds for the Utility System and refunding such bonds, \$128,105,000 principal amount of unlimited

tax bonds for the Road System and refunding such bonds, and \$69,000,000 principal amount of unlimited tax bonds for parks and recreational facilities and refunding such bonds will remain authorized but unissued.

The Utility Bonds are issued pursuant to a resolution authorizing the issuance of the Utility Bonds approved by the District’s Board of Directors (the “Utility Bond Resolution”), Chapters 49 and 54, Texas Water Code, as amended, Article XVI, Section 59 of the Texas Constitution, an order of the Texas Commission on Environmental Quality (the “TCEQ”), an election held within the District and passed by a majority of participating voters, and the general laws of the State of Texas.

The Road Bonds are issued pursuant to a resolution authorizing the issuance of the Road Bonds approved by the District’s Board of Directors (the “Road Bond Resolution,” and together with the Utility Bond Resolution, the “Bond Resolutions”), Chapters 49 and 54, Texas Water Code, as amended, Article III, Section 52 of the Texas Constitution, an election held within the District and passed by a majority of participating voters, and the general laws of the State of Texas. See “THE BONDS – Authority for Issuance.”

Legal Opinion Allen Boone Humphries Robinson LLP, Houston, Texas. See “LEGAL MATTERS.”
 Financial Advisor Robert W. Baird & Co. Incorporated, Houston, Texas.
 Disclosure Counsel McCall Parkhurst & Horton LLP, Houston, Texas.

THE DISTRICT

Description The District was created by the TCEQ on September 5, 2005, and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. At the time of creation, the District contained approximately 607 acres. Subsequent to creation, the District annexed approximately 85 acres and now contains approximately 692 acres. The District is located in southern Montgomery County, approximately 29 miles from the City of Houston central downtown business district, southeast of the Grand Parkway (Texas State Highway 99) near Birnham Woods Drive. The District is bordered on the northwest by the Grand Parkway, on the southwest and southeast by Bender’s Landing, and on the northeast by undeveloped property. Major access to the District is provided by the Grand Parkway and Lexington Boulevard. In addition, the District is located within Conroe Independent School District. The District is not located within the corporate limits or extraterritorial jurisdiction of any municipality. See “THE DISTRICT – Authority” and “– Description.”

The Developer The developer of the District is Toll Houston TX LLC (the “Developer”), a limited liability company wholly-owned by Toll Brothers, Inc. (“Toll Brothers”), a Delaware corporation. The Developer purchased the land within the District in 2012 and has completed the development of 951 single-family residential lots on approximately 294.62 acres and continues to own approximately 49.38 acres of developable land (including approximately 24.08 acres of land currently under development as 78 lots). Toll Brothers is a publicly traded corporation whose stock is listed on the New York Stock Exchange under the ticker of “TOL.” The Developer makes all development decisions and provides all

financing for the development. See "DESCRIPTION OF THE DEVELOPER," and "DEVELOPMENT OF THE DISTRICT."

Development within the District..... The District is being developed as Woodson's Reserve, a single family residential master-planned community. The development in the District currently includes 951 single-family residential lots on approximately 294.62 acres developed as Woodson's Reserve, Sections 1 - 12 and 14-16. As of August 26, 2019, 548 homes were completed (514 occupied, 34 unoccupied), 70 homes were under construction and 333 vacant developed lots were available for home construction. In addition, approximately 24.08 acres (78 lots) are being developed as Woodson's Reserve, Sections 13 and 17. The remainder of the District consists of approximately 60 acres for school sites, approximately 25.30 undeveloped but developable acres and approximately 288 undevelopable acres. Recreational facilities for residents of the District include a 6,800 square foot clubhouse with a twenty-four hour fitness room, resort-style pool and lap pool along with open space and nature areas, a trail system, a dog park and community lakes. See "PRINCIPAL LAND OWNER/DEVELOPER," "DEVELOPMENT OF THE DISTRICT," and "THE DISTRICT."

Homebuilders Within the District..... The homebuilders active within the District are Toll Brothers, Perry Homes, Village Builders, Chesmar Homes, and M/I Homes. New homes being constructed within the District are marketed in the price range of approximately \$268,100 to \$875,000 and range from approximately 1,828 square feet to 5,084 square feet. See "DESCRIPTION OF THE DEVELOPER - Homebuilders Within the District."

INVESTMENT CONSIDERATIONS

THE DISTRICT'S TAX IS LEVIED ONLY ON THE PROPERTY LOCATED WITHIN THE DISTRICT. THEREFORE, THE INVESTMENT SECURITY AND QUALITY OF THE BONDS IS DEPENDENT UPON THE SUCCESSFUL DEVELOPMENT OF PROPERTY LOCATED WITHIN THE DISTRICT AND THE PAYMENT AND COLLECTION OF TAXES LEVIED THEREON.

THE BONDS ARE SUBJECT TO CERTAIN INVESTMENT CONSIDERATIONS. PROSPECTIVE PURCHASERS SHOULD REVIEW THE ENTIRE OFFICIAL STATEMENT BEFORE MAKING AN INVESTMENT DECISION, INCLUDING PARTICULARLY THE SECTION OF THE OFFICIAL STATEMENT ENTITLED "INVESTMENT CONSIDERATIONS."

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**SELECTED FINANCIAL INFORMATION
(UNAUDITED)**

2019 Assessed Taxable Valuation.....		\$ 202,863,060 (a)
See "TAX DATA" and "TAXING PROCEDURES."		
Estimate of Valuation as of July 1, 2019.....		\$ 249,946,053 (b)
See "TAX DATA" and "TAXING PROCEDURES."		
Direct Debt:		
Outstanding Bonds (as of October 1, 2019).....	\$ 15,980,000	
The Utility Bonds.....	3,400,000	
The Road Bonds.....	<u>10,610,000</u>	
Total Direct Debt.....	\$ 29,990,000	
Estimated Overlapping Debt.....		\$ 8,140,410 (c)
Total Direct and Estimated Overlapping Debt		<u>\$ 38,130,410</u>
Direct Debt Ratios:		
As a percentage of 2019 Assessed Taxable Valuation		14.78 %
As a percentage of the Estimate of Valuation as of July 1, 2019.....		12.00 %
Direct and Estimated Overlapping Debt Ratios:		
As a percentage of 2019 Assessed Taxable Valuation		18.80 %
As a percentage of the Estimate of Valuation as of July 1, 2019.....		15.26 %
Utility System Debt Service Fund (as of August 26, 2019)	\$ 401,377 (d)	
Road System Debt Service Fund Balance (as of August 26, 2019)	\$ 698,914 (e)	
General Fund Balance (as of August 26, 2019)	\$ 820,190	
Road System Capital Projects Fund Balance (as of August 26, 2019)	\$ 25,580	
2019 Tax Rate per \$100 of Assessed Taxable Valuation		
Utility System Debt Service.....	\$0.240	
Road System Debt Service.....	0.505	
Maintenance	<u>0.605</u>	\$1.350
Average Annual Debt Service Requirements		
on the Outstanding Bonds and the Bonds (2019-2044)		\$1,695,260
Maximum Annual Debt Service Requirements		
on the Outstanding Bonds and the Bonds (2041)		\$1,903,390
Tax Rate per \$100 of Assessed Taxable Valuation Required to Pay Average Annual		
Debt Service Requirements on the Outstanding Bonds and the Bonds		
(2019-2044) at 95% Tax Collections		
Based Upon 2019 Assessed Taxable Valuation (\$202,863,060)		\$0.88
Based Upon the Estimate of Valuation as of July 1, 2019 (\$249,946,053)		\$0.72
Tax Rate per \$100 of Assessed Taxable Valuation Required to Pay Maximum Annual		
Debt Service Requirement on the Outstanding Bonds and the Bonds		
(2041) at 95% Tax Collections		
Based Upon 2019 Assessed Taxable Valuation (\$202,863,060)		\$0.99
Based Upon the Estimate of Valuation as of July 1, 2019 (\$249,946,053)		\$0.81
Number of Single-Family Homes (including 70 homes in various		
stages of construction) as of August 26, 2019		618

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- (a) As certified by the Montgomery Central Appraisal District (the "Appraisal District"). The value includes \$11,279,560 amount in uncertified value, which represents 80% of the total uncertified value provided by the Appraisal District which is the estimated minimum amount of the uncertified value that will ultimately be certified. All property located in the District is valued on the tax rolls by the Appraisal District at 100% of estimated market value as of January 1 of each year.
 - (b) Provided by the Appraisal District for information purposes only. Represents new construction within the District from January 1, 2019 to July 1, 2019. The estimate is based upon the same unit value used in the assessed value. No taxes will be levied on this estimate. See "TAXING PROCEDURES."
 - (c) See "DISTRICT DEBT - Estimated Direct and Overlapping Debt Statement."
 - (d) Upon delivery of the Utility Bonds, twelve (12) months of capitalized interest on the Utility Bonds as well as accrued interest will be deposited into the Utility System Debt Service Fund. Neither Texas law nor the Utility Bond Resolution requires the District to maintain any particular sum in the Utility System Debt Service Fund. Funds in the Utility System Debt Service Fund are not available to pay Road System bond debt service, including the Road Bonds.
 - (e) Upon delivery of the Road Bonds, six (6) months of capitalized interest on the Road Bonds as well as accrued interest will be deposited into the Road System Debt Service Fund. Neither Texas law nor the Road Bond Resolution requires the District to maintain any particular sum in the Road System Debt Service Fund. Funds in the Road System Debt Service Fund are not available to pay Utility System bond debt service, including the Utility Bonds.

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MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 105

\$3,400,000
UNLIMITED TAX BONDS
SERIES 2019

\$10,610,000
UNLIMITED TAX ROAD BONDS
SERIES 2019

INTRODUCTION

This Official Statement of Montgomery County Municipal Utility District No. 105 (the "District") is provided to furnish information with respect to the issuance by the District of its \$3,400,000 Unlimited Tax Bonds, Series 2019 (the "Utility Bonds") and \$10,610,000 Unlimited Tax Road Bonds, Series 2019 (the "Road Bonds," and collectively with the Utility Bonds, the "Bonds").

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

The Road Bonds are issued pursuant to (i) Article III, Section 52 of the Texas Constitution and the general laws of the State of Texas, including particularly Chapters 49 and 54 of the Texas Water Code, as amended, (ii) an election held within the District, and (iii) a resolution (the "Road Bond Resolution") adopted by the Board.

The Utility Bond Resolution and the Road Bond Resolution are collectively referred to herein as the "Bond Resolutions."

This Official Statement includes descriptions of the Bonds, Toll Houston TX LLC (the "Developer"), the Bond Resolutions and certain information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from Allen Boone Humphries Robinson LLP, 3200 Southwest Freeway, Suite 2600, Houston, Texas, 77027, upon payment of the costs of duplication therefor. Certain capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Bond Resolutions, except as otherwise indicated herein.

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 Resolutions. Copies of the Bond Resolutions may be obtained from the District upon written request made to the District's Bond Counsel, Allen Boone Humphries Robinson LLP, Phoenix Tower, 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027.

The District's \$3,400,000 Unlimited Tax Bonds, Series 2019 and \$10,610,000 Unlimited Tax Road Bonds, Series 2019, are dated October 1, 2019, with interest payable March 1, 2020, and each September 1 and March 1 thereafter (each an "Interest Payment Date") until the earlier of maturity or redemption. The Bonds are fully-registered serial bonds maturing on September 1 of the years shown under "PRINCIPAL AMOUNTS, MATURITIES, INTEREST RATES, INITIAL REOFFERING YIELDS AND CUSIPS" on the inside cover page of this Official Statement. The Bonds will be issued in fully registered form only, without coupons, in principal denominations of \$5,000 or any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., nominee for The Depository Trust Company, New York, New York ("DTC"), acting as securities depository for the Bonds until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only. So long as Cede & Co., as the nominee of DTC, is the registered owner of the Bonds, principal of and interest on the Bonds will be payable to DTC, which will be solely responsible for making such payment to the beneficial owners of the Bonds. Principal of the Bonds will be payable to the Registered Owners at maturity or redemption upon presentation at the principal payment office of the paying agent/registrars, initially, The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Paying Agent/Registrar"). Interest on the Bonds will be payable by check, dated as of the Interest Payment Date, and mailed by the Paying Agent/Registrar to Registered Owners as shown on the records of the Paying Agent/Registrar at the close of business on the 15th calendar day of the month next preceding the Interest Payment Date (the "Record Date") or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and a Registered Owner at the risk and expense of such Registered Owner.

Book-Entry-Only System

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

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

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

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC.

DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchase of each Bonds ("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.

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

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

Redemption proceeds, principal and interest 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 District or Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Paying Agent/Registrar or 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 District or 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 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 the section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

Successor Paying Agent/Registrar

Provision is made in the Bond Resolutions for replacing the Paying Agent/Registrar. If the District replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar's records to the successor Paying Agent/Registrar, and the successor Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the District shall be a commercial bank; a trust company organized under the laws of the State of Texas; or other entity duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Bonds.

Registration, Transfer and Exchange

In the event the Book-Entry-Only system is discontinued, the Bonds are transferable only on the bond register kept by the Paying Agent/Registrar upon surrender at the corporate trust office of the Paying Agent/Registrar in Dallas, Texas. A Bond may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. At any time after the date of initial delivery, any Bond may be transferred upon its presentation and surrender at the designated offices of the Paying Agent/Registrar, duly endorsed for transfer or accompanied by an assignment duly executed by the Bondholder. The Bonds are exchangeable upon presentation at the designated office(s) of the Paying Agent/Registrar, for an equal principal amount of Bonds of the same series and maturity in authorized denominations. To the extent possible, new Bonds issued in exchange or transfer

of Bonds will be delivered to the Bondholder or assignee of the Bondholder within not more than three (3) business days after the receipt by the Paying Agent/Registrar of the request in proper form to transfer or exchange the Bonds. New Bonds registered and delivered in an exchange or transfer shall be in the denomination of \$5,000 in principal amount for a Bond, or any integral multiple thereof for any one maturity and shall bear interest at the same rate and be for a like aggregate principal amount as the Bond or Bonds surrendered for exchange or transfer. Neither the Paying Agent/Registrar nor the District is required to issue, transfer, or exchange any Bond during a period beginning at the opening of business on a Record Date and ending at the close of business on the next succeeding Interest Payment Date or to transfer or exchange any Bond selected for redemption, in whole or in part, beginning fifteen (15) calendar days prior to, and ending on the date of the mailing of notice of redemption, or where such redemption is scheduled to occur within thirty (30) calendar days. No service charge will be made for any transfer or exchange, but the District or Paying Agent/Registrar may require payment of a sum sufficient to cover any tax or governmental charge payable in connection therewith.

Redemption of the Bonds

Optional Redemption

Bonds maturing on September 1, 2025, and thereafter shall be subject to redemption and payment at the option of the District, in whole or from time to time in part, on September 1, 2024, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. Notice of the exercise of the reserved right of redemption will be given at least thirty (30) days prior to the redemption date by sending such notice by first class mail to the Registered Owner of each Bond to be redeemed in whole or in part at the address shown on the bond register. If less than all of the Bonds are redeemed at any time, the series and maturities of the Bonds to be redeemed shall be selected by the District. If less than all of the Bonds of a certain series and maturity are to be redeemed, the particular Bonds or portions thereof to be redeemed will be selected by the Paying Agent/Registrar prior to the redemption date by such random method as the Paying Agent/Registrar deems fair and appropriate in integral multiples of \$5,000 within any one maturity. The Registered Owner of any Bond, all or a portion of which has been called for redemption, shall be required to present such Bond to the Paying Agent/Registrar for payment of the redemption price on the portion of the Bonds so called for redemption and issuance of a new Bond in the principal amount equal to the portion of such Bond not redeemed.

