

**OFFICIAL STATEMENT DATED FEBRUARY 25, 2020**

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

THE DISTRICT HAS DESIGNATED THE BONDS AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS. SEE "TAX MATTERS—QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS" HEREIN.

**NEW ISSUE-Book-Entry Only**

Insured Ratings (AGM): S&P "AA" (stable outlook)  
 Moody's "A2" (stable outlook)  
 Underlying Rating: Moody's "A3"  
 See "MUNICIPAL BOND RATING" and "MUNICIPAL BOND INSURANCE" herein.

**\$4,070,000**  
**MONTGOMERY COUNTY DRAINAGE DISTRICT NO. 10**  
*(A political subdivision of the State of Texas located within Montgomery County)*  
**UNLIMITED TAX BONDS**  
**SERIES 2020**

**Dated Date: March 1, 2020**

**Due: September 1, as shown below**

The bonds described above (the "Bonds") will be issued in fully registered form only, in denominations of \$5,000 or any integral multiple of \$5,000 for any one maturity. Principal of the Bonds will be payable at stated maturity or redemption upon presentation of the Bonds 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 accrues from March 1, 2020, and is payable September 1, 2020 (six months of interest), and each March 1 and September 1 thereafter until the earlier of maturity or redemption on the basis of a 360 day year of twelve 30 day months.

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 a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by **ASSURED GUARANTY MUNICIPAL CORP.** See "MUNICIPAL BOND INSURANCE" herein.

**MATURITY SCHEDULE**

Due (September 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number (c)	Due (September 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number (c)
2021	\$ 50,000	4.50 %	0.95 %	613691 DY7	2029	\$ 50,000 (b)	2.00 %	1.50 %	613691 EG5
2022	50,000	4.50	1.00	613691 DZ4	2030	50,000 (b)	2.00	1.60	613691 EH3
2023	50,000	4.50	1.02	613691 EA8	2031	50,000 (b)	2.00	1.70	613691 EJ9
2024	50,000	4.50	1.05	613691 EB6	2032	50,000 (b)	2.00	1.85	613691 EK6
2025	50,000	4.50	1.10	613691 EC4	***	***	***	***	***
2026	50,000 (b)	2.00	1.15	613691 ED2	2042	500,000 (b)	2.00	2.18	613691 EV2
2027	50,000 (b)	2.00	1.25	613691 EE0	2043	500,000 (b)	2.125	2.20	613691 EW0
2028	50,000 (b)	2.00	1.40	613691 EF7					
	\$220,000	Term Bonds due September 1, 2035		(b), 613691 EN0	(c), 2.00% Interest Rate, 2.00% Yield	(a)			
	\$575,000	Term Bonds due September 1, 2037		(b), 613691 EQ3	(c), 2.00% Interest Rate, 2.06% Yield	(a)			
	\$675,000	Term Bonds due September 1, 2039		(b), 613691 ES9	(c), 2.00% Interest Rate, 2.12% Yield	(a)			
	\$1,000,000	Term Bonds due September 1, 2041		(b), 613691 EU4	(c), 2.00% Interest Rate, 2.16% Yield	(a)			

- (a) Initial reoffering yield represents the initial offering yield to the public which has been established by the Initial Purchaser (as herein defined) for offers to the public and which may be subsequently changed by the Initial Purchaser and is the sole responsibility of the Initial Purchaser. The initial reoffering yields indicated above represent the lower of the yields resulting when priced at maturity or to the first call date. Accrued interest from March 1, 2020, is to be added to the price.
- (b) Bonds maturing on and after September 1, 2026, are subject to redemption prior to maturity at the option of the District, in whole or from time to time in part, on September 1, 2025, or on any date thereafter, at a price equal to the principal amount thereof plus accrued interest to the date fixed for redemption. The Term Bonds (as defined herein) are also subject to mandatory sinking fund redemption as more fully described herein. See "THE BONDS—Redemption Provisions."
- (c) CUSIP Numbers have been assigned to the Bonds by CUSIP Service Bureau and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Initial Purchaser shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.

The Bonds, when issued, will constitute valid and legally binding obligations of Montgomery County Drainage District No. 10 (the "District") and will be 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. The Bonds are obligations solely of the District and are not obligations of the State of Texas, Montgomery County, the City of Conroe, the City of Houston, or any entity other than the District. The Bonds are subject to special investment risks described herein. See "INVESTMENT CONSIDERATIONS."

The Bonds are offered by the Initial Purchaser subject to prior sale, when, as and if issued by the District and accepted by the Initial Purchaser, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Smith, Murdaugh, Little & Bonham, L.L.P., Bond Counsel. Delivery of the Bonds through DTC is expected on or about March 27, 2020.

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### USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

All of the summaries of the statutes, orders, resolutions, contracts, audited financial statements, engineering and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from Smith, Murdaugh, Little & Bonham, L.L.P., 2727 Allen Parkway, Suite 1100, Houston, Texas 77019, upon payment of duplication costs.

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

## OFFICIAL STATEMENT SUMMARY

The following information is qualified in its entirety by the more detailed information and financial statements appearing elsewhere in this Official Statement.

### HURRICANE HARVEY

*General...*

The greater Houston area, including the District, is subject to occasional severe weather events, including tropical storms and hurricanes. If the District were to sustain damage to its facilities requiring substantial repair or replacement, or if substantial damage were to occur to taxable property within the District as a result of such a weather event, the investment security of the Bonds could be adversely affected. The greater Houston area has experienced four storms exceeding a 0.2% probability (i.e. “500-year flood” events) since 2015 including Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 26, 2017 and brought historic levels of rainfall during the successive four days.

*Impact on the District...*

According to Municipal Operations & Consulting, Inc. (the “Operator”), Rayford Road MUD and MUD 99’s systems did not sustain any material damage as a result of Hurricane Harvey. With the exception of an unverified report of one home flooding in Montgomery Co. MUD No. 99 (“MUD 99”), the District is not aware of any homes within the District that experienced structural flooding or other material damage as a result of Hurricane Harvey.

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

### THE FINANCING

*The Issuer...*

Montgomery County Drainage District No. 10 (the “District”), a political subdivision of the State of Texas, located in Montgomery County, Texas. See “THE DISTRICT.”

*The Issue...*

\$4,070,000 Montgomery County Drainage District No. 10 Unlimited Tax Bonds, Series 2020 (the “Bonds”), dated March 1, 2020. The Bonds mature serially on September 1 in each of the years 2021 through 2032, both inclusive, 2042 and 2043, and as term bonds on September 1 in each of the years 2035, 2037, 2039, and 2041 (the “Term Bonds”) in the principal amounts set forth on the cover page hereof. Interest on the Bonds will accrue from March 1, 2020, with interest payable September 1, 2020 (six months of interest) and each March 1 and September 1 thereafter until maturity. See “THE BONDS.”

*Redemption...*

Bonds maturing on or after September 1, 2026 are subject to redemption in whole, or from time to time in part, at the option of the District prior to their maturity dates on September 1, 2025, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. The Term Bonds are also subject to mandatory sinking fund redemption as more fully described herein. See “THE BONDS—Redemption Provisions.”