Mandatory Redemption

Utility Bonds: The Utility Bonds maturing on September 1 in the years 2031, 2037, 2041 and 2044 (the "Utility Term Bonds") are also subject to mandatory sinking fund redemption by the District by lot or other customary method of random selection prior to scheduled maturity on September 1 in the years ("Mandatory Redemption Dates") and in the amounts set forth below at a redemption price of par plus accrued interest to the date of redemption:

\$255,000 Term Bond due September 1, 2031

Mandatory Redemption Date	Principal Amount
September 1, 2030	\$125,000
September 1, 2031 (maturity)	130,000

\$305,000 Term Bond due September 1, 2037

Mandatory Redemption Date	Principal Amount
September 1, 2036	\$150,000
September 1, 2037 (maturity)	155,000

\$510,000 Term Bond due September 1, 2041

Mandatory Redemption Date	Principal Amount
September 1, 2039	\$165,000
September 1, 2040	170,000
September 1, 2041 (maturity)	175,000

\$555,000 Term Bond due September 1, 2044

Mandatory Redemption Date	Principal Amount
September 1, 2042	\$180,000
September 1, 2043	185,000
September 1, 2044 (maturity)	190,000

Road Bonds: The Road Bonds maturing on September 1 in the years 2033, 2037, 2041 and 2044 (the "Road Term Bonds") are also subject to mandatory sinking fund redemption by the District by lot or other customary method of random selection prior to scheduled maturity on September 1 in the years ("Mandatory Redemption Dates") and in the amounts set forth below at a redemption price of par plus accrued interest to the date of redemption:

\$845,000 Term Bond due September 1, 2033

Mandatory Redemption Date	Principal Amount
September 1, 2032	\$415,000
September 1, 2033 (maturity)	430,000

\$950,000 Term Bond due September 1, 2037

Mandatory Redemption Date	Principal Amount
September 1, 2036	\$470,000
September 1, 2037 (maturity)	480,000

\$1,575,000 Term Bond due September 1, 2041

Mandatory Redemption Date	Principal Amount
September 1, 2039	\$510,000
September 1, 2040	525,000
September 1, 2041 (maturity)	540,000

\$1,725,000 Term Bond due September 1, 2044

Mandatory Redemption Date	Principal Amount
September 1, 2042	\$560,000
September 1, 2043	575,000
September 1, 2044 (maturity)	590,000

The Utility Term Bonds and Road Term Bonds are collectively referred to herein as the "Term Bonds". The principal amount of the Term Bonds of a maturity required to be redeemed pursuant to the operation of the mandatory sinking fund redemption provisions shall be reduced, at the direction of the District, by the principal amount of any Term Bonds of the stated maturity which, at least 50 days prior to a mandatory redemption date, (1) shall have been acquired by the District at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the District with monies in the Debt Service Fund at a price not exceeding the principal amount of the Term Bonds plus accrued interest to the date of purchase thereof, or (3) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory sinking fund redemption requirement.

Mutilated, Lost, Stolen or Destroyed Bonds

In the event the book-entry-only system is discontinued, the District has agreed to replace mutilated, destroyed, lost or stolen Bonds upon surrender of the mutilated Bonds to the Paying Agent/Registrar, or receipt of satisfactory evidence of such destruction, loss or theft, and receipt by the District and Paying Agent/Registrar of security or indemnity as may be required by either of them to hold them harmless. The District may require payment of taxes, governmental charges and other expenses in connection with any such replacement.

Authority for Issuance

The Utility Bonds are the second series of bonds issued out of an aggregate of \$258,600,000 principal amount of unlimited tax bonds authorized by the District's voters for the purpose of acquiring and/or constructing

water, wastewater and drainage facilities (the "Utility System") and for refunding such bonds and the Road Bonds are the third series of bonds issued out of an aggregate of \$149,000,000 principal amount of unlimited tax bonds authorized by the District's voters for the purpose of acquiring and/or constructing a road system to serve the District (the "Road System") and for refunding such bonds. Following the issuance of the Bonds, \$249,000,000 principal amount of unlimited tax bonds for the Utility System and refunding such bonds, \$128,105,000 principal amount of unlimited tax bonds for the Road System and refunding such bonds, and \$69,000,000 principal amount of unlimited tax bonds for parks and recreational facilities and refunding such bonds will remain authorized but unissued.

The Utility Bonds are issued pursuant to the Utility Bond Resolution, Chapters 49 and 54, Texas Water Code, Article XVI, Section 59 of the Texas Constitution, an election held within the District and passed by a majority of participating voters, an order by the TCEQ, and the general laws of the State of Texas.

The Road Bonds are issued pursuant to the Road Bond Resolution, Chapters 49 and 54, Texas Water Code, and Article III, Section 52 of the Texas Constitution, an election held within the District and passed by a majority of participating voters, and the general laws of the State of Texas.

Source of Payment

The Bonds are payable from the proceeds of a continuing, direct annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. In the Bond Resolutions, the District covenants to levy a sufficient tax to pay principal of and interest on the Bonds, with full allowance being made for delinquencies, costs of collections, Paying Agent/Registrar fees and Appraisal District (hereinafter defined) fees. Utility System debt service tax proceeds, after deduction for collection costs, will be placed in the Utility System debt service fund and used solely to pay principal of and interest on the Utility Bonds, and additional Utility System bonds payable from taxes which may be issued, and Registrar fees. Road System debt service tax proceeds, after deduction for collection costs, will be placed in the Road System debt service fund and used solely to pay principal of and interest on the Road Bonds, and additional Road System bonds payable from taxes which may be issued, and Registrar fees.

The Bonds are obligations of the District and are not obligations of the State of Texas, Montgomery County, or any entity other than the District.

Issuance of Additional Debt

The District's voters have authorized the issuance of \$258,600,000 unlimited tax bonds for the Utility System and refunding such bonds, \$149,000,000 unlimited tax bonds for the Road System and refunding such bonds, and \$69,000,000 unlimited tax bonds for park and recreational facilities and refunding such bonds, and could authorize additional amounts. Following the issuance of the Bonds, \$249,000,000 principal amount of unlimited tax bonds for the Utility System and refunding such bonds, \$128,105,000 principal amount of unlimited tax bonds for the Road System and refunding such bonds, and \$69,000,000 principal amount of unlimited tax bonds for parks and recreational facilities and refunding such bonds will remain authorized but unissued. The Bond Resolutions impose no limitation on the amount of additional parity bonds which may be issued by the District (if authorized by the District's voters).

Following the issuance of the Bonds, the District will owe the Developer approximately \$35,736,000 for the Utility System, the Road System, and parks and recreational facilities located within the District.

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

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

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

No Arbitrage

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

Consolidation

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

Defeasance

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

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

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

Legal Investment and Eligibility to Secure Public Funds in Texas

The following is an excerpt 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.

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

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Use and Distribution of Bond Proceeds

Utility Bonds

Proceeds of the Utility Bonds will be used to reimburse the Developer for certain costs of constructing the Utility System, as shown below. Additionally, proceeds from the Utility Bonds will be used to pay for engineering costs related to the financed facilities, twelve (12) months of capitalized interest, developer interest, and certain costs of issuance of the Utility Bonds.

	District's Share
CONSTRUCTION COSTS	
A. Developer Items	
1. Water Plant No. 1 – Phase 1	\$ 895,896
2. Lift Station No. 2	558,607
3. Wastewater Treatment Plant Discharge Pipe	188,317
4. Waterline Interconnect with Quadvest	48,290
5. Waterline Interconnect with MC MUD No. 127	220,860
6. Engineering (items 1-5)	289,320
7. Materials Testing (items 1-5)	18,568
8. Storm Water Pollution Prevention – Water Plant No. 1	58,001
9. Geotechnical Reports – Water Plant No. 1	2,176
TOTAL CONSTRUCTION COSTS	<u>\$ 2,280,036</u>
NONCONSTRUCTION COSTS	
A. Legal Fees	\$ 100,000
B. Fiscal Agent Fees	68,000
C. Interest	
1. Capitalized Interest (12 months)	91,715
2. Developer Interest	444,490
D. Bond Discount	101,060
E. Operating Advances	116,757
F. Bond Application Report	65,000
G. Bond Issuance Expenses	33,317
H. TCEQ Bond Issuance Fee	8,500
I. Attorney General Fee (0.10% or \$9,500 max.)	3,400
J. Contingency (a)	87,726
TOTAL NONCONSTRUCTION COSTS	<u>\$ 1,119,964</u>
TOTAL BOND ISSUE REQUIREMENT	<u>\$ 3,400,000</u>

(a) Represents the sum of the difference between the estimated and actual amounts of capitalized interest and discount on the Utility Bonds.

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

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Road Bonds

Proceeds of the Road Bonds will be used to reimburse the Developer for certain costs of constructing the Road System, as shown below. Additionally, proceeds from the Road Bonds will be used to pay for engineering costs related to the financed facilities, six (6) months of capitalized interest, developer interest, and certain costs of issuance of the Road Bonds.

	<u>District's Share</u>
CONSTRUCTION COSTS	
A. Paving Construction Costs	
1. Woodson's Reserve Section 5	\$ 254,502
2. Woodson's Reserve Section 6	323,365
3. Woodson's Reserve Section 7	601,622
4. Woodson's Reserve Section 9	406,067
5. Woodson's Reserve Section 10- Phase 1	489,937
6. Woodson's Reserve Section 10 - Phase2	303,536
7. Woodson's Reserve Section 11 & Parkway Phase 4	869,971
8. Woodson's Reserve Section 12	272,729
9. Woodson's Reserve Section 13	319,526
10. Woodson's Reserve Section 14 & Parkway Phase 5	610,538
11. Woodson's Reserve Section 15	770,452
12. Woodson's Reserve Section 16	794,374
13. Woodson's Reserve Section 17	534,089
14. Woodson's Reserve Parkway Phase 3	620,988
15. Trench lane	147,309
16. Woodson's Reserve Parkway Pre-Cast Culvert	<u>1,051,853</u>
Subtotal Paving Construction Costs	\$ 8,370,858
B. Land Costs for Road Right of Way	
1. Woodson's Reserve Section 6	\$ 80,782
2. Woodson's Reserve Section 7	140,523
3. Woodson's Reserve Section 9	75,455
4. Woodson's Reserve Section 10	184,366
5. Woodson's Reserve Section 11 (Including Parkway Phase 4)	167,100
6. Woodson's Reserve Section 12	50,313
7. Woodson's Reserve Section 13	55,904
8. Woodson's Reserve Section 15	<u>164,210</u>
Subtotal Land Costs	\$ 918,653
TOTAL CONSTRUCTION COSTS	\$ 9,289,511
NONCONSTRUCTION COSTS	
A. Legal Fees	\$ 252,200
B. Fiscal Agent Fees	212,200
C. Interest	
1. Capitalized Interest (6 months)	142,553
2. Developer Interest	320,095
D. Bond Discount (3%)	318,300
E. Engineering Report	30,000
F. Bond Issuance Expenses	19,044
G. Attorney General Fee (0.10% or \$9,500 max.)	9,500
H. Contingency (a)	<u>16,597</u>
TOTAL NONCONSTRUCTION COSTS	\$ 1,320,489
TOTAL BOND ISSUE REQUIREMENT	<u>\$ 10,610,000</u>

(a) Represents the difference between the estimated and actual amounts of capitalized interest on the Road Bonds.

THE DISTRICT

Authority

The District was created by order of the TCEQ, dated September 2, 2005, and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended, and other general laws of the State of Texas applicable to municipal utility districts.

The District is empowered, among other things, to purchase, construct, operate, and maintain all works, improvements, facilities, and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; the control and diversion of storm water; and the construction of roads and related facilities.

The District also is authorized to construct, develop and maintain park and recreational facilities, including the issuance of bonds payable from taxes for such purposes. The District is also empowered to establish, operate and maintain fire-fighting facilities, independently or with one or more conservation and reclamation districts, after the approval by voters of the District.

The TCEQ exercises continuing supervisory jurisdiction over the District. Construction and operation of the District's Utility System is subject to the regulatory jurisdiction of additional governmental agencies. See "THE UTILITY SYSTEM – Regulation."

Description

At the time of creation, the District contained approximately 607 acres. Subsequent to creation, the District annexed approximately 85 acres and now contains approximately 692 acres. The District is located in southern Montgomery County, approximately 29 miles from the City of Houston central downtown business district, southeast of the Grand Parkway (Texas State Highway 99) near Birnham Woods Drive. The District is bordered on the northwest by the Grand Parkway, on the southwest and southeast by Bender's Landing, and on the northeast by undeveloped property. Major access to the District is provided by the Grand Parkway and Lexington Boulevard. In addition, the District is located within Conroe Independent School District. The District is not located within the corporate limits or extraterritorial jurisdiction of any municipality.

Management of the District

The District is governed by the Board, consisting of five directors, who have control over and management supervision of all affairs of the District. All of the Directors own property in the District. The directors serve four-year staggered terms. Elections are held in even numbered years in May. The current members and officers of the Board are listed below:

<u>Name</u>	<u>Title</u>	<u>Term Expires May</u>
Vanessa Rodriguez	President	2020
Bryan Kinsler	Vice President	2020
Tom Nguyen	Secretary	2022
Shamar O'Bryant	Assistant Secretary	2022
Lawrence Dean	Assistant Vice President	2020

Investment Policy

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

Consultants

Although the District does not have a general manager or any other full-time employees, it has contracted for utility system operating, bookkeeping, tax assessing and collecting, auditing, engineering, and legal services as follows:

Tax Assessor/Collector

The District has appointed an independent tax assessor/collector to perform the tax collection function. Mr. Avik Bonnerjee of B&A Municipal Tax Service, LLC (the "Tax Assessor/Collector") has been employed by the District to serve in this capacity.

Bookkeeper

The District has contracted with Municipal Accounts & Consulting, Inc. (the "Bookkeeper") for bookkeeping services.

Utility System Operator

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

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 period for fiscal year ending June 30, 2018, were audited by McGrath & Co., PLLC, Certified Public Accountants. The District has engaged McGrath & Co., PLLC to audit its financial statements for the fiscal year ending June 30, 2019. See "APPENDIX A" for a copy of the District's audited financial statements for the fiscal year ending June 30, 2018.

Engineer

The District's Engineer is Costello, Inc. (the "Engineer").

General/Bond Counsel

The District has engaged Allen Boone Humphries Robinson LLP, Houston, Texas, as general counsel to the District and as bond counsel ("Bond Counsel") in connection with the issuance of the Bonds. The fee to be paid to Bond Counsel in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. See "LEGAL MATTERS."

Disclosure Counsel

The District has engaged McCall Parkhurst & Horton, LLP, Houston, Texas, as disclosure counsel in connection with the issuance of the Bonds. The fee to be paid to Disclosure Counsel in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds.

Financial Advisor

Robert W. Baird & Co. Incorporated is engaged as Financial Advisor to the District in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement.

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DEVELOPMENT OF THE DISTRICT

Status of Development within the District

The District is being developed as Woodson’s Reserve, a single family residential master-planned community. The development in the District currently includes 951 single-family residential lots on approximately 294.62 acres developed as Woodson’s Reserve, Sections 1 – 12 and 14-16. As of August 26, 2019, 548 homes were completed (514 occupied, 34 unoccupied), 70 homes were under construction and 333 vacant developed lots were available for home construction. In addition, approximately 24.08 acres (78 lots) are being developed as Woodson’s Reserve, Sections 13 and 17. The remainder of the District consists of approximately 60 acres for school sites, approximately 25.30 undeveloped but developable acres and approximately 288 undevelopable acres. Recreational facilities for residents of the District include a 6,800 square foot clubhouse with a twenty-four hour fitness room, resort-style pool and lap pool along with open space and nature areas, a trail system, a dog park and community lakes.

The following is a status of construction of single-family housing within the District as of August 26, 2019:

Section	Acreage	Developed Lots	Homes		Remaining Vacant Lots
			Complete	Under Construction	
Woodson’s Reserve,					
Section 1	3.61	10	8	-	2
Section 2	27.69	78	78	-	-
Section 3	22.88	69	68	1	-
Section 4	24.27	52	50	-	2
Section 5	11.67	32	14	8	10
Section 6	13.48	39	37	2	-
Section 7	20.78	65	56	2	7
Section 8	25.61	88	88	-	-
Section 9	17.34	54	27	21	6
Section 10	30.04	135	105	8	22
Section 11	14.42	79	-	5	74
Section 12	18.52	36	17	14	5
Section 14	15.68	37	-	9	28
Section 15	28.34	89	-	-	89
Section 16	<u>20.29</u>	<u>88</u>	<u>-</u>	<u>-</u>	<u>88</u>
Residential Subtotal	294.62	951	548	70	333

DESCRIPTION OF THE DEVELOPER

Role of the Developer

In general, the activities of a developer in a municipal utility district such as the District include purchasing the land within the District, designing the subdivision, designing the utilities and streets to be constructed in the subdivision, designing any community facilities to be built, defining a marketing program and building schedule, securing necessary governmental approvals and permits for development, arranging for the construction of roads and the installation of utilities (including, in some cases, water, wastewater, and drainage facilities pursuant to the rules of the TCEQ, as well as gas, telephone, and electric service) and selling improved lots and commercial reserves to builders, developers, or other third parties. The relative success or failure of a developer to perform such activities in development of the property within a utility district may have a profound effect on the security of the unlimited tax bonds issued by a district. A developer is generally under no obligation to a district to develop the property which it owns in a district. Furthermore, there is no restriction on a developer’s right to sell any or all of the land which it owns within a district. In addition, a developer is ordinarily a major taxpayer within a municipal utility district during the development phase of the property.

The Developer

The Developer of the District is Toll Houston TX LLC (the “Developer”), a limited liability company wholly-owned by Toll Brothers, Inc. (“Toll Brothers”), a Delaware corporation. The Developer purchased the land within the District in 2012 and has completed the development of 951 single-family residential lots on approximately 294.62 acres and continues to own approximately 49.38 acres of developable acreage (including approximately 24.08 acres under construction or partially developed for the development of 78 single-family residential lots). Toll Brothers is a publicly traded corporation whose stock is listed on the New York Stock Exchange under the ticker of “TOL.” The Developer makes all development decisions and provides all financing for the development.

There is no financing associated with the Developer’s acquisition of the land or the development of the property in the District; the acquisition and development is paid with cash from Toll Brothers. “TAX DATA—Principal Taxpayers.”

Financial Information Regarding Toll Brothers: Toll Brothers files annual, quarterly and current reports, proxy statements and other information with the SEC. Toll Brothers’ SEC filings are available to the public over the internet at the SEC’s website at <http://www.sec.gov>. You may also read and copy any document that has been filed with the SEC at the SEC’s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information regarding the operation of the Public Reference Room. In addition, Toll Brothers makes available on its web site <http://www.tollbrothers.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 been electronically filed with the SEC. Unless otherwise specified, information contained on Toll Brothers’ web site, available by hyperlink from Toll Brothers’ web site or on the SEC’s web site, is not incorporated into this OFFICIAL STATEMENT. The District has not obtained any representations from Toll Brothers concerning its publicly available filings or undertaken any review thereof and assumes no responsibility for the information contained therein.

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

Homebuilders within the District

The homebuilders active within the District are Toll Brothers, Perry Homes, Village Builders, Chesmar Homes, and M/I Homes. New homes being constructed within the District are marketed in the price range of approximately \$268,100 to \$875,000 and range from approximately 1,828 square feet to 5,084 square feet.

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**PHOTOGRAPHS TAKEN WITHIN THE DISTRICT
(taken August 2019)**



**PHOTOGRAPHS TAKEN WITHIN THE DISTRICT
(taken August 2019)**



DISTRICT DEBT

Debt Service Requirement Schedule

The following schedule sets forth the principal and interest requirements for the Outstanding Bonds and the Bonds.

Calendar Year	Outstanding Debt Service	The Utility Bonds		The Road Bonds		Total Debt Service
		Principal	Interest	Principal	Interest	
2019	\$ 611,831	\$ -	\$ -	\$ -	\$ -	\$ 611,831
2020	981,963	85,000	84,574	270,000	261,347	1,682,884
2021	988,038	95,000	88,863	300,000	277,006	1,748,906
2022	996,938	100,000	86,013	310,000	265,006	1,757,956
2023	1,005,075	100,000	82,013	320,000	255,706	1,762,794
2024	1,010,375	105,000	79,013	330,000	246,106	1,770,494
2025	1,015,075	110,000	75,863	340,000	236,206	1,777,144
2026	1,024,065	110,000	73,663	350,000	229,406	1,787,134
2027	1,032,185	115,000	71,463	360,000	222,406	1,801,054
2028	1,039,425	120,000	69,163	370,000	215,206	1,813,794
2029	1,045,494	120,000	66,763	380,000	207,806	1,820,063
2030	1,045,356	125,000	64,363	390,000	200,206	1,824,925
2031	1,053,803	130,000	61,550	405,000	191,919	1,842,271
2032	1,055,540	135,000	58,625	415,000	182,806	1,846,971
2033	1,061,240	135,000	55,419	430,000	172,431	1,854,090
2034	1,065,196	140,000	52,044	440,000	161,681	1,858,921
2035	1,072,309	145,000	48,544	455,000	150,681	1,871,534
2036	1,073,153	150,000	44,738	470,000	138,738	1,876,628
2037	1,077,884	155,000	40,613	480,000	125,813	1,879,309
2038	1,085,490	160,000	36,350	495,000	112,613	1,889,453
2039	1,086,165	165,000	31,950	510,000	99,000	1,892,115
2040	1,085,515	170,000	27,000	525,000	83,700	1,891,215
2041	1,098,540	175,000	21,900	540,000	67,950	1,903,390
2042	654,450	180,000	16,650	560,000	51,750	1,462,850
2043	239,430	185,000	11,250	575,000	34,950	1,045,630
2044	-	190,000	5,700	590,000	17,700	803,400
Total	<u>\$24,504,533</u>	<u>\$ 3,400,000</u>	<u>\$ 1,354,080</u>	<u>\$10,610,000</u>	<u>\$4,208,141</u>	<u>\$ 44,076,754</u>

Average Annual Requirement - (2019-2044)..... \$1,695,260
 Maximum Annual Requirement - (2041)..... \$1,903,390

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Bonded Indebtedness

2019 Assessed Taxable Valuation.....		\$ 202,863,060 (a)
See "TAX DATA" and "TAXING PROCEDURES."		
Estimate of Valuation as of July 1, 2019.....		\$249,946,053 (b)
See "TAX DATA" and "TAXING PROCEDURES."		
Direct Debt:		
Outstanding Bonds.....	\$	15,980,000
The Utility Bonds.....		3,400,000
The Road Bonds.....		<u>10,610,000</u>
Total Direct Debt.....	\$	29,990,000
Estimated Overlapping Debt.....	\$	<u>8,140,410 (c)</u>
Total Direct and Estimated Overlapping Debt	\$	<u>38,130,410</u>
Utility System Debt Service Fund (as of August 26, 2019)	\$	698,914 (d)
Road System Debt Service Fund Balance (as of August 26, 2019)	\$	401,377 (e)
General Fund Balance (as of August 26, 2019).....	\$	820,190
Road System Capital Projects Fund Balance (as of August 26, 2019).....	\$	25,580
2019 Tax Rate per \$100 of Assessed Taxable Valuation		
Utility System Debt Service.....	\$0.240	
Road System Debt Service.....	0.505	
Maintenance	<u>0.605</u>	\$1.350
Direct Debt Ratios:		
As a percentage of 2019 Assessed Taxable Valuation		14.78 %
As a percentage of the Estimate of Valuation as of July 1, 2019.....		12.00 %
Direct and Estimated Overlapping Debt Ratios:		
As a percentage of 2019 Assessed Taxable Valuation		18.80 %
As a percentage of the Estimate of Valuation as of July 1, 2019.....		15.26 %

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- (a) As certified by the Montgomery Central Appraisal District (the "Appraisal District"). The value includes \$11,279,560 amount in uncertified value, which represents 80% of the total uncertified value provided by the Appraisal District which is the estimated minimum amount of the uncertified value that will ultimately be certified. All property located in the District is valued on the tax rolls by the Appraisal District at 100% of estimated market value as of January 1 of each year.
- (b) Provided by the Appraisal District for information purposes only. Represents new construction within the District from January 1, 2019 to July 1, 2019. The estimate is based upon the same unit value used in the assessed value. No taxes will be levied on this estimate. See "TAXING PROCEDURES."
- (c) See "DISTRICT DEBT - Estimated Direct and Overlapping Debt Statement."
- (d) Upon delivery of the Utility Bonds, twelve (12) months of capitalized interest on the Utility Bonds as well as accrued interest will be deposited into the Utility System Debt Service Fund. Neither Texas law nor the Utility Bond Resolution requires the District to maintain any particular sum in the Utility System Debt Service Fund. Funds in the Utility System Debt Service Fund are not available to pay Road System bond debt service, including the Road Bonds.
- (e) Upon delivery of the Road Bonds, six (6) months of capitalized interest on the Road Bonds as well as accrued interest will be deposited into the Road System Debt Service Fund. Neither Texas law nor the Road Bond Resolution requires the District to maintain any particular sum in the Road System Debt Service Fund. Funds in the Road System Debt Service Fund are not available to pay Utility System bond debt service, including the Utility Bonds.

Estimated Direct and Overlapping Debt Statement

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 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. Furthermore, certain of the entities listed below may have issued additional bonds since the dates stated in this table, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot presently be determined. 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 Debt as of August 31, 2019	Estimated Overlapping	
		Percent	Amount
Conroe ISD	\$1,207,585,000	0.52%	\$ 6,309,383
Montgomery County	522,350,000	0.35	<u>1,831,027</u>
Total Estimated Overlapping Debt The District			\$ 8,140,410 <u>29,990,000(a)</u>
Total Direct & Estimated Overlapping Debt			<u>\$ 38,130,410(a)</u>

(a) Excludes September 1, 2019 debt service payments and includes the Bonds.

Debt Ratios

	% of 2019 Assessed Taxable Valuation	% of Estimate of Valuation as of July 1, 2019
Direct Debt (a)	14.78%	12.00%
Direct and Estimated Overlapping Debt (a)	18.80%	15.26%

(a) Includes the Bonds.

TAXING PROCEDURES

Authority to Levy Taxes

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

Property Tax Code and County-wide Appraisal District

Title 1 of the Texas Tax Code (the "Property Tax Code") specifies the taxing procedures of all political subdivisions of the State of Texas, including the District. Provisions of the Property Tax Code are complex and are not fully summarized herein. The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas an appraisal district with the responsibility for recording and appraising property for all taxing units within a county and an appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. The Appraisal District has the responsibility of appraising property for all taxing units within Montgomery County, including the District. Such appraisal values will be subject to review and

change by the Montgomery Central Appraisal Review Board (the "Appraisal Review Board"). The appraisal roll, as approved by the Appraisal Review Board, will be used by the District in establishing its tax rolls and tax rate.

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: property owned by the State of Texas or its political subdivisions, if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies and personal effects; certain goods, wares, and merchandise in transit; certain farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually-owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons 65 years or older and certain disabled persons, to the extent deemed advisable by the Board of Directors of the District. The District may be required to offer such exemptions if a majority of voters approve same at an election. The District would be required to call an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the preceding election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District's obligation to pay tax supported debt incurred prior to adoption of the exemption by the District. Furthermore, the District must grant exemptions to disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces, if requested, but only to the maximum extent of between \$5,000 and \$12,000 depending upon the disability rating of the veteran claiming the exemption. A veteran who receives a disability rating of 100% is entitled to an exemption for the full value of the veteran's residence homestead. Furthermore, qualifying surviving spouses of persons 65 years of age and older are entitled to receive a resident homestead exemption equal to the exemption received by the deceased spouse. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. This exemption will also apply to a residence homestead that was donated by a charitable organization at some cost to such veterans. Also, the surviving spouse of a member of the armed forces who was killed in action is entitled to an exemption of the total appraised value of the surviving spouse's residence homestead if the surviving spouse has not remarried since the service member's death and said property was the service member's residence homestead at the time of death. Such exemption may be transferred to a subsequent residence homestead of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

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

Residential Homestead Exemptions: The Property Tax Code authorizes the governing body of each political subdivision in the State to exempt up to twenty percent (20%) of the appraised market value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of a homestead exemption may be considered each year, but must be adopted by before July 1. The District has never adopted a homestead exemption. See "TAX DATA - Exemptions."

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

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

Tax Abatement

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

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Property Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Property Tax Code. Nevertheless, certain land may be appraised at less than market value, as such is defined in the Property Tax Code. The Texas Constitution limits increases in the appraised value of residence homesteads to 10 percent annually regardless of the market value of the property.

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

based on the new use, including taxes for the previous three years for agricultural use and taxes for the previous five years for open space land and timberland.

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

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

District and Taxpayer Remedies

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

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

Levy and Collection of Taxes

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

Rollback of Operation and Maintenance Tax Rate

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

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

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

Special Taxing Units

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

Developed Districts

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

Developing Districts

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

The District

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

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

TAX DATA

General

All taxable property within the District is subject to the assessment, levy and collection by the District of a continuing direct annual ad valorem tax without legal limitation as to rate or amount, sufficient to pay principal of and interest on the Bonds (see “TAXING PROCEDURES”). The Board has in its Bond Resolutions covenanted to assess and levy for each year that all or any part of the Bonds remain outstanding and unpaid a tax ample and sufficient to produce funds to pay the principal of and interest on the Bonds. The District levied a maintenance tax rate of \$0.605 per \$100 of assessed valuation, a Utility System debt service tax rate of \$0.240 per \$100 of assessed valuation, and a Road System debt service tax rate of \$0.505 per \$100 of assessed valuation for the 2019 tax year.

Tax Rate Limitation

Debt Service:	Unlimited (no legal limit as to rate or amount).
Maintenance (general):	\$1.50 per \$100 of assessed valuation.
Maintenance (roads):	\$0.25 per \$100 of assessed valuation.

Debt Service Tax

The District covenants in the Bond Resolutions to levy and assess, for each year that all or any part of the Bonds and Outstanding 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. The District levied its initial debt service tax for the Road System in 2017 and its initial debt service tax for the Utility System in 2018. See “- Tax Rate Distribution” below, and “TAXING PROCEDURES.”

Maintenance Tax

The District has the statutory authority to levy and collect an annual ad valorem tax for the operation and maintenance of the District, if such a maintenance tax is authorized by the District’s voters. A maintenance tax election was conducted November 15, 2013, 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 of assessed valuation. A maintenance

tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds. See “- Debt Service Tax” above and “- Tax Rate Distribution” below.

The District also has the authority to levy and collect an annual ad valorem tax for the maintenance of roads within the District, if such a maintenance tax is authorized by the District’s voters. At the maintenance tax election conducted on November 15, 2013, voters of the District authorized the Board to levy a maintenance tax for roads at a rate not to exceed \$0.25 per \$100 of assessed valuation. To date, the District has not levied a maintenance tax for roads.

Additional Penalties

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

Tax Rate Calculations

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 of Assessed Taxable Valuation which would be required to meet certain debt service requirements if no growth in the District’s tax base occurs beyond the 2019 Assessed Taxable Valuation (\$202,863,060) or the Estimate of Valuation as of July 1, 2019 (\$249,946,053). The calculations assume collection of 95% of taxes levied and the sale of the Bonds but not the sale of any additional bonds by the District.

Average Annual Debt Service Requirements (2019-2044).....	\$1,695,260
Tax Rate of \$0.88 on the 2019 Assessed Taxable Valuation produces.....	\$1,695,935
Tax Rate of \$0.72 on the Estimate of Valuation as of July 1, 2019 produces.....	\$1,709,631
Maximum Annual Debt Service Requirement (2041).....	\$1,903,390
Tax Rate of \$0.99 on the 2019 Assessed Taxable Valuation produces.....	\$1,907,927
Tax Rate of \$0.81 on the Estimate of Valuation as of July 1, 2019.....	\$1,923,335

Estimated Overlapping Taxes

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

Set forth below is an estimation of all taxes per \$100 of assessed valuation levied by such jurisdictions. No recognition is given to local assessments for civic association dues, emergency medical service contributions, fire department contributions or any other charges made by entities other than political subdivisions. The following chart includes the 2018 taxes per \$100 of assessed valuation levied by all such taxing jurisdictions.

<u>Taxing Jurisdictions</u>	<u>2018 Tax Rate Per \$100 of Assessed Taxable Valuation</u>
The District	\$1.350000
Conroe ISD	0.280000
Montgomery County	0.466700
Montgomery County Hospital District	<u>0.059900</u>
Total Tax Rate	<u>\$2.156600</u>

Historical Tax Collections

<u>Tax Year</u>	<u>Assessed Valuation</u>	<u>Tax Rate/ \$100 (a)</u>	<u>Adjusted Levy</u>	<u>% of Collections Current Tax Year</u>	<u>Tax Year Ended 9/30</u>	<u>% of Collections as of 6/30/2019</u>
2015	\$5,279,940	\$1.3500	\$71,279	100.00%	2016	100.00%
2016	32,760,484	1.3500	442,267	99.98%	2017	100.00%
2017	63,880,301	1.3500	862,384	99.90%	2018	100.00%
2018	102,186,248	1.3500	1,379,514	99.87%	2019	99.87%

(a) See "Tax Rate Distribution."

Tax Rate Distribution

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Road System Debt Service	\$0.505	\$0.485	\$0.420	\$0.000	\$0.000
Utility System Debt Service	0.240	0.295	0.000	0.000	0.000
Maintenance	<u>0.605</u>	<u>0.570</u>	<u>0.930</u>	<u>1.350</u>	<u>1.350</u>
Total	\$1.350	\$1.350	\$1.350	\$1.350	\$1.350

Assessed Taxable Valuation Summary

The following represents the type of property comprising the 2015-2019 tax rolls as certified by the Appraisal District.