<i>Book-Entry-Only System...</i>	The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC, pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of and interest on the Bonds will be payable by 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.”
<i>Source of Payment...</i>	The Bonds are payable from a continuing direct annual ad valorem tax, unlimited as to rate or amount, levied against all taxable property within the District. The Bonds are obligations solely of the District and are not obligations of the State of Texas, Montgomery County, the City of Conroe, the City of Houston, or any entity other than the District. See “THE BONDS—Source of Payment.”
<i>Use of Proceeds...</i>	Proceeds from the sale of the Bonds will be used to finance (1) clearing and grubbing in The Meadows at Imperial Oaks; (2) stormwater detention facilities; (3) stormwater pump station generator; (4) land costs for drainage easements; and (5) engineering fees. Bond proceeds will also be used to pay developer interest and payment of certain costs associated with the issuance of the Bonds. See “THE SYSTEM—Use and Distribution of Bond Proceeds.”
<i>Payment Record...</i>	The District has previously issued three series of unlimited tax bonds and one series of unlimited tax refunding bonds, \$9,705,000 of which remains outstanding as of the date hereof (collectively (the “Outstanding Bonds”). The District has never defaulted in the payment of principal of and interest on the Outstanding Bonds.
<i>Qualified Tax-Exempt Obligations...</i>	The Bonds have been designated as “Qualified Tax-Exempt Obligations” for financial institutions. See “TAX MATTERS—Qualified Tax-Exempt Obligations for Financial Institutions.”
<i>Municipal Bond Rating and Municipal Bond Insurance...</i>	It is expected that S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC, (“S&P”) and Moody’s Investors Service, Inc. (Moody’s) will assign municipal bond ratings of “AA” (stable outlook) and “A2” (stable outlook), respectively, to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Assured Guaranty Municipal Corp. (“AGM” or the “Insurer”). Moody’s has also assigned an underlying rating of “A3” to the Bonds. An explanation of their ratings may be obtained from S&P or Moody’s. See “INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance,” “MUNICIPAL BOND RATING,” “MUNICIPAL BOND INSURANCE” and “APPENDIX B.”
<i>Bond Counsel...</i>	Smith, Murdaugh, Little & Bonham, L.L.P., Bond Counsel, Houston, Texas.
<i>Financial Advisor...</i>	Masterson Advisors LLC, Houston, Texas.
<i>Disclosure Counsel...</i>	McCall, Parkhurst & Horton L.L.P., Disclosure Counsel, Houston, Texas.
<i>Investment Considerations...</i>	The purchase and ownership of the Bonds are subject to special investment considerations, and all prospective purchasers are urged to examine carefully the entire Official Statement for a discussion of investment risks, including particularly the section captioned “INVESTMENT CONSIDERATIONS.”

## THE DISTRICT

<i>Description...</i>	The District is a political subdivision of the State of Texas created by an order of the Commissioners Court of Montgomery County on May 19, 2003 and confirmed by the District's voters on September 13, 2003. The District is a water control and improvement district, contains approximately 718 acres of land and operates under the provisions of chapters 49 and 51 of the Texas Water Code and Article XVI, Section 59 of the Constitution of the State of Texas.
<i>Location...</i>	The District is located in southern Montgomery County, Texas between the cities of Houston and Conroe, approximately 30 miles north of downtown Houston, and 8 miles south of Conroe, Texas. Most of the District is within the extraterritorial jurisdiction of the City of Conroe, and the balance of the District is within the extraterritorial jurisdiction of the City of Houston. All of the District lies within the Conroe Independent School District.
<i>Purpose...</i>	The District provides major outfall drainage facilities to serve development within a portion of Rayford Road Municipal Utility District ("Rayford Road MUD") and all of the area within MUD 99. The District is authorized to construct and maintain drainage channels and storm water detention facilities to provide outfall drainage within the Woodson's Gully watershed and White Oak Creek watershed.
<i>Status of Development...</i>	<p>Approximately 526 acres of land within the District have been developed as single-family residential subdivisions, which include Imperial Oaks Park, Sections 6 through 11, Enclave at Imperial Oaks, Imperial Oaks Forest, Sections 1 and 2, Imperial Lake, Section 1, Imperial Oaks Park, Sections 12, 12A and 14 (which is being marketed as Meadows at Imperial Oaks), and Meadows at Imperial Oaks, Sections 1 through 8 and 9 and 13 (collectively, 1,739 single-family residential lots). Construction of underground utilities and street paving is complete in these sections. As of January 28, 2020, the District had a total of 1,571 completed single-family homes and 168 vacant lots available for homebuilding.</p> <p>Additionally, approximately 106 acres of developable land within the District are currently undeveloped. In addition to the residential development, the Conroe Independent School District has built an elementary school in the District on approximately 15 acres, which is not subject to taxation, and approximately 71 acres are located in streets, detention ponds, drainage channels, ditch rights-of-way, parks, recreation and open space and plant sites. See "THE DISTRICT."</p>
<i>Homebuilders...</i>	Homebuilders active in the District include Ashton Woods Homes, David Weekley Homes, and MHI d.b.a. Plantation Homes and Coventry Homes. New homes in the District are being offered for sale at prices ranging from approximately \$200,000 to \$450,000.
<i>Stormwater Drainage...</i>	Storm water within a portion of the District generally drains through underground lines to drainage ditches or detention ponds, then to a storm water pump station and then to Woodson's Gully. Storm water within the remainder of the District generally drains through underground lines to a detention channel and then to White Oak Creek. See "STORM WATER DRAINAGE."
<i>Water and Wastewater...</i>	Rayford Road MUD provides water supply and distribution, wastewater treatment and collection and certain storm drainage facilities to 338 acres of land within the boundaries of the District and an additional 976 acres of land which are within Rayford Road MUD but not within the boundaries of the District. As of December 1, 2019, Rayford Road MUD had \$15,990,000 principal amount of unlimited tax bonds and unlimited tax refunding bonds outstanding. Rayford Road MUD does not anticipate selling additional bonds in the near future. Bonds issued by Rayford Road MUD are payable from an ad valorem tax, without legal limitation as to rate or amount, levied against taxable property within its boundaries, and net revenues from the District's operating account, if available. Taxes levied by Rayford Road MUD are in addition to taxes levied by the District. For 2019, Rayford Road MUD levied a tax at the rate of \$0.50 per \$100 of taxable assessed valuation.

MUD 99 provides water supply and distribution, wastewater treatment and collection and certain storm drainage facilities to 380 acres of land within the boundaries of the District. All of MUD 99 is located within the boundaries of the District. As of December 1, 2019, MUD 99 had \$14,835,000 principal amount of unlimited tax bonds outstanding. MUD 99 anticipates selling additional bonds in the future to reimburse the developers of MUD 99. Bonds issued by MUD 99 are payable from an ad valorem tax, without legal limitation as to rate or amount, levied against taxable property within its boundaries. Taxes levied by MUD 99 are in addition to taxes levied by the District. For 2019, MUD 99 levied a tax at the rate of \$1.04 per \$100 of taxable assessed valuation. See “ESTIMATED OVERLAPPING DEBT AND TAX RATE STATEMENT” and “INVESTMENT CONSIDERATIONS—District Tax Levy and Overlapping District Taxes and Functions.”

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**SELECTED FINANCIAL INFORMATION**

2019 Certified Taxable Assessed Valuation .....	\$387,223,791 (a)
Gross Debt Outstanding (after the issuance of the Bonds) .....	\$13,775,000 (b)
Estimated Overlapping Debt.....	<u>33,795,447 (c)</u>
Gross Debt and Estimated Overlapping Debt.....	<u>\$47,570,447</u>
Ratio of Gross Debt to:	
2019 Certified Taxable Assessed Valuation .....	3.56%
Ratio of Gross Debt and Estimated Overlapping Debt to:	
2019 Certified Taxable Assessed Valuation.....	12.29%
2019 Debt Service Tax Rate .....	\$0.21
2019 Maintenance Tax Rate .....	<u>0.23</u>
2019 Total Tax Rate .....	\$0.44/\$100 A.V.
Average Annual Debt Service Requirements (2020-2043) of the Bonds (“Average Requirement”) .....	\$796,680
Maximum Annual Debt Service Requirement (2021) of the Bonds (“Maximum Requirement”).....	\$868,713
Tax Rate Required to Pay Average Requirement (2020-2043) at a 95% Collection Rate Based upon 2019 Certified Taxable Assessed Valuation .....	\$0.22/\$100 A.V.
Tax Rate Required to Pay Maximum Requirement (2021) at a 95% Collection Rate Based upon 2019 Certified Taxable Assessed Valuation .....	\$0.24/\$100 A.V.
Status of home construction as of January 28, 2020:	
Single-family residential – completed .....	1,571
Single-family residential – vacant lots.....	<u>168</u>
Total .....	<u>1,739</u>