<u>Type of Property</u>	<u>2019 Assessed Taxable Valuation</u>	<u>2018 Assessed Taxable Valuation</u>	<u>2017 Assessed Taxable Valuation</u>	<u>2016 Assessed Taxable Valuation</u>	<u>2015 Assessed Taxable Valuation</u>
Land	\$ 55,531,658	\$ 38,899,700	\$ 20,308,200	\$ 15,726,100	\$ 4,843,790
Improvements	211,575,208	133,023,060	46,322,290	18,249,940	461,140
Personal Property	1,111,333	737,517	392,917	282,116	0
Exemptions	<u>(65,555,139)</u>	<u>(70,474,029)</u>	<u>(3,143,106)</u>	<u>(1,497,672)</u>	<u>(24,990)</u>
Total	\$ 202,863,060	\$ 102,186,248	\$ 63,880,301	\$ 32,760,484	\$ 5,279,940

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Principal Taxpayers

The following are the principal taxpayers in the District as shown on the District’s certified appraisal rolls for the 2019 tax year.

Taxpayer	Type of Property	Assessed Taxable Valuation 2019 Tax Roll
Toll Houston TX LLC (a)	Land & Improvements	\$11,666,560
Perry Homes LLC (b)	Land & Improvements	3,856,230
M/I Homes of Houston LLC (b)	Land & Improvements	2,996,940
Lennar Homes of Texas Land & Construction Ltd (b)	Land & Improvements	2,821,460
Taylor Morrison of Texas Inc (b)	Land & Improvements	1,477,550
Meritage Homes of Texas LLC (b)	Land & Improvements	1,111,210
Homeowner	Land & Improvements	959,260
Homeowner	Land & Improvements	914,980
Homeowner	Land & Improvements	904,470
Homeowner	Land & Improvements	<u>902,850</u>
Total		<u>\$27,611,510</u>
% of 2019 Tax Roll		<u>13.61%</u>

(a) See “DESCRIPTION OF THE DEVELOPER – The Developer.”

(b) See “DESCRIPTION OF THE DEVELOPER – Homebuilders within the District.”

THE UTILITY SYSTEM

Regulation

Construction and operation of the District’s water, wastewater and storm drainage system as it now exists or as it may be expanded from time to time is subject to regulatory jurisdiction of federal and state authorities. The TCEQ exercises continuing, supervisory authority over the District. Discharge of treated sewage into Texas waters is also subject to the regulatory authority of the TCEQ and the United States Environmental Protection Agency. The Texas Department of Health also exercises regulatory jurisdiction over the District’s Utility System.

Water Supply

The District owns and operates a water supply plant that consists of a 1,200 gallon per minute (“gpm”) water supply well, a 400,000 gallon ground storage tank, three 1,200 gpm booster pumps and one 20,000 gallon hydropneumatic tank (“Water Plant Phase 1”). Water Plant Phase 1 will adequately serve up to 1,000 equivalent single-family connections (“ESFCs”). As of August 26, 2019, the District was serving 618 active ESFCs, including 70 homes under construction or in a builder’s name.

In addition, the District is currently expanding the water plant facility that consists of a second 400,000 gallon ground storage tank and a 20,000 hydropneumatic tank to serve the District (“Water Plant Phase 2”). Upon completion of Water Plant Phase 2, the District’s water plant facilities will adequately serve up to 1,500 ESFCs. According to the District’s Engineer, expansion of the District’s water plant facilities will be complete by the first quarter of 2020.

Subsidence District Requirements

Lone Star Groundwater Conservation District: The District is located within the boundaries of the Lone Star Groundwater Conservation District (the “Conservation District”), which was created by the Texas Legislature to conserve, protect and enhance the groundwater resources of Montgomery County. The Conservation District has adopted rules and a regulatory plan for the conservation, preservation, protection, recharge and prevention of waste of groundwater, groundwater reservoirs or their subdivisions and to control subsidence caused by the withdrawal of groundwater from those groundwater resources or their subdivisions.

The Conservation District requires persons and entities, including the District, that pump groundwater from wells to apply for and obtain permits for the withdrawal of groundwater under terms and conditions provided in the Conservation District’s rules. The Conservation District has adopted its District Regulatory Plan which calls for the reduction of groundwater withdrawal throughout Montgomery County to volumes

that do not exceed the recharge capabilities of aquifers in Montgomery County to prevent the long term depletion of the aquifers.

Large volume water users, including the District, were required to submit a Groundwater Reduction Plan (GRP) individually, or jointly with other large volume water users, to ensure that necessary progress is made by each participant to appropriately plan, finance, design, construct, and otherwise implement conservation measures and or develop an alternative water source so that, by the end of calendar year 2016, it will have met its initial conversion obligation.

On January 1, 2014, the District joined the Joint GRP administered by the San Jacinto River Authority (“SJRA”). The District is a participant by contract to this countywide, collaborative solution to groundwater reduction. As Administrator of the Joint GRP, SJRA delivers alternative water, namely surface water from Lake Conroe, to certain of its participants. SJRA completed a 24 million gallon per day surface water treatment plant and transmission system as of September 18, 2015. SJRA began delivery of treated surface water to meet the initial conversion obligation of January 1, 2016. The District is not currently receiving surface water from SJRA; however, the District pays a pumpage fee, which is \$2.73 (effective September 1, 2019) per 1,000 gallons of water pumped.

Wastewater Treatment

The District owns and operates a 250,000 gallon per day (“gpd”) wastewater treatment plant (“WWTP Phase 1”). WWTP Phase 1 has the capacity to serve up to 750 ESFCs. As of August 26, 2019, the District was serving 618 active ESFCs, including 70 homes under construction or in a builder’s name.

In addition, the District is currently constructing a 250,000 gpd expansion (“WWTP Phase 2”), which will increase the District’s wastewater treatment capacity to 1,500 ESFCs. According to the District’s Engineer, WWTP Phase 2 is anticipated to be complete by the first quarter of 2020.

Water Distribution, Wastewater Collection and Storm Drainage Facilities

Water distribution, wastewater collection and storm drainage facilities have been constructed to serve 604 single-family residential lots.

100-Year Flood Plain

“Flood Insurance Rate Map” or “FIRM” means an official map of a community on which the Federal Emergency Management Agency (FEMA) has delineated the appropriate areas of flood hazards. The 1% chance of probable inundation, also known as the 100-year flood plain, is depicted on these maps. The “100-year flood plain” (or 1% chance of probable inundation) as shown on the FIRM is the estimated geographical area that would be flooded by a rain storm of such intensity to statistically have a one percent chance of occurring in any given year. Generally speaking, homes must be built above the 100-year flood plain in order to meet local regulatory requirements and to be eligible for federal flood insurance. An engineering or regulatory determination that an area is above the 100-year flood plain is not an assurance that homes built in such area will not be flooded, 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, approximately 59 non-developable acres within the District are within the 100-year flood plain. None of the developed lots or developable acreage within the District are located within the 100-year flood plain. All District facilities are constructed to elevations above the 100-year flood plain per regulatory requirements. See “INVESTMENT CONSIDERATIONS—Extreme Weather Events.”

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General Fund Operating Statement

The following is a summary of the District's Operating Fund for the last four years. The amounts for the fiscal years ended June 30, 2015 through June 30, 2018, were obtained from the District's audited financial statements, reference to which is hereby made, and the amounts for the fiscal year ended June 30, 2019 were obtained from the District's bookkeeper.

	<u>6/30/2019(a)</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
REVENUES					
Water Service	\$ 343,685	\$ 173,051	\$ 73,195	\$ 51,054	\$ 4,560
Sewer Service	344,873	194,817	87,122	44,359	2,935
Property Taxes	569,213	596,238	438,784	71,279	1,382
Penalty & Interest	7,746	5,420	5,478	2,390	80
San Jacinto River Authority Fees	196,234	104,367	66,808	44,161	1,681
Tap Connection & Inspection	348,905	331,938	377,230	115,307	54,270
Miscellaneous	211,920	6,935	6,509	7,472	-
Investment Earnings	<u>15,346</u>	<u>3,428</u>	<u>1,338</u>	<u>60</u>	<u>-</u>
TOTAL REVENUES	\$ 2,037,922	\$1,416,194	\$1,056,464	\$ 336,082	\$ 64,908
EXPENDITURES					
Purchased Services	-	-	-	-	\$ 6,997
Professional Fees	\$ 156,096	\$257,329	\$ 228,208	\$ 153,808	133,137
Contracted Services	319,280	254,728	303,465	172,683	67,784
Repairs & Maintenance	605,289	518,631	284,805	47,355	10,197
Utilities	146,138	123,772	93,385	51,800	10,815
San Jacinto River Authority Fees	239,072	173,089	115,671	51,678	14,165
Administrative	40,828	37,058	32,346	23,842	12,996
Other	28,722	28,496	8,965	8,494	3,116
Capital Outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	20,600
TOTAL EXPENDITURES	\$ 1,535,425	\$1,393,103	\$1,066,845	\$ 509,660	\$ 279,807
Excess Revenues (Expenditures)	<u>\$ 502,497</u>	<u>\$ 23,091</u>	<u>(\$ 10,381)</u>	<u>(\$ 173,578)</u>	<u>(\$ 214,899)</u>

(a) Unaudited. Information obtained from the District's bookkeeper.

THE ROAD SYSTEM

The District is primarily served by the Grand Parkway (Texas State Highway 99), Lexington Boulevard and Birnham Woods Drive. The internal subdivision streets direct residents to Woodson's Reserve Parkway. Both Birnham Woods Drive and Lexington Boulevard are designated thoroughfares on the Montgomery County thoroughfares plan. Montgomery County is responsible for ongoing maintenance of the public roads in the District, except for the decorative additions inside the road. The District is responsible for the replacement of any road or bridge features that exceed the minimum Montgomery County standards and specifications for thoroughfares.

INVESTMENT CONSIDERATIONS

General

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

owners or that there will be a market for the property or that owners of the property will have the ability to pay taxes. See “Registered Owners’ Remedies and Bankruptcy Limitations” below.”

Factors Affecting Taxable Values and Tax Payments

Economic Factors: The rate of development of the District is directly related to the vitality of the residential housing industry. New residential housing construction can be significantly affected by factors such as interest rates, construction costs, and consumer demand. Decreased levels of home construction activity would restrict the growth of property values in the District. The District cannot predict the pace or magnitude of any future development or home construction in the District.

Developer: There is no commitment by or legal requirement of the Developer or any other landowner to the District to proceed at any particular rate or according to any specified plan with the development of land in the District, or of any homebuilder to proceed at any particular pace with the construction of homes in the District. Moreover, there is no restriction on any landowner’s right to sell its land. Therefore, the District can make no representation about the probability of future development, if any, or the rate of future home construction activity in the District. Failure to construct taxable improvements on developed lots would restrict the rate of growth of taxable values in the District and result in higher tax rates. See “DEVELOPMENT OF THE DISTRICT,” “DESCRIPTION OF THE DEVELOPER” and “TAX DATA – Principal Taxpayers.”

Dependence on Principal Taxpayers: The ability of any principal landowner to make full and timely payments of taxes levied against its property by the District and similar taxing authorities will directly affect the District’s ability to meet its debt service obligations. As illustrated in this Official Statement under the caption “TAX DATA - Principal Taxpayers”, the District’s principal (top ten) taxpayers in 2019 owned property located within the District the aggregate assessed valuation of which comprised approximately 13.61% of the District’s total 2019 Assessed Taxable Valuation. The Developer owns approximately 5.75% of the District’s 2019 Assessed Taxable Valuation. In the event that the Developer or any other taxpayer, or any combination of principal taxpayers, should default in the payment of taxes in an amount which exceeds the District’s debt service fund surplus, the ability of the District to make timely payment of debt service on the Bonds will be dependent on its ability to enforce and liquidate its tax liens, which is a time-consuming process. Failure to recover or borrow funds in a timely fashion could result in an excessive District tax rate. The District is not required by law or the Bond Resolutions to maintain any specified amount of surplus in its interest and sinking fund. See “TAX DATA - Principal Taxpayers” and “TAXING PROCEDURES – Levy and Collection of Taxes.”

Maximum Impact on District Tax Rates: Assuming no further development or home construction, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of property owners to pay their taxes. The 2019 Assessed Taxable Valuation of property located within the District (see “TAX DATA”) is \$202,863,060 and the Estimate of Valuation as of July 1, 2019 is \$249,946,053. After issuance of the Bonds, the maximum annual debt service requirement will be \$1,903,390 (2041) and the average annual debt service requirements will be \$1,695,260 (2019-2044). Assuming no increase to nor decrease from the 2019 Assessed Taxable Valuation, tax rates of \$0.99 and \$0.88 per \$100 of assessed valuation at a 95% tax collection rate would be necessary to pay the maximum annual debt service requirement and the average annual debt service requirements, respectively. Assuming no increase to nor decrease from the Estimate of Valuation as of July 1, 2019, tax rates of \$0.81 and \$0.72 per \$100 of assessed valuation at 95% tax collection rate would be necessary to pay the maximum annual debt service requirement and the average annual debt service requirements, respectively.

The District can make no representation that the taxable property values in the District will increase in the future or will maintain a value sufficient to support the proposed District tax rate or to justify continued payment of taxes by property owners. The District levied a total tax rate of \$1.35 per \$100 of assessed valuation comprised of a maintenance tax rate of \$0.605 per \$100 of assessed valuation, a Utility System debt service tax rate of \$0.240 per \$100 of assessed valuation, and a Road System debt service tax rate of \$0.505 per \$100 of assessed valuation for 2019.

Extreme Weather Events

The greater Houston area, including the District, is subject to occasional severe weather events, including tropical storms and hurricanes. The greater Houston area has experienced three storms exceeding a 0.2% probability (i.e. “500-year flood” events) since 2015. The most recent event was Hurricane Harvey

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

According to the District's Developer (as defined herein), the District's Utility System did not sustain any material damage and there was no interruption of water and wastewater service as a result of Harvey. Further, according to the Developer, no homes within the District experienced structural flooding or other material damages as a result of Harvey. See "TAXING PROCEDURES – Valuation of Property for Taxation."

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 – Factors Affecting Taxable Values and Tax Payments – Maximum Impact on District Tax Rates."

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.

Competitive Nature of Houston Residential Housing Market

The housing industry in the Houston area is very competitive, and the District can give no assurance that the building programs which are planned by any homebuilder(s) will be continued or completed. The respective competitive position of the homebuilders listed herein and any other developer or homebuilder(s) which might attempt future homebuilding or development projects in the District, the sale of developed lots or the construction and sale of single-family residential units are affected by most of the factors discussed in this section, and such competitive positions are directly related to tax revenues received by the District and the growth and maintenance of taxable values in the District.

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 procedures against a taxpayer, (c) market conditions limiting the proceeds from a foreclosure sale of taxable property, or (d) the taxpayer's right to redeem the property within two years of foreclosure for residential homestead and agricultural use property and within six (6) months of foreclosure for other property. While the District has a lien on taxable property within the District for taxes levied against such property, such lien can be foreclosed only in a judicial proceeding. Moreover, the value of property to be sold for delinquent taxes and thereby the potential

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

Registered Owners' Remedies and Bankruptcy Limitations

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

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

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

Marketability

The District has no understanding (other than the initial reoffering yields) with the winning bidders for the Bonds (the "Underwriters") regarding the reoffering yields or prices of the Bonds and has no control over the trading of the Bonds in the secondary market. Moreover, there is no assurance that a secondary market will be made for the Bonds. If there is a secondary market, the difference between the bid and asked price of the Bonds may be greater than the bid and asked spread of other bonds generally bought, sold or traded in the secondary market. See "SALE AND DISTRIBUTION OF THE BONDS."

Bond Insurance Risk Factors

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

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

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

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

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

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

Future Debt

The District has the right to issue the remaining \$249,000,000 authorized but unissued unlimited tax bonds for the purpose of acquiring and/or constructing the Utility System and for refunding such bonds, \$128,105,000 authorized but unissued unlimited tax bonds for the purpose of acquiring and/or constructing the Road System and for refunding such bonds, and \$69,000,000 authorized but unissued unlimited tax bonds for the purpose of acquiring and/or constructing park and recreational facilities and refunding such bonds

remaining after the issuance of the Bonds (see “THE BONDS - Issuance of Additional Debt”), and such additional bonds as may hereafter be approved by both the Board and voters of the District.

After the issuance of the Bonds, the District will owe the Developer approximately \$35,736,000 for the Utility System, the Road System, and parks and recreational facilities. If additional bonds are issued in the future and property values have not increased proportionately, such issuance may increase gross debt/property valuation ratios and thereby adversely affect the investment quality or security of the Bonds. See “THE BONDS – Issuance of Additional Debt.”

The District’s Engineer estimates that the aforementioned \$249,000,000 authorized Utility System bonds which remain unissued will be adequate to acquire and/or construct Utility System facilities to serve all of the currently undeveloped portions of the District.

The District’s Engineer estimates that the aforementioned \$128,105,000 authorized Road System bonds which remain unissued will be adequate to acquire and/or construct Road System facilities to serve all of the currently undeveloped portions of the District.

Continuing Compliance with Certain Covenants

The Bond Resolutions contain covenants by the District intended to preserve the exclusion from gross income of interest on the Bonds. Failure of the District to comply with such covenants 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 “TAX MATTERS.”

Environmental Regulations

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

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

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

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

The HGB Area is currently designated as a severe ozone nonattainment area under the 1997 Ozone Standards. While the EPA has revoked the 1997 Ozone Standards, the EPA historically has not formally redesignated nonattainment areas for a revoked standard. As a result, the HGB Area remained subject to

continuing severe nonattainment area “anti-backsliding” requirements, despite the fact that HGB Area air quality has been attaining the 1997 Ozone Standards since 2014. In late 2015, the EPA approved the TCEQ’s “redesignation substitute” for the HGB Area under the revoked 1997 Ozone Standards, leaving the HGB Area subject only to the nonattainment area requirements under the 2008 Ozone Standard (and later, the 2015 Ozone Standard).

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

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

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

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

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

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

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

Texas Pollutant Discharge Elimination System (“TPDES”) permits set limits on the type and quantity of discharge, in accordance with state and federal laws and regulations. The TCEQ reissued the TPDES Construction General Permit (TXR150000), with an effective date of March 5, 2018, which is a general permit authorizing the discharge of stormwater runoff associated with small and large construction sites and certain

nonstormwater discharges into surface water in the state. It has a 5-year permit term, and is then subject to renewal. Moreover, the Clean Water Act (“CWA”) and Texas Water Code require municipal wastewater treatment plants to meet secondary treatment effluent limitations and more stringent water quality-based limitations and requirements to comply with the Texas water quality standards. Any water quality-based limitations and requirements with which a municipal utility district must comply may have an impact on the municipal utility district’s ability to obtain and maintain compliance with TPDES permits.

The TCEQ issued the General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the “MS4 Permit”) 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. While the District is currently not subject to the MS4 Permit, if the District’s inclusion were required at a future date, the District could incur substantial costs to develop, implement, and maintain the necessary plans as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff in order to comply with the MS4 Permit.

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

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

On September 12, 2019, the ERPA and USACE finalized a rule repealing the CWR, this reinstating the regulatory text that existed prior to the adoption of the CWR. This repeal will officially become final sixty days after its publication in the Federal Register.

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

Due to the pending rulemaking activity, there remains significant 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.

Changes in Tax Legislation

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

LEGAL MATTERS

Legal Opinions

Delivery of the Bonds will be accompanied by the approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the District under the Constitution and laws of the State of Texas, payable from the proceeds of an annual ad valorem tax levied, without legal limit as

to rate or amount, upon all taxable property within the District, and, based upon their examination of a transcript of certified proceedings relating to the issuance and sale of the Bonds, the approving legal opinion of Bond Counsel, to a like effect and to the effect that, under existing law, (i) interest on the Bonds is excludable from gross income for federal tax purposes and (ii) interest on the Bonds is not subject to the alternative minimum tax on individuals.

Bond Counsel has reviewed the information appearing in this Official Statement under "THE BONDS (except for information under the subheadings "- Book-Entry-Only System" and "- Use and Distribution of Bond Proceeds"), "THE DISTRICT - Authority," "TAXING PROCEDURES," "LEGAL MATTERS," "TAX MATTERS" and "CONTINUING DISCLOSURE OF INFORMATION" solely to determine whether such information, insofar as it relates to matters of law, is true and correct and whether such information fairly summarizes matters of law and the provisions of the documents referred to therein. Bond Counsel has not, however, independently verified any of the factual information contained in this Official Statement nor has it conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of any information contained herein.

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

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

No-Litigation Certificate

The District will furnish each of the Underwriters a certificate, executed by the President and Secretary of the Board, and dated as of the date of delivery of each series of Bonds, that to their knowledge, no litigation is pending or threatened affecting the validity of each series of Bonds, or the levy and/or collection of taxes for the payment thereof, or the organization or boundaries of the District, or the title of the officers thereof to their respective offices.

No Material Adverse Change

The obligations of the Underwriters to take and pay for the Bonds, and of the District to deliver the Bonds, are subject to the condition that, up to the time of delivery of and receipt of payment for the Bonds, there shall have been no material adverse change in the condition (financial or otherwise) of the District 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 sale.

TAX MATTERS

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

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

Bond Counsel's opinion will assume continuing compliance with the covenants of the Bond Resolutions pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Bonds

for federal income tax purpose, and in addition, will rely on representations by the District and the Underwriters with respect to matters solely within the knowledge of the District and the Underwriters, respectively, which Bond Counsel has not independently verified. If the District should fail to comply with the covenants in the Bond Resolutions or if the foregoing representations or report should be determined to be inaccurate or incomplete, interest on the Bonds could become taxable from the date of delivery of the Bonds, regardless of the date on which the event causing such taxability occurs.

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

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

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

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

Tax Accounting Treatment of Original Issue Discount Bonds

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

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

regarding interest on the Bonds under the caption "TAX MATTERS" generally applies, except as otherwise provided below, to original issue discount on a Original Issue Discount Bond held by an owner who purchased such Bond at the initial offering price in the initial public offering of the Bonds, and should be considered in connection with the discussion in this portion of the Official Statement.)

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

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

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

Not Qualified Tax-Exempt Obligations

The Bonds are not designated as "qualified tax-exempt obligations" for financial institutions.

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

The District will provide certain updated financial information and operating data to the MSRB annually. The financial information and operating data which will be provided with respect to the District includes all quantitative financial information and operating data of the general type included in this Official Statement under the headings "DISTRICT DEBT" (except for "Estimated Direct and Overlapping Debt Statement"), "TAX DATA," and in APPENDIX A - FINANCIAL STATEMENTS OF THE DISTRICT. The District will update and provide this information within six months after the end of each of its fiscal years ending in or after 2019.

Any information so provided shall be prepared in accordance with generally accepted accounting principles or other such principles as the District may be required to employ from time to time pursuant to state law or regulation, and audited if the audit report is completed within the period during which it must be provided. If the audit report is not complete within such period, then the District shall provide unaudited financial statements for the applicable fiscal year to the MSRB within such six month period, and audited financial statements when and if the audit report becomes available.

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

Event Notices

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other material 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 17 CFR § 240.15c2-12 (the "Rule"); (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District or other obligated person within the meaning of the Rule, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District or other obligated person within meaning of the Rule, any of which affect Beneficial Owners of the Bonds, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District or other obligated person within meaning of the Rule, any of which reflect financial difficulties. The term "material" when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Resolutions make any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information from EMMA

The District has agreed to provide the information only to the MSRB. The MSRB has prescribed that such information must be filed via EMMA. The MSRB makes the information available to the public without charge and investors will be able to 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 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 the Underwriters to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments and interpretations of the Rule 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 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 such rule 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 Underwriters 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 reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance with Prior Undertakings

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

OFFICIAL STATEMENT

General

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

The District's audited financial statements for the year ended June 30, 2018, were prepared by McGrath & Co., PLLC, Certified Public Accountants, and have been included herein as "APPENDIX A." McGrath & Co., PLLC, Certified Public Accountants, has consented to the publication of such financial statements in this Preliminary Official Statement.

Experts

The information contained in the Official Statement relating to engineering and to the description of the Utility System and the Road System, and, in particular, that engineering information included in the sections entitled "THE DISTRICT - Description", "THE UTILITY SYSTEM" and "THE ROAD SYSTEM" has been provided by Costello, Inc. and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

The information contained in the Official Statement relating to assessed valuations of property generally and, in particular, that information concerning collection rates and valuations contained in the sections captioned "TAX DATA" was provided by B&A Municipal Tax Service, LLC and the Appraisal District. Such information has been included herein in reliance upon B&A Municipal Tax Service, LLC's authority as an expert in the field of tax collection and the Appraisal District's authority as an expert in the field of tax assessing.

Certification as to Official Statement

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

Updating of Official Statement

If, subsequent to the date of the Official Statement, the District learns, through the ordinary course of business and without undertaking any investigation or examination for such purposes, or is notified by the

Underwriters, of any adverse event which causes the Official Statement to be materially misleading, and unless the Underwriters elect to terminate its obligation to purchase the Bonds, the District will promptly prepare and supply to the Underwriters an appropriate amendment or supplement to the Official Statement satisfactory to the Underwriters; provided, however, that the obligation of the District to so amend or supplement the Official Statement will terminate when the District delivers the Bonds to the Underwriters, unless the Underwriters notify the District in writing on or before such date that less than all of the Bonds have been sold to ultimate customers, in which case the District's obligations hereunder will extend for an additional period of time (but not more than 90 days after the date the District delivers the Bonds) until all of the Bonds have been sold to ultimate customers.

CONCLUDING STATEMENT

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

This Official Statement was approved by the Board of Directors of Montgomery County Municipal Utility District No. 105 as of the date shown on the first page hereof.

/s/ Vanessa Rodriguez
President, Board of Directors
Montgomery County Municipal Utility District No. 105

ATTEST:

/s/ Tom Nguyen
Secretary, Board of Directors
Montgomery County Municipal Utility District No. 105

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APPENDIX A
FINANCIAL STATEMENTS OF THE DISTRICT

EXHIBIT B

**MONTGOMERY COUNTY MUNICIPAL
UTILITY DISTRICT NO. 105**

MONTGOMERY COUNTY, TEXAS

FINANCIAL REPORT

June 30, 2018

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McGRATH & CO., PLLC

Certified Public Accountants
2500 Tanglewilde, Suite 340
Houston, Texas 77063

Independent Auditors' Report

Board of Directors
Montgomery County Municipal Utility District No. 105
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. 105, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

*Board of Directors
Montgomery County Municipal Utility District No. 105
Montgomery County, Texas*

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Montgomery County Municipal Utility District No. 105, as of June 30, 2018, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other-Matters

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

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

McGrath & Co, P.C.

Houston, Texas
October 22, 2018

Management's Discussion and Analysis

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**Montgomery County Municipal Utility District No. 105
Management's Discussion and Analysis
June 30, 2018**

Using this Annual Report

Within this section of the financial report of Montgomery County Municipal Utility District No. 105 (the "District"), the District's Board of Directors provides a narrative discussion and analysis of the financial activities of the District for the fiscal year ended June 30, 2018. This analysis should be read in conjunction with the independent auditors' report and the basic financial statements that follow this section.

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

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

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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

*Montgomery County Municipal Utility District No. 105
Management's Discussion and Analysis
June 30, 2018*

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

Fund Financial Statements

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

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

Financial Analysis of the District as a Whole

The District's net position at June 30, 2018, was negative \$16,879,554. The District's net position is negative because the District incurs debt to construct road facilities which it conveys to Montgomery County upon completion of construction. The District also incurs debt to construct water, sewer, drainage, and park facilities, which are owned and maintained by the District. A comparative summary of the District's overall financial position, as of June 30, 2018 and 2017, is as follows:

	2018	2017
Current and other assets	\$ 1,492,006	\$ 646,350
Capital assets	24,319,452	21,872,821
Total assets	<u>25,811,458</u>	<u>22,519,171</u>
Current liabilities	771,850	236,056
Long-term liabilities	41,919,162	35,156,599
Total liabilities	<u>42,691,012</u>	<u>35,392,655</u>
Net position		
Net investment in capital assets	(3,408,651)	(1,763,071)
Restricted	597,076	264,151
Unrestricted	(14,067,979)	(11,374,564)
Total net position	<u>\$ (16,879,554)</u>	<u>\$ (12,873,484)</u>

Montgomery County Municipal Utility District No. 105
Management's Discussion and Analysis
June 30, 2018

The total net position of the District decreased during the current fiscal year by \$4,006,070. A comparative summary of the District's *Statement of Activities* for the past two years is as follows:

	2018	2017
Revenues		
Property taxes, penalties and interest	\$ 871,413	\$ 447,744
Water and sewer service	367,868	160,317
Tap connection and inspection	331,938	377,230
Other	124,155	76,862
Total revenues	<u>1,695,374</u>	<u>1,062,153</u>
Expenses		
Current service operations	1,514,677	1,109,920
Debt interest and fees	364,478	160,625
Developer interest	511,762	373,977
Debt issuance costs	451,430	329,921
Depreciation	608,382	524,131
Total expenses	<u>3,450,729</u>	<u>2,498,574</u>
Change in net position before other item	(1,755,355)	(1,436,421)
Other item		
Transfers to other governments	<u>(2,250,715)</u>	<u>(2,793,512)</u>
Change in net position	(4,006,070)	(4,229,933)
Net position, beginning of year	<u>(12,873,484)</u>	<u>(8,643,551)</u>
Net position, end of year	<u>\$ (16,879,554)</u>	<u>\$ (12,873,484)</u>

Financial Analysis of the District's Funds

The District's combined fund balances, as of June 30, 2018, were \$1,031,018, which consists of \$234,429 in the General Fund, \$739,269 in the Debt Service Fund, and \$57,320 in the Capital Projects Fund.

General Fund

A comparative summary of the General Fund's financial position as of June 30, 2018 and 2017 is as follows:

	2018	2017
Total assets	<u>\$ 693,826</u>	<u>\$ 312,357</u>
Total liabilities	\$ 458,066	\$ 166,214
Total deferred inflows	1,331	3,482
Total fund balance	<u>234,429</u>	<u>142,661</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 693,826</u>	<u>\$ 312,357</u>

Montgomery County Municipal Utility District No. 105
Management's Discussion and Analysis
June 30, 2018

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

	2018	2017
Total revenues	\$ 1,416,194	\$ 1,056,464
Total expenditures	(1,393,103)	(1,066,845)
Revenues over/(under) expenditures	23,091	(10,381)
Other changes in fund balance	68,677	212,000
Net change in fund balance	<u>\$ 91,768</u>	<u>\$ 201,619</u>

The District manages its activities with the objectives of ensuring that expenditures will be adequately covered by revenues each year and that an adequate fund balance is maintained. The District's primary financial resources in the General Fund are from a property tax levy, the provision of water and sewer services to customers within the District and tap connection fees charged to homebuilders in the District. Financial resources are influenced by a variety of factors each year:

- Property tax revenues are dependent upon assessed values in the District and the maintenance tax rate set by the District. While the District decreased its maintenance tax levy, property tax revenues increased because assessed values in the District increased from the prior year.
- Water, sewer and San Jacinto River Authority fees are dependent upon customer usage, which fluctuates from year to year as a result of factors beyond the District's control.
- Tap connection fees fluctuate with homebuilding activity within the District.

Debt Service Fund

A comparative summary of the Debt Service Fund's financial position as of June 30, 2018 and 2017 is as follows:

	2018	2017
Total assets	<u>\$ 740,860</u>	<u>\$ 333,993</u>
Total liabilities	\$ 1,025	\$ -
Total deferred inflows	566	
Total fund balance	739,269	333,993
Total liabilities, deferred inflows and fund balance	<u>\$ 740,860</u>	<u>\$ 333,993</u>

*Montgomery County Municipal Utility District No. 105
Management's Discussion and Analysis
June 30, 2018*

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

	2018	2017
Total revenues	\$ 279,448	\$ 2,172
Total expenditures	(308,059)	(83,766)
Revenues under expenditures	(28,611)	(81,594)
Other changes in fund balance	433,887	415,587
Net change in fund balance	<u>\$ 405,276</u>	<u>\$ 333,993</u>

The District's financial resources in the Debt Service Fund in the current year and prior year are from property tax revenues and capitalized interest from the sale of bonds. Financial resources in the prior year are from capitalized interest from the sale of bonds. It is important to note that the District sets its annual debt service tax rate as recommended by its financial advisor, who monitors projected cash flows in the Debt Service Fund to ensure that the District will be able to meet its future debt service requirements.

Capital Projects Fund

A comparative summary of the Capital Projects Fund's financial position as of June 30, 2018 and 2017 is as follows:

	2018	2017
Total assets	<u>\$ 57,320</u>	<u>\$ -</u>
Total fund balance	<u>\$ 57,320</u>	<u>\$ -</u>

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

	2018	2017
Total revenues	\$ 1,317	\$ 35
Total expenditures	(5,422,554)	(6,100,198)
Revenues under expenditures	(5,421,237)	(6,100,163)
Other changes in fund balance	5,478,557	6,100,163
Net change in fund balance	<u>\$ 57,320</u>	<u>\$ -</u>

The District has had considerable capital asset activity in the last two years, which was financed with proceeds from the issuance of its Series 2017 Unlimited Tax Bonds in the current year and the issuance of its Series 2016 Unlimited Tax Road Bonds in the prior year.