Estimated 2020 Population – 5,499 (d)

- |     |   |
|-----|---|
| (a) | As certified by Montgomery Central Appraisal District’s (the “Appraisal District”). See “TAX PROCEDURES.” |
| (b) | See “FINANCIAL STATEMENT—Outstanding Bonds.”  |
| (c) | See “ESTIMATED OVERLAPPING DEBT AND TAX RATES STATEMENT.”   |
| (d) | Based upon 3.5 persons per completed home.  |

## OFFICIAL STATEMENT

**\$4,070,000**

### **MONTGOMERY COUNTY DRAINAGE DISTRICT NO. 10**

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

### **UNLIMITED TAX BONDS**

### **SERIES 2020**

This Official Statement provides certain information in connection with the issuance by Montgomery County Drainage District No. 10 (the “District”) of its \$4,070,000 Unlimited Tax Bonds, Series 2020 (the “Bonds”).

The Bonds are issued pursuant to Article XVI Section 59 of the Texas Constitution, Chapters 49 and 51 of the Texas Water Code, as amended, an order authorizing the issuance of the Bonds (the “Bond Order”) adopted by the Board of Directors of the District (the “Board”) an order of the Texas Commission on Environmental Quality (the “Commission”) and an election held within the District.

This Official Statement includes descriptions, among others, of the Bonds and the Bond Order, and certain other information about the District, the developers and development activity within the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of such documents may be obtained from the District upon payment of the costs of duplication therefor from Smith, Murdaugh, Little & Bonham, L.L.P., Bond Counsel, 2727 Allen Parkway, Suite 1100, Houston, Texas 77019.

## THE BONDS

### **Description**

The Bonds are dated March 1, 2020, with interest payable each September 1 and March 1 (each an “Interest Payment Date”), beginning September 1, 2020 (six months of interest), and mature on the dates and in the principal amounts and pay interest at the rates shown on the cover page hereof. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company (“DTC”) pursuant to the Book-Entry-Only System described herein. No physical delivery of the Bonds will be made to the owners thereof. Initially, principal of and interest on the Bonds will be payable by 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 “Book-Entry-Only System” herein.

In the event the Book-Entry-Only System is discontinued, interest on the Bonds shall be payable by check on or before each interest payment date, mailed by the Paying Agent/Registrar to the registered owners (“Registered Owners”) as shown on the bond register (the “Register”) kept by the Paying Agent/Registrar at the close of business on the 15th calendar day of the month immediately preceding each interest payment date to the address of such Registered Owner as shown on the Register, or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and a Registered Owner at the risk and expense of such Registered Owner.

### **Book-Entry-Only System**

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

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

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a rating of “AA+” from S&P Global Ratings. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not 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 the District (or the Trustee on behalf thereof) as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

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

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

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

### **Use of Certain Terms in Other Sections of this Official Statement**

In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and, (ii) except as described above, notices that are to be given to registered owners under the Order will be given only to DTC.

### **Registration, Transfer and Exchange**

So long as any Bonds remain outstanding, the Paying Agent/Registrar shall keep the Register at its principal payment office and, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar shall provide for the registration and transfer of Bonds in accordance with the Bond Order. While the Bonds are in the Book-Entry-Only system, Bonds will be registered only in the name of Cede & Co and held by DTC. See "Book-Entry-Only System."

### **Paying Agent/Registrar**

The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., in Dallas, Texas. In the Bond Order the District retains the right to replace the Paying Agent/Registrar. The District covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid, and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District agrees to promptly cause a written notice thereof to be sent to each Registered Owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

### **Source of Payment**

The Bonds, when issued, will constitute valid and binding obligations of the District and are payable as to principal and interest from and are secured by 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. Tax proceeds, after deduction for collection costs, will be placed in the Debt Service Fund (as defined in the Bond Order) and used solely to pay principal of and interest on the Bonds, the Outstanding Bonds, and on any additional bonds issued by the District payable from taxes which may be levied. See "TAX DATA."