*Montgomery County Municipal Utility District No. 105
Management's Discussion and Analysis
June 30, 2018*

General Fund Budgetary Highlights

The Board of Directors adopts an annual unappropriated budget for the General Fund prior to the beginning of each fiscal year. The Board did not amend the budget during the fiscal year.

Since the District's budget is primarily a planning tool, actual results varied from the budgeted amounts. Actual net change in fund balance was \$72,098 greater than budgeted. The *Budgetary Comparison Schedule* on page 32 of this report provides variance information per financial statement line item.

Capital Assets

The District has entered into a financing agreement with its developer for the financing of the construction of capital assets within the District. The developer will be reimbursed from proceeds of future bond issues or other lawfully available funds. These developer funded capital assets are recorded on the District's financial statements upon completion of construction.

Capital assets held by the District at June 30, 2018 and 2017 are summarized as follows:

	2018	2017
Capital assets not being depreciated		
Land and improvements	\$ 4,604,901	\$ 4,524,326
Capital assets being depreciated		
Infrastructure	18,430,888	15,888,561
Landscaping improvements	2,865,252	2,433,141
	<u>21,296,140</u>	<u>18,321,702</u>
Less accumulated depreciation		
Infrastructure	(1,211,729)	(802,154)
Landscaping improvements	(369,860)	(171,053)
	<u>(1,581,589)</u>	<u>(973,207)</u>
Depreciable capital assets, net	<u>19,714,551</u>	<u>17,348,495</u>
Capital assets, net	<u>\$ 24,319,452</u>	<u>\$ 21,872,821</u>

Capital asset additions during the current year include the following:

- Lift station no. 2
- Lift station no. 3
- Water, sewer and drainage to serve Trench Lane
- Water, sewer and drainage to serve Woodson's Reserve Section 10
- Water, sewer and drainage to serve Woodson's Reserve Section 6
- Water, sewer and drainage to serve Woodson's Reserve Section 7
- Woodson's Reserve wastewater treatment plant discharge pipe

Montgomery County Municipal Utility District No. 105
Management's Discussion and Analysis
June 30, 2018

- Waterline interconnect with Quadvest LP
- Landscaping improvements to serve Woodson's Reserve Section 8

Montgomery County assumes responsibility for all road facilities constructed within the county. Consequently, these projects are not recorded as capital assets on the District's financial statements, but are recorded as transfers to other governments upon completion of construction. For the year ended June 30, 2018, capital assets in the amount of \$2,250,715 have been completed and recorded as transfers to other governments in the government-wide statements. Additional information is presented in Note 9.

Long-Term Debt and Related Liabilities

As of June 30, 2018, the District owes \$29,359,238 to the developer for completed projects and operating advances. As discussed in Note 6, the District has an additional commitment in the amount of \$6,643,898 for projects under construction by the developer. As previously mentioned, the District will owe its developer for these projects upon completion of construction, at which time the capital assets and related liability will be recorded on the District's financial statements. The District intends to reimburse the developer from proceeds of future bond issues.

At June 30, 2018 and 2017, the District had total bonded debt outstanding as shown below:

Series	2018	2017
2016	\$ 6,700,000	\$ 6,700,000
2017	6,200,000	
	\$ 12,900,000	\$ 6,700,000

During the year, the District issued \$6,200,000 in unlimited tax bonds. At June 30, 2018, the District had \$252,400,000 unlimited tax bonds authorized, but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District; \$69,000,000 for parks and recreational facilities; and \$142,300,000 for road improvements.

Next Year's Budget

In establishing the budget for the next fiscal year, the Board considered various economic factors that may affect the District, most notably projected revenues from property taxes and water/sewer services and the projected cost of operating the District and providing services to customers.

*Montgomery County Municipal Utility District No. 105
Management's Discussion and Analysis
June 30, 2018*

A comparison of next year's budget to current year actual amounts for the General Fund is as follows:

	<u>2018 Actual</u>	<u>2019 Budget</u>
Total revenues	\$ 1,416,194	\$ 1,355,355
Total expenditures	(1,393,103)	(1,336,036)
Revenues over expenditures	<u>23,091</u>	<u>19,319</u>
Other changes in fund balance	68,677	6,815
Net change in fund balance	<u>91,768</u>	<u>26,134</u>
Beginning fund balance	142,661	234,429
Ending fund balance	<u><u>\$ 234,429</u></u>	<u><u>\$ 260,563</u></u>

Property Taxes

The District's property tax base increased approximately \$31,997,000 for the 2018 tax year from \$63,880,301 to \$95,877,525. This increase was primarily due to new construction in the District. For the 2018 tax year, the District has levied a maintenance tax rate of \$0.57 per \$100 of assessed value, a water, sewer, and drainage debt service tax rate of \$0.295 per \$100 of assessed value and a road debt service tax rate of \$0.485 per \$100 of assessed value, for a total combined tax rate of \$1.35 per \$100. Tax rates for the 2017 tax year were \$0.93 per \$100 for maintenance and operations and \$0.42 per \$100 for road debt service.

Basic Financial Statements

Montgomery County Municipal Utility District No. 105
Statement of Net Position and Governmental Funds Balance Sheet
June 30, 2018

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
Assets						
Cash	\$ 268,871	\$ 37,986	\$ 100	\$ 306,957	\$ -	\$ 306,957
Investments	324,443	714,930	57,220	1,096,593		1,096,593
Taxes receivable	1,331	566		1,897		1,897
Customer service receivables	75,930			75,930		75,930
Internal balances	14,683	(14,683)				
Accrued interest receivables		2,061		2,061		2,061
Other receivables	8,568			8,568		8,568
Capital assets not being depreciated					4,604,901	4,604,901
Capital assets, net					19,714,551	19,714,551
Total Assets	\$ 693,826	\$ 740,860	\$ 57,320	\$ 1,492,006	24,319,452	25,811,458
Liabilities						
Accounts payable	\$ 143,049	\$ -	\$ -	\$ 143,049		143,049
Other payables	1,346	1,025		2,371		2,371
Customer deposits	157,825			157,825		157,825
Unearned revenue	155,846			155,846		155,846
Accrued interest payable					142,759	142,759
Due to developers					29,359,238	29,359,238
Long-term debt						
Due within one year					170,000	170,000
Due after one year					12,559,924	12,559,924
Total Liabilities	458,066	1,025		459,091	42,231,921	42,691,012
Deferred Inflows of Resources						
Deferred property taxes	1,331	566		1,897	(1,897)	
Fund Balances/Net Position						
Fund Balance						
Restricted		739,269	57,320	796,589	(796,589)	
Unassigned	234,429			234,429	(234,429)	
Total Fund Balances	234,429	739,269	57,320	1,031,018	(1,031,018)	
Total Liabilities and Fund Balances	\$ 693,826	\$ 740,860	\$ 57,320	\$ 1,492,006		
Net Position						
Net investment in capital assets					(3,408,651)	(3,408,651)
Restricted for debt service					597,076	597,076
Unrestricted					(14,067,979)	(14,067,979)
Total Net Position					\$ (16,879,554)	\$ (16,879,554)

See notes to basic financial statements.

Montgomery County Municipal Utility District No. 105
Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2018

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
Revenues						
Water service	\$ 173,051	\$ -	\$ -	\$ 173,051	\$ -	\$ 173,051
Sewer service	194,817			194,817		194,817
Property taxes	596,238	267,731		863,969	(1,585)	862,384
Penalties and interest	5,420	3,609		9,029		9,029
San Jacinto River Authority fees	104,367			104,367		104,367
Tap connection and inspection	331,938			331,938		331,938
Miscellaneous	6,935	970		7,905		7,905
Investment earnings	3,428	7,138	1,317	11,883		11,883
Total Revenues	1,416,194	279,448	1,317	1,696,959	(1,585)	1,695,374
Expenditures/Expenses						
Current service operations						
Professional fees	257,329		97,952	355,281		355,281
Contracted services	254,728	17,252		271,980		271,980
Repairs and maintenance	518,631			518,631		518,631
Utilities	123,772			123,772		123,772
San Jacinto River Authority fees	173,089			173,089		173,089
Administrative	37,058	2,159		39,217		39,217
Other	28,496	4,174	37	32,707		32,707
Capital outlay			4,361,373	4,361,373	(4,361,373)	
Debt service						
Interest and fees		284,474		284,474	80,004	364,478
Developer interest			511,762	511,762		511,762
Debt issuance costs			451,430	451,430		451,430
Depreciation					608,382	608,382
Total Expenditures/Expenses	1,393,103	308,059	5,422,554	7,123,716	(3,672,987)	3,450,729
Revenues Over/(Under)						
Expenditures/Expenses	23,091	(28,611)	(5,421,237)	(5,426,757)	3,671,402	(1,755,355)
Other Financing Sources/(Uses)						
Proceeds from sale of bonds		433,887	5,766,113	6,200,000	(6,200,000)	
Repayment of developer advances			(218,879)	(218,879)	218,879	
Internal transfers	68,677		(68,677)			
Other Item						
Transfers to other governments					(2,250,715)	(2,250,715)
Net Change in Fund Balances	91,768	405,276	57,320	554,364	(554,364)	
Change in Net Position					(4,006,070)	(4,006,070)
Fund Balance/Net Position						
Beginning of the year	142,661	333,993		476,654	(13,350,138)	(12,873,484)
End of the year	\$ 234,429	\$ 739,269	\$ 57,320	\$ 1,031,018	\$ (17,910,572)	\$ (16,879,554)

See notes to basic financial statements.

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Montgomery County Municipal Utility District No. 105
Notes to Basic Financial Statements
June 30, 2018

Note 1 – Summary of Significant Accounting Policies

The accounting policies of Montgomery County Municipal Utility District No. 105 (the “District”) conform with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board. The following is a summary of the most significant policies:

Creation

The District was organized, created and established pursuant to Article XVI, Section 59 of the Texas Constitution by order of the Texas Commission on Environmental Quality, dated September 2, 2005, and operates in accordance with the Texas Water Code, Chapters 49 and 54. The Board of Directors held its first meeting on March 1, 2013 and the first bonds were sold on October 6, 2016.

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

Reporting Entity

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

Government-Wide and Fund Financial Statements

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

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

Montgomery County Municipal Utility District No. 105
Notes to Basic Financial Statements
June 30, 2018

Note 1 – Summary of Significant Accounting Policies (continued)

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

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

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

Measurement Focus and Basis of Accounting

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

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

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

Use of Restricted Resources

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

Montgomery County Municipal Utility District No. 105
Notes to Basic Financial Statements
June 30, 2018

Note 1 – Summary of Significant Accounting Policies (continued)

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Receivables from and payables to external parties are reported separately and are not offset, unless a legal right of offset exists. At June 30, 2018, an allowance for uncollectible accounts was not considered necessary.

Interfund Activity

During the course of operations, transactions occur between individual funds. This can include internal transfers, payables and receivables. This activity is combined as internal balances and is eliminated in both the government-wide and fund financial statement presentation.

Capital Assets

Capital assets do not provide financial resources at the fund level, and, therefore, are reported only in the government-wide statements. The District defines capital assets as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of one year. Capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at the estimated fair market value at the date of donation. The District has not capitalized interest incurred during the construction of its capital assets. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Depreciable capital assets, which primarily consist of improvements to land, water, wastewater and drainage facilities, are depreciated using the straight-line method as follows:

Assets	Useful Life
Infrastructure	45 years
Landscaping improvements	10-30 years

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

Deferred Inflows and Outflows of Financial Resources

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

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

Montgomery County Municipal Utility District No. 105
Notes to Basic Financial Statements
June 30, 2018

Note 1 – Summary of Significant Accounting Policies (continued)

Net Position – Governmental Activities

Governmental accounting standards establish the following three components of net position:

Net investment in capital assets – represents the District’s investments in capital assets, less any outstanding debt or other borrowings used to acquire those assets.

Restricted – consists of financial resources that are restricted for a specific purpose by enabling legislation or external parties.

Unrestricted – resources not included in the other components.

Fund Balances – Governmental Funds

Governmental accounting standards establish the following fund balance classifications:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The District 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 externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments. The District’s restricted fund balances consist of unspent bond proceeds in the Capital Projects Fund and capitalized interest from the sale of bonds and property taxes levied for debt service in the Debt Service Fund.

Committed - amounts that can be used only for specific purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. The District does not have any committed fund balances.

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

Unassigned - all other spendable amounts in the General Fund.

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

Montgomery County Municipal Utility District No. 105
Notes to Basic Financial Statements
June 30, 2018

Note 1 – Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses/expenditures during the period reported. These estimates include, among others, the collectability of receivables; the value of unbilled utility revenues and receivables; the useful lives and impairment of capital assets; the value of amounts due to developer; the value of capital assets transferred to Montgomery County and the value of capital assets for which the developer has not been fully reimbursed. Estimates and assumptions are reviewed periodically, and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from the estimates.

Note 2 – Adjustment from Governmental to Government-wide Basis

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

Total fund balances, governmental funds		\$ 1,031,018
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		
Historical cost	\$ 25,901,041	
Less accumulated depreciation	<u>(1,581,589)</u>	
Change due to capital assets		24,319,452
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. The difference consists of:		
Bonds payable, net	(12,729,924)	
Interest payable on bonds	<u>(142,759)</u>	
Change due to long-term debt		(12,872,683)
Amounts due to the District's developer for prefunded construction and operating advances are recorded as a liability in the <i>Statement of Net Position</i> .		(29,359,238)
Receivables that are not collected within sixty days of fiscal year end are not considered available to pay current period expenditures and are deferred in the funds. The difference is for property taxes.		1,897
Total net position - governmental activities		<u><u>\$ (16,879,554)</u></u>

*Montgomery County Municipal Utility District No. 105
Notes to Basic Financial Statements
June 30, 2018*

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

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

Net change in fund balances - total governmental funds \$ 554,364

Governmental funds do not report revenues that are not available to pay current obligations. In contrast, such revenues are reported in the *Statement of Activities* when earned. The difference is for property taxes. (1,585)

expenditures in the funds; however, in the *Statement of Activities*, the cost of capital assets is charged to expense over the estimated useful life of the asset.

Capital outlays	\$ 4,361,373	
Depreciation expense	<u>(608,382)</u>	
		3,752,991

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

Issuance of long term debt	(6,200,000)	
Interest expense accrual	<u>(80,004)</u>	
		(6,280,004)

The District conveys roads to Montgomery County upon completion of construction. Since these improvements are funded by the developer, financial resources are not expended in the fund financial statements; however, in the *Statement of Activities*, these amounts are reported as transfers to other governments. (2,250,715)

Amounts repaid to the District's developer for operating advances use financial resources at the fund level, but reduce the liability in the *Statement of Net Position*. 218,879

Change in net position of governmental activities \$ (4,006,070)

Montgomery County Municipal Utility District No. 105
Notes to Basic Financial Statements
June 30, 2018

Note 3 – Deposits and Investments

Deposit Custodial Credit Risk

Custodial credit risk as it applies to deposits (i.e. cash and certificates of deposit) is the risk that, in the event of the failure of the depository institution, a government will not be able to recover its deposits or will not be able to recover collateral securities. The *Public Funds Collateral Act* (Chapter 2257, Texas Government Code) requires that all of the District's deposits with financial institutions be covered by federal depository insurance and, if necessary, pledged collateral held by a third party custodian. The act further specifies the types of securities that can be used as collateral. The District's written investment policy establishes additional requirements for collateralization of deposits.

Investments

The District is authorized by the *Public Funds Investment Act* (Chapter 2256, Texas Government Code) to invest in the following: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including Federal Home Loan Banks, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies or instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (5) certain A rated or higher obligations of states and political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) certain insured or collateralized certificates of deposit and share certificates, (8) certain fully collateralized repurchase agreements, (9) bankers' acceptances with limitations, (10) commercial paper rated A-1 or P-1 or higher and a maturity of 270 days or less, (11) no-load money market mutual funds and no-load mutual funds, with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools and (14) a qualified securities lending program.

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

*Montgomery County Municipal Utility District No. 105
Notes to Basic Financial Statements
June 30, 2018*

Note 3 – Deposits and Investments (continued)

As of June 30, 2018, the District’s investments consist of the following:

Type	Fund	Carrying Value	Percentage of Total	Rating	Weighted Average Maturity
Certificates of deposit	Debt Service	\$ 350,000	32%		
Texas CLASS	General	324,443			
	Debt Service	364,930			
	Capital Projects	57,220			
		<u>746,593</u>	<u>68%</u>	AAAm	50 days
Total		<u>\$ 1,096,593</u>	<u>100%</u>		

The District’s investments in certificates of deposit are reported at cost.

Texas CLASS

The District participates in Texas Cooperative Liquid Assets Securities System (Texas CLASS). Texas CLASS is managed by an elected Board of Trustees consisting of members of the pool. Additionally, the Board of Trustees has established an advisory board, the function of which is to provide guidance on investment policies and strategies. The Board of Trustees has selected Public Trust Advisors, LLC as the program administrator and Wells Fargo Bank as the custodian.

The District’s investment in Texas CLASS is reported at fair value because Texas CLASS uses fair value to report investments (other than repurchase agreements which are valued at amortized cost). Governmental accounting standards establish the following hierarchy of inputs used to measure fair value: Level 1 inputs are based on quoted prices in active markets, Level 2 inputs are based on significant other observable inputs, and Level 3 inputs are based on significant unobservable inputs. The District’s investment in Texas CLASS is measured using published fair value per share (level 1 inputs).

Investments in Texas CLASS may be withdrawn via wire transfer on a same day basis, as long as the transaction is executed by 4 p.m. ACH withdrawals made by 4 p.m. will settle on the next business day.

Investment Credit and Interest Rate Risk

Investment credit risk is the risk that the investor may not recover the value of an investment from the issuer, while interest rate risk is the risk that the value of an investment will be adversely affected by changes in interest rates. The District’s investment policies do not address investment credit and interest rate risk beyond the rating and maturity restrictions established by state statutes.

Montgomery County Municipal Utility District No. 105
Notes to Basic Financial Statements
June 30, 2018

Note 4 – Interfund Balances

Amounts due to/from other funds at June 30, 2018, consist of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amounts</u>	<u>Purpose</u>
General Fund	Debt Service Fund	\$ 14,683	Maintenance tax collections not remitted as of year end

Amounts reported as internal balances between funds are considered temporary balances and will be paid during the following fiscal year.

A summary of internal transfers for the current fiscal year is as follows:

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Amounts</u>	<u>Purpose</u>
Capital Projects Fund	General Fund	\$ 68,677	Reimbursement of bond application fees paid by General Fund

Note 5 – Capital Assets

A summary of changes in capital assets, for the year ended June 30, 2018, is as follows:

	<u>Beginning Balances</u>	<u>Additions/ Adjustments</u>	<u>Ending Balances</u>
Capital assets not being depreciated			
Land, improvements and easements	\$ 4,524,326	\$ 80,575	\$ 4,604,901
Capital assets being depreciated			
Infrastructure	15,888,561	2,542,327	18,430,888
Landscaping improvements	2,433,141	432,111	2,865,252
	<u>18,321,702</u>	<u>2,974,438</u>	<u>21,296,140</u>
Less accumulated depreciation			
Infrastructure	(802,154)	(409,575)	(1,211,729)
Landscaping improvements	(171,053)	(198,807)	(369,860)
	<u>(973,207)</u>	<u>(608,382)</u>	<u>(1,581,589)</u>
Subtotal depreciable capital assets, net	<u>17,348,495</u>	<u>2,366,056</u>	<u>19,714,551</u>
Capital assets, net	<u>\$ 21,872,821</u>	<u>\$ 2,446,631</u>	<u>\$ 24,319,452</u>

Depreciation expense for the current year was \$608,382.

Montgomery County Municipal Utility District No. 105
Notes to Basic Financial Statements
June 30, 2018

Note 6 – Due to Developer

The District has entered into a financing agreement with its developer for the financing of the construction of water, sewer, drainage, and park and recreational facilities and road improvements. Under the agreement, the developer will advance funds for the construction of facilities to serve the District. The developer will be reimbursed from proceeds of future bond issues or other lawfully available funds, subject to approval by TCEQ, as applicable. The District does not record the capital asset and related liability on the government-wide statements until construction of the facilities is complete. The District's developer has also advanced funds to the District for operating expenses.

Changes in amounts due to the developer during the year are as follows:

Due to developer, beginning of year	\$ 28,633,762
Developer reimbursements	(4,361,373)
Repayment of developer advances	(218,879)
Developer funded construction and adjustments	5,305,728
Due to developer, end of year	<u>\$ 29,359,238</u>

In addition, the District will owe the developer approximately \$6,643,898, which is included in the following schedule of contractual commitments. The exact amount is not known until approved by the TCEQ and verified by the District's auditor. As previously noted, these projects will be reported in the government-wide financial statements upon completion of construction.

	Contract Amount	Amounts Paid	Remaining Commitment
Water line interconnect with Montgomery County Municipal Utility District No. 127	\$ 265,236	\$ 162,382	\$ 102,854
Clearing of spoil areas for detention ponds 6 and 7	112,941	100,035	12,906
Woodson's Reserve detention pond 6 and detention pond 7A and 7B contract no. 5	1,462,243	550,464	911,779
Utilities and paving to serve Woodson's Reserve, Section 12	559,325		559,325
Paving and second stage utilities to serve Woodson's Reserve Section 10	360,546	322,167	38,379
Clearing and grubbing for Woodson's Reserve Section 11	52,011	42,355	9,656
Paving and second stage utilities to serve Woodson's Reserve Section 5	294,201		294,201
Utilities and paving to serve Woodson's Reserve Section 11	2,032,820		2,032,820
Utilities and paving to serve Woodson's Reserve Section 9	788,058		788,058
Woodson's Reserve detention pond 7A and 7B contract no. 6	716,517		716,517
	<u>\$ 6,643,898</u>	<u>\$ 1,177,403</u>	<u>\$ 5,466,495</u>

Montgomery County Municipal Utility District No. 105
Notes to Basic Financial Statements
June 30, 2018

Note 7 – Long-Term Debt

Long-term debt is comprised of the following:

Bonds payable	\$ 12,900,000
Unamortized discounts	(170,076)
	<u>\$ 12,729,924</u>
Due within one year	<u>\$ 170,000</u>

The District's bonds payable at June 30, 2018, consists of unlimited tax bonds as follows:

Series	Amounts Outstanding	Original Issue	Interest Rates	Maturity Date, Serially, Beginning/ Ending	Interest Payment Dates	Call Dates
2016	\$ 6,700,000	\$ 6,700,000	2.00% - 3.50%	September 2019/2041	September 1, March 1	September 1 2022
2017	6,200,000	6,200,000	2.00% - 4.00%	September 2019/2042	September 1, March 1	September 1 2023
	<u>\$ 12,900,000</u>					

Payments of principal and interest on all series of bonds are to be provided from taxes levied on all properties within the District. Investment income realized by the Debt Service Fund from investment of idle funds will be used to pay outstanding bond principal and interest. The District is in compliance with the terms of its bond resolutions.

At June 30, 2018, the District had authorized but unissued bonds in the amount of \$252,400,000 for water, sewer and drainage facilities and the refunding of such bonds; \$69,000,000 for park and recreational facilities and the refunding of such bonds; and \$142,300,000 for road facilities and the refunding of such bonds.

On October 25, 2017, the District issued its \$6,200,000 Series 2017 Unlimited Tax Bonds at a net effective interest rate of 3.843523%. Proceeds of the bonds were used to reimburse the developer for the cost of capital assets constructed within the District plus interest expense at the net effective interest rate of the bonds and to pay capitalized interest into the Debt Service Fund.

The change in the District's long term debt during the year is as follows:

Bonds payable, beginning of year	\$ 6,700,000
Bonds issued	6,200,000
Bonds payable, end of year	<u>\$ 12,900,000</u>

Montgomery County Municipal Utility District No. 105
Notes to Basic Financial Statements
June 30, 2018

Note 7 – Long-Term Debt (continued)

As of June 30, 2018, annual debt service requirements on bonds outstanding are as follows:

Year	Principal	Interest	Totals
2019	\$ 170,000	\$ 423,038	\$ 593,038
2020	335,000	417,988	752,988
2021	345,000	411,188	756,188
2022	360,000	403,313	763,313
2023	375,000	394,263	769,263
2024	390,000	383,788	773,788
2025	405,000	371,863	776,863
2026	420,000	359,488	779,488
2027	440,000	346,588	786,588
2028	460,000	333,088	793,088
2029	480,000	318,847	798,847
2030	500,000	303,713	803,713
2031	515,000	287,572	802,572
2032	540,000	270,132	810,132
2033	560,000	251,607	811,607
2034	585,000	232,154	817,154
2035	605,000	211,388	816,388
2036	635,000	189,366	824,366
2037	655,000	166,453	821,453
2038	685,000	142,222	827,222
2039	715,000	116,263	831,263
2040	745,000	88,975	833,975
2041	770,000	60,663	830,663
2042	810,000	31,132	841,132
2043	400,000	8,000	408,000
	<u>\$ 12,900,000</u>	<u>\$ 6,523,092</u>	<u>\$ 19,423,092</u>

Note 8 – Property Taxes

On November 5, 2013, the voters of the District authorized the District’s Board of Directors to levy taxes annually for use in financing general operations limited to \$1.50 per \$100 of assessed value. In addition, the voters of the District authorized the District’s Board of Directors to levy taxes annually for road maintenance limited to \$0.25 per \$100 of assessed value. The District’s bond resolutions require that property taxes be levied for use in paying interest and principal on long-term debt and for use in paying the cost of assessing and collecting taxes. Taxes levied to finance debt service requirements on long-term debt are without limitation as to rate or amount.

*Montgomery County Municipal Utility District No. 105
Notes to Basic Financial Statements
June 30, 2018*

Note 8 – Property Taxes (continued)

All property values and exempt status, if any, are determined by the Montgomery Central Appraisal District. Assessed values are determined as of January 1 of each year, at which time a tax lien attaches to the related property. Taxes are levied around October/November, are due upon receipt and are delinquent the following February 1. Penalty and interest attach thereafter.

Property taxes are collected based on rates adopted in the year of the levy. The District’s 2018 fiscal year was financed through the 2017 tax levy, pursuant to which the District levied property taxes of \$1.35 per \$100 of assessed value, of which \$0.93 was allocated to maintenance and operations and \$0.42 was allocated to debt service. The resulting tax levy was \$862,384 on the adjusted taxable value of \$63,880,301.

Property taxes receivable, at June 30, 2018, consisted of the following:

Current year taxes receivable	\$ 1,820
Prior years taxes receivable	77
Property taxes receivable	<u>\$ 1,897</u>

Note 9 – Transfers to Other Governments

Montgomery County assumes responsibility for the maintenance of public roads constructed within the boundaries of the District. Accordingly, these facilities are considered to be capital assets of Montgomery County, not the District. For the year ended June 30, 2018, the District recorded transfers to other governments in the amount of \$2,250,715 for road facilities constructed by the developer within the District.

Note 10 – Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; and personal injuries. The risk of loss is covered by commercial insurance. There have been no significant reductions in insurance coverage from the prior year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Note 11 – Concentration of Risk

A significant portion of the taxable property within the District is owned by the top 10 taxpayers. Since property taxes are the primary source of revenue for both the General Fund and the Debt Service Fund, the continued ability of these taxpayers to continue to pay their property taxes is an important factor in the District’s ability to meet its future obligations.

Montgomery County Municipal Utility District No. 105
Notes to Basic Financial Statements
June 30, 2018

..... **Note 12 – Subsequent Event**

On September 25, 2018, the District approved the sale of its Series 2018 Unlimited Tax Road Bonds in the amount of \$3,585,000. Proceeds from the bonds will be used to reimburse the District's developer for road improvements in the District.

Required Supplementary Information

*Montgomery County Municipal Utility District No. 105
 Required Supplementary Information - Budgetary Comparison Schedule - General Fund
 For the Year Ended June 30, 2018*

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues			
Water service	\$ 85,136	\$ 173,051	\$ 87,915
Sewer service	118,800	194,817	76,017
Property taxes	600,000	596,238	(3,762)
Penalties and interest	4,500	5,420	920
San Jacinto River Authority fees	81,721	104,367	22,646
Tap connection and inspection	118,994	331,938	212,944
Miscellaneous	4,800	6,935	2,135
Investment earnings	900	3,428	2,528
Total Revenues	<u>1,014,851</u>	<u>1,416,194</u>	<u>401,343</u>
Expenditures			
Current service operations			
Professional fees	166,380	257,329	(90,949)
Contracted services	121,648	254,728	(133,080)
Repairs and maintenance	491,174	518,631	(27,457)
Utilities	94,540	123,772	(29,232)
San Jacinto River Authority fees	142,516	173,089	(30,573)
Administrative	38,900	37,058	1,842
Other	8,700	28,496	(19,796)
Total Expenditures	<u>1,063,858</u>	<u>1,393,103</u>	<u>(329,245)</u>
Revenues Over/(Under) Expenditures	(49,007)	23,091	72,098
Other Financing Sources			
Internal transfers	<u>68,677</u>	<u>68,677</u>	
Net Change in Fund Balance	19,670	91,768	72,098
Fund Balance			
Beginning of the year	142,661	142,661	
End of the year	<u>\$ 162,331</u>	<u>\$ 234,429</u>	<u>\$ 72,098</u>

Montgomery County Municipal Utility District No. 105
Notes to Required Supplementary Information
June 30, 2018

Budgets and Budgetary Accounting

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

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Texas Supplementary Information

Montgomery County Municipal Utility District No. 105
TSI-1. Services and Rates
June 30, 2018

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

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

2. Retail Service Providers

(You may omit this information if your district does not provide retail services)

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

	Minimum Charge	Minimum Usage	Flat Rate (Y / N)	Rate per 1,000 Gallons Over Minimum Usage	Usage Levels
Water:	\$ 15.00	6,000	N	\$ 1.75	6,001 to 10,000
				2.50	10,001 to 15,000
				3.25	15,001 to 20,000
				4.00	20,001 to 30,000
				5.00	30,000 to no limit
Wastewater:	\$ 50.00		Y		to _____
Surcharge:	\$ 2.85			\$ 2.85	1,000 to no limit

District employs winter averaging for wastewater usage? Yes No

Total charges per 10,000 gallons usage: Water \$ 49.25 Wastewater \$ 50.00

b. Water and Wastewater Retail Connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFC'S
Unmetered			x 1.0	
less than 3/4"	279	279	x 1.0	279
1"	91	91	x 2.5	228
1.5"	5	5	x 5.0	25
2"	10	10	x 8.0	80
3"	2	2	x 15.0	30
4"	1	1	x 25.0	25
6"			x 50.0	
8"	3	3	x 80.0	240
10"			x 115.0	
Total Water	391	391		907
Total Wastewater	370	370	x 1.0	370

See accompanying auditor's report.

Montgomery County Municipal Utility District No. 105
TSI-1. Services and Rates
June 30, 2018

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

Gallons pumped into system:	<u>63,368,000</u>	Water Accountability Ratio:
		(Gallons metered / Gallons pumped)
Gallons metered:	<u>52,872,000</u>	<u>83.44%</u>

4. Standby Fees (authorized only under TWC Section 49.231):
 (You may omit this information if your district does not levy standby fees)

Does the District have Debt Service standby fees? Yes No

If yes, Date of the most recent commission Order: _____

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

If yes, Date of the most recent commission Order: _____

5. Location of District (required for first audit year or when information changes,
 otherwise this information may be omitted):

Is the District located entirely within one county? Yes No

County(ies) in which the District is located: Montgomery County

Is the District located within a city? Entirely Partly Not at all

City(ies) in which the District is located: _____

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

Entirely Partly Not at all

ETJs in which the District is located: _____

Are Board members appointed by an office outside the district? Yes No

If Yes, by whom? _____

See accompanying auditors' report.

*Montgomery County Municipal Utility District No. 105
TSI-2 General Fund Expenditures
For the Year Ended June 30, 2018*

Professional fees		
Legal		\$ 114,362
Audit		8,000
Engineering		134,967
		<u>257,329</u>
Contracted services		
Bookkeeping		22,632
Operator		16,023
Garbage collection		29,945
Tap connection and inspection		186,128
		<u>254,728</u>
Repairs and maintenance		<u>518,631</u>
Utilities		<u>123,772</u>
San Jacinto River Authority fees		<u>173,089</u>
Administrative		
Directors fees		8,720
Printing and office supplies		2,268
Insurance		13,172
Other		12,898
		<u>37,058</u>
Other		<u>28,496</u>
Total expenditures		<u>\$ 1,393,103</u>

Reporting of Utility Services in Accordance with HB 3693:

	<u>Usage</u>	<u>Cost</u>
Electrical	943,248 kWh	\$ 120,772
Water	N/A	N/A
Natural Gas	N/A	N/A

See accompanying auditors' report.