The Bonds are obligations solely of the District and are not obligations of Montgomery County, Texas, the City of Conroe, the City of Houston, the State of Texas or any political subdivision or entity other than the District.

**Funds**

The Bond Order confirms establishment of the District’s Debt Service Fund and Capital Projects Fund. The Debt Service Fund is to be kept separate from all other funds of the District and used for payment of debt service on the Bonds and any of the District’s duly authorized additional bonds, together with interest thereon, as such becomes due. Amounts on deposit in the Debt Service Fund may also be used to pay the fees and expenses of the Paying Agent/Registrar, and to defray the expenses of assessing and collecting taxes levied for payment of interest on and principal of the Bonds and any additional bonds.

Accrued interest on the Bonds will be deposited into the Debt Service Fund upon receipt. The remaining proceeds from sale of the Bonds including interest earnings thereon, will be deposited into the Capital Projects Fund to be used for the purpose of acquiring and constructing District facilities and for paying the costs of issuing the Bonds. See “THE SYSTEM—Use and Distribution of Bond Proceeds.”

The Bond Order also confirms the previous establishment of the District’s General Fund. The District deposits, as collected, all revenues derived from operation of the District’s water and sanitary sewer system and from maintenance taxes into the General Fund. From the General Fund, the District pays all administration, operation, and maintenance expenses of the water and sanitary sewer system and the District’s storm drainage system, recreational facilities and street lights in the District. Any funds remaining in the General Fund after payment of maintenance and operating expenses, and to the extent they are ever necessary, after any payments pledged pursuant to the requirements of the Bonds, may be used by the District for any lawful purposes.

**Redemption Provisions**

*Mandatory Redemption:* The Bonds maturing on September 1 in each of the years 2035, 2037, 2039 and 2041 (the “Term Bonds”) shall be redeemed, at a price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption (the “Mandatory Redemption Date”), on September 1 in each of the years and in the principal amounts set forth in the following schedule (with each such scheduled principal amount reduced by the principal amount as may have been previously redeemed through the exercise of the District’s reserved right of optional redemption, as provided under “Optional Redemption” below):

<b>\$220,000 Term Bonds</b>		<b>\$575,000 Term Bonds</b>	
<b>Due September 1, 2035</b>		<b>Due September 1, 2037</b>	
<b>Mandatory Redemption Date</b>	<b>Principal Amount</b>	<b>Mandatory Redemption Date</b>	<b>Principal Amount</b>
2033	\$ 50,000	2036	\$ 275,000
2034	70,000	2037 (maturity)	300,000
2035 (maturity)	100,000		

<b>\$675,000 Term Bonds</b>		<b>\$1,000,000 Term Bonds</b>	
<b>Due September 1, 2039</b>		<b>Due September 1, 2041</b>	
<b>Mandatory Redemption Date</b>	<b>Principal Amount</b>	<b>Mandatory Redemption Date</b>	<b>Principal Amount</b>
2038	\$ 325,000	2040	\$ 500,000
2039 (maturity)	350,000	2041 (maturity)	500,000

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

*Optional Redemption:* The District reserves the right, at its option, to redeem the Bonds maturing on and after September 1, 2026, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000, on September 1, 2025, or on any date thereafter, at a price of par plus accrued interest on the principal amounts called for redemption to the date fixed for redemption. If fewer than all of the Bonds are redeemed at any time, the particular maturities of Bonds to be redeemed shall be selected by the District. If less than all the Bonds of any maturity are redeemed at any time, the particular Bonds within a maturity to be redeemed shall be selected by the Paying Agent/Registrar by lot or other customary method of selection (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form).