Montgomery County Municipal Utility District No. 105
TSI-3. Investments
June 30, 2018

Fund	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Interest Receivable
General					
Texas CLASS	TX-01-0609-0003	Variable	N/A	\$ 324,443	\$ -
Debt Service					
Texas CLASS	TX-01-0609-0002	Variable	N/A	231,459	
Texas CLASS	TX-01-0609-0005	Variable	N/A	133,471	
Certificate of deposit	6000029345	1.20%	08/07/18	245,000	1,144
Certificate of deposit	410	1.00%	08/15/18	105,000	917
				<u>714,930</u>	<u>2,061</u>
Capital Projects					
Texas CLASS	TX-01-0609-0004	Variable	N/A	57,220	
Total - All Funds				<u>\$ 1,096,593</u>	<u>\$ 2,061</u>

See accompanying auditors' report.

Montgomery County Municipal Utility District No. 105
TSI-4. Taxes Levied and Receivable
June 30, 2018

	Maintenance Taxes	Debt Service Taxes	Totals	
Taxes Receivable, Beginning of Year	\$ 3,482	\$ -	\$ 3,482	
2017 Original Tax Levy	594,297	268,392	862,689	
Adjustments	(210)	(95)	(305)	
Adjusted Tax Levy	594,087	268,297	862,384	
Total to be accounted for	597,569	268,297	865,866	
Tax collections:				
Current year	592,833	267,731	860,564	
Prior years	3,405		3,405	
Total Collections	596,238	267,731	863,969	
Taxes Receivable, End of Year	\$ 1,331	\$ 566	\$ 1,897	
Taxes Receivable, By Years				
2017	\$ 1,254	\$ 566	\$ 1,820	
2016	77		77	
Taxes Receivable, End of Year	\$ 1,331	\$ 566	\$ 1,897	
	2017	2016	2015	2014
Property Valuations:				
Land	\$ 22,028,790	\$ 17,648,830	\$ 5,410,380	\$ 755,950
Improvements	46,322,290	18,277,090	461,140	
Personal Property	392,917	282,116		
Exemptions	(4,863,696)	(3,447,552)	(591,580)	(653,570)
Total Property Valuations	\$ 63,880,301	\$ 32,760,484	\$ 5,279,940	\$ 102,380
Tax Rates per \$100 Valuation:				
Maintenance tax rates	\$ 0.93	\$ 1.35	\$ 1.35	\$ 1.35
Debt service tax rates	0.42			
Total Tax Rates per \$100 Valuation	\$ 1.35	\$ 1.35	\$ 1.35	\$ 1.35
Adjusted Tax Levy:	\$ 862,384	\$ 442,267	\$ 71,279	\$ 1,382
Percentage of Taxes Collected to Taxes Levied **	99.79%	99.98%	100.00%	100.00%

* Maximum Maintenance Tax Rate Approved by Voters: \$1.50 on November 5, 2013

**Maximum Road Maintenance Tax Rate Approved by Voters: \$0.25 on November 5, 2013

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

See accompanying auditors' report.

Montgomery County Municipal Utility District No. 105
TSI-5. Long-Term Debt Service Requirements
Series 2016--by Years
June 30, 2018

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due September 1, March 1</u>	<u>Total</u>
2019	\$ 170,000	\$ 206,094	\$ 376,094
2020	180,000	202,594	382,594
2021	185,000	198,944	383,944
2022	195,000	195,144	390,144
2023	200,000	191,194	391,194
2024	210,000	186,044	396,044
2025	215,000	179,669	394,669
2026	225,000	173,069	398,069
2027	235,000	166,169	401,169
2028	245,000	158,969	403,969
2029	255,000	151,469	406,469
2030	265,000	143,669	408,669
2031	275,000	135,397	410,397
2032	285,000	126,469	411,469
2033	295,000	117,044	412,044
2034	310,000	107,213	417,213
2035	320,000	96,775	416,775
2036	335,000	85,722	420,722
2037	345,000	74,247	419,247
2038	360,000	62,125	422,125
2039	375,000	49,263	424,263
2040	390,000	35,875	425,875
2041	405,000	21,963	426,963
2042	425,000	7,432	432,432
	<u>\$ 6,700,000</u>	<u>\$ 3,072,553</u>	<u>\$ 9,772,553</u>

See accompanying auditors' report.

Montgomery County Municipal Utility District No. 105
TSI-5. Long-Term Debt Service Requirements
Series 2017--by Years
June 30, 2018

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
2019	\$ -	\$ 216,944	\$ 216,944
2020	155,000	215,394	370,394
2021	160,000	212,244	372,244
2022	165,000	208,169	373,169
2023	175,000	203,069	378,069
2024	180,000	197,744	377,744
2025	190,000	192,194	382,194
2026	195,000	186,419	381,419
2027	205,000	180,419	385,419
2028	215,000	174,119	389,119
2029	225,000	167,378	392,378
2030	235,000	160,044	395,044
2031	240,000	152,175	392,175
2032	255,000	143,663	398,663
2033	265,000	134,563	399,563
2034	275,000	124,941	399,941
2035	285,000	114,613	399,613
2036	300,000	103,644	403,644
2037	310,000	92,206	402,206
2038	325,000	80,097	405,097
2039	340,000	67,000	407,000
2040	355,000	53,100	408,100
2041	365,000	38,700	403,700
2042	385,000	23,700	408,700
2043	400,000	8,000	408,000
	<u>\$ 6,200,000</u>	<u>\$ 3,450,539</u>	<u>\$ 9,650,539</u>

See accompanying auditors' report.

Montgomery County Municipal Utility District No. 105
TSI-5. Long-Term Debt Service Requirements
All Bonded Debt Series--by Years
June 30, 2018

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
2019	\$ 170,000	\$ 423,038	\$ 593,038
2020	335,000	417,988	752,988
2021	345,000	411,188	756,188
2022	360,000	403,313	763,313
2023	375,000	394,263	769,263
2024	390,000	383,788	773,788
2025	405,000	371,863	776,863
2026	420,000	359,488	779,488
2027	440,000	346,588	786,588
2028	460,000	333,088	793,088
2029	480,000	318,847	798,847
2030	500,000	303,713	803,713
2031	515,000	287,572	802,572
2032	540,000	270,132	810,132
2033	560,000	251,607	811,607
2034	585,000	232,154	817,154
2035	605,000	211,388	816,388
2036	635,000	189,366	824,366
2037	655,000	166,453	821,453
2038	685,000	142,222	827,222
2039	715,000	116,263	831,263
2040	745,000	88,975	833,975
2041	770,000	60,663	830,663
2042	810,000	31,132	841,132
2043	400,000	8,000	408,000
	<u>\$ 12,900,000</u>	<u>\$ 6,523,092</u>	<u>\$ 19,423,092</u>

See accompanying auditors' report.

Montgomery County Municipal Utility District No. 105
TSI-6. Change in Long-Term Bonded Debt
June 30, 2018

	Bond Issue		Totals
	Series 2016	Series 2017	
Interest rate	2.00% - 3.50%	2.00% - 4.00%	
Dates interest payable	3/1; 9/1	3/1; 9/1	
Maturity dates	9/1/19 - 9/1/41	9/1/19 - 9/1/42	
Beginning bonds outstanding	\$ 6,700,000	\$ -	\$ 6,700,000
Bonds issued		6,200,000	6,200,000
Ending bonds outstanding	\$ 6,700,000	\$ 6,200,000	\$ 12,900,000
Interest paid during fiscal year	\$ 207,794	\$ 75,930	\$ 283,724

Paying agent's name and city
 Series 2016 and 2017 The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

Bond Authority:	Water, Sewer, and Drainage	Parks and Recreational Facilities	Roads
Amount Authorized by Voters	\$ 258,600,000	\$ 69,000,000	\$ 149,000,000
Amount Issued	(6,200,000)		(6,700,000)
Remaining To Be Issued	\$ 252,400,000	\$ 69,000,000	\$ 142,300,000

All bonds are secured with tax revenues. Bonds may also be secured with other revenues in combination with taxes.

Debt Service Fund cash and investments balances as of June 30, 2018: \$ 752,916

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 776,924

See accompanying auditors' report.

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Montgomery County Municipal Utility District No. 105
TSI-7a. Comparative Schedule of Revenues and Expenditures - General Fund
For the Last Five Fiscal Years

	Amounts				
	2018	2017	2016	2015	2014**
Revenues					
Water service	\$ 173,051	\$ 73,195	\$ 51,054	\$ 4,560	\$ -
Sewer service	194,817	87,122	44,359	2,935	
Property taxes	596,238	438,784	71,279	1,382	
Penalties and interest	5,420	5,478	2,390	80	
San Jacinto River Authority fees	104,367	66,808	44,161	1,681	
Tap connection and inspection	331,938	377,230	115,307	54,270	
Miscellaneous	6,935	6,509	7,472		
Investment earnings	3,428	1,338	60		
Total Revenues	<u>1,416,194</u>	<u>1,056,464</u>	<u>336,082</u>	<u>64,908</u>	
Expenditures					
Current service operations					
Purchased services				6,997	1,106
Professional fees	257,329	228,208	153,808	133,137	152,321
Contracted services	254,728	303,465	172,683	67,784	14,319
Repairs and maintenance	518,631	284,805	47,355	10,197	
Utilities	123,772	93,385	51,800	10,815	
San Jacinto River Authority fees	173,089	115,671	51,678	14,165	
Administrative	37,058	32,346	23,842	12,996	22,845
Other	28,496	8,965	8,494	3,116	3,455
Capital outlay				20,600	15,881
Total Expenditures	<u>1,393,103</u>	<u>1,066,845</u>	<u>509,660</u>	<u>279,807</u>	<u>209,927</u>
Revenues Over/(Under) Expenditures	<u>\$ 23,091</u>	<u>\$ (10,381)</u>	<u>\$ (173,578)</u>	<u>\$ (214,899)</u>	<u>\$ (209,927)</u>
Total Active Retail Water Connections	<u>391</u>	<u>194</u>	<u>119</u>	<u>N/A</u>	<u>N/A</u>
Total Active Retail Wastewater Connections	<u>370</u>	<u>176</u>	<u>107</u>	<u>N/A</u>	<u>N/A</u>

*Percentage is negligible

** Unaudited

See accompanying auditors' report.

Percent of Fund Total Revenues

2018	2017	2016	2015	2014**
12%	7%	16%	7%	
14%	8%	13%	5%	
44%	41%	21%	2%	
*	1%	1%	*	
7%	6%	13%	3%	
23%	36%	34%	83%	
*	1%	2%		
*	*	*		
100%	100%	100%	100%	0%

			11%	
18%	22%	46%	205%	
18%	29%	51%	104%	
37%	27%	14%	16%	
9%	9%	15%	17%	
12%	11%	15%	22%	
3%	3%	7%	20%	
2%	1%	3%	5%	
			32%	
99%	102%	151%	432%	N/A
1%	(2%)	(51%)	(332%)	N/A

Montgomery County Municipal Utility District No. 105
TSI-7b. Comparative Schedule of Revenues and Expenditures - Debt Service Fund
For the Last Two Fiscal Years

	Amounts		Percent of Fund Total Revenues	
	2018	2017	2018	2017
Revenues				
Property taxes	\$ 267,731	\$ -	96%	
Penalties and interest	3,609		1%	
Miscellaneous	970		*	
Investment earnings	7,138	2,172	3%	100%
Total Revenues	<u>279,448</u>	<u>2,172</u>	<u>100%</u>	<u>100%</u>
Expenditures				
Tax collection services	19,411		7%	
Other	4,174	71	1%	3%
Debt service				
Interest and fees	284,474	83,695	102%	3,853%
Total Expenditures	<u>308,059</u>	<u>83,766</u>	<u>110%</u>	<u>3,856%</u>
Revenues Under Expenditures	<u>\$ (28,611)</u>	<u>\$ (81,594)</u>	<u>(10%)</u>	<u>(3,756%)</u>

*Percentage is negligible

See accompanying auditors' report.

Montgomery County Municipal Utility District No. 105
TSI-8. Board Members, Key Personnel and Consultants
For the Year Ended June 30, 2018

Complete District Mailing Address: 3200 Southwest Freeway, Suite 2600, Houston, TX 77027
 District Business Telephone Number: (713) 860-6400
 Submission Date of the most recent District Registration Form
 (TWC Sections 36.054 and 49.054): May 29, 2018
 Limit on Fees of Office that a Director may receive during a fiscal year: \$ 7,200
 (Set by Board Resolution -- TWC Section 49.0600)

Names:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid *	Expense Reimburse- ments	Title at Year End
Board Members				
Donna J. Bryant	05/18 to 05/22	\$ 2,550	\$ 818	President
Bryan Kinsler	05/16 to 05/20	900	228	Vice President
Vanessa Rodriguez	05/16 to 05/20	2,400	1,573	Secretary
Shamar O'Bryant	05/18 to 05/22	900	307	Assistant Secretary
Lawrence Dean	05/16 to 05/20	1,350	112	Assistant Vice President
Consultants				
Allen Boone Humphries Robinson LLP	2013	Amounts Paid		Attorney
<i>General legal fees</i>		\$ 141,806		
<i>Bond counsel</i>		170,742		
Municipal District Services L.L.C.	2014	345,000		Operator
Municipal Accounts & Consulting, L.P.	2013	28,349		Bookkeeper
B&A Municipal Tax Service, LLC	2013	9,110		Tax Collector
Montgomery Central Appraisal District	Legislation	6,911		Property Valuation
Perdue, Brandon, Fielder, Collins & Mott, LLP	2014			Delinquent Tax Attorney
Costello, Inc.	2013	132,762		Engineer
McGrath & Co., PLLC	2014	16,250		Auditor
Robert W. Baird & Co.	2018			Financial Advisor
Hilltop Securities, Inc.	2013	127,488		Former Financial Advisor

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

McGrath & Co., PLLC

Certified Public Accountants

P.O. Box 270148
Houston, Texas 77277

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Colette M. Garcia CPA
colette@mcgrath-co.com

October 22, 2018

Board of Directors
Montgomery County Municipal Utility District No. 105
Montgomery County, Texas

In planning and performing our audit of the financial statements of governmental activities and each major fund of Montgomery County Municipal Utility District No. 105 (the "District"), as of and for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal controls exists when the design or operation of a control does not allow management, in the normal course of performing their assigned functions, to prevent, detect or correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis.

The District's management consists of an elected Board of Directors (the "Directors"). Day-to-day operations are performed by private companies ("Consultants") under contract with the District. The Directors of the District supervise the performance of the Consultants; however, although the Consultants can be part of the District's system of internal control, the Consultants are not members of management. Ultimately, the Directors of the District are responsible for the design and implementation of the system of internal control.

Material Weaknesses

We observed the following matters that we consider to be material weaknesses:

- As is common within the system of internal control of most small organizations, the accounting function of the District does not prepare the financial statements complete with footnotes in accordance with accounting principles generally accepted in the United States of America. This could result in the District's financial statements and related note

disclosures not fully or accurately presenting the District's financial position and changes in financial position during the fiscal year in conformity with accounting principles generally accepted in the United States of America.

- During the course of performing an audit, it is not unusual for the auditor to prepare various journal entries to present the financial statements on both the fund basis and the government-wide basis of accounting. Management's reliance upon the auditor to detect and make these necessary adjustments could result in misstatements in the District's financial statements.
- The District's Management relies on its bookkeeper to maintain capital asset schedules for financial statement purposes. The capital assets and due to developer schedules provided by the bookkeeper were materially overstated/understated. If these schedules had not been corrected, amounts reported in the financial statements and related note disclosures would have been materially misstated.

Management's Response

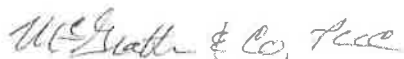
The District's financial statements have been prepared in a manner that is consistent with prior years. The Board engages a bonded bookkeeper who possesses industry knowledge and expertise, including a concentration in special districts accounting. The Board also engages a financial advisor and tax assessor/collector who possess industry knowledge and expertise, as well as legal and professional engineering services. The Board has consulted with its independent auditor concerning this "management letter" and the auditor does not recommend any change in the Board's bookkeeping or audit procedures at this time. To the best of its knowledge, the Board conducts the District's business affairs in the same manner as other similarly situated special districts, and, based on the recommendations of its auditor, does not believe that the addition of an employee to oversee the monthly and annual financial reporting process or to prepare financial statements or that undertaking an additional annual audit is necessary or cost effective.

Conclusion

Management's written response to the material weaknesses identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, Board of Directors and the Texas Commission on Environmental Quality and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



McGrath & Co., PLLC-CPAs
Houston, Texas

APPENDIX B
SPECIMEN MUNICIPAL BOND INSURANCE POLICY



MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

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

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

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

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

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

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

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

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

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc.
1633 Broadway, New York, N.Y. 10019
(212) 974-0100