Notice of any redemption identifying the Bonds to be redeemed in whole or in part shall be given by the Paying Agent/Registrar at least thirty (30) days prior to the date fixed for redemption by sending written notice by first class mail to the Registered Owner of each Bond to be redeemed in whole or in part at the address shown on the Register. Such notices shall state the redemption date, the redemption price, the place at which the Bonds are to be surrendered for payment and, if less than all the Bonds outstanding within any one maturity are to be redeemed, the numbers of the Bonds or the portions thereof to be redeemed. Any notice given shall be conclusively presumed to have been duly given, whether or not the Registered Owner receives such notice. By the date fixed for redemption, due provision shall be made with the Paying Agent/Registrar for payment of the redemption price of the Bonds or portions thereof to be redeemed, plus accrued interest to the date fixed for redemption. When Bonds have been called for redemption in whole or in part and due provision has been made to redeem the same as herein provided, the Bonds or portions thereof so redeemed shall no longer be regarded as outstanding except for the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the Registered Owners to collect interest which would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

### **Authority for Issuance**

At an election held within the District on September 13, 2003, the voters of the District authorized the issuance of a total of \$82,000,000 principal amount of unlimited tax bonds for purposes of acquiring or constructing the District's storm drainage system and for refunding such bonds. After issuance of the Bonds, the District will have \$65,215,000 in principal amount of unlimited tax bonds authorized but unissued for acquiring or constructing the District's storm drainage facilities and for refunding such bonds. See "Issuance of Additional Debt" below.

The Bonds are issued by the District pursuant to the terms and conditions of the above referenced election; the Bond Order; Article XVI, Section 59 of the Texas Constitution; and Chapters 49 and 51 of the Texas Water Code, as amended; and an order of the Texas Commission on Environmental Quality (the "Commission"). Before the Bonds can be issued, the Attorney General of Texas must pass upon the legality of certain related matters. The Attorney General of Texas does not guarantee or pass upon the safety of the Bonds as an investment or upon the adequacy of the information contained in this Official Statement.

### **Issuance of Additional Debt**

The District's voters have authorized the issuance of \$82,000,000 in principal amount of unlimited tax bonds for purposes of acquiring or constructing the District's storm drainage system and for refunding such bonds. The District could authorize additional amounts. After issuance of the Bonds, the District will have \$65,215,000 in principal amount of authorized but unissued unlimited tax bonds for acquiring or constructing the District's storm drainage system and for refunding such bonds. The Bond Order imposes no limitation on the amount of additional parity bonds which may be subsequently authorized for issuance by the District's voters or the amount ultimately issued by 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 purpose. Before the District could issue fire-fighting bonds payable from taxes, the following actions would be required: (a) amendments to the existing City of Houston and City of Conroe ordinances specifying the purposes for which the District may issue bonds; (b) authorization of a detailed master plan and bonds for such purpose by the qualified voters in the District; (c) approval of the master plan and issuance of bonds by the Commission; and (d) approval of bonds by the Attorney General of Texas. It is not anticipated at this time that bonds will be issued by the District for fire-fighting purposes.

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

Issuance of additional bonds or other subsequently authorized bonds could affect the investment quality or security of the Bonds. See "INVESTMENT CONSIDERATIONS—Future Debt."

## **Defeasance**

The District may defease the Bonds pursuant to provisions of the Bond Order and discharge its obligations to the Registered Owners of any or all of the Bonds to pay principal of and interest on the Bonds in any manner permitted by law. Under current Texas law, such discharge may be accomplished as follows: (1) by paying or causing to pay principal and interest due on the Bonds (whether at maturity, redemption or otherwise) in accordance with the terms of the Bonds; (2) 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 (3) by depositing with any place of payment (paying agent) of the Bonds or other obligations of the District payable with revenues from ad valorem taxes or both, or with a commercial bank or trust company designated in the proceedings authorizing the discharge moneys or investments which, together with interest earned on or profits to be realized from such investments, will be sufficient to pay principal, interest or redemption price to maturity or to the date fixed for redemption of the Bonds provided that such deposits may be invested and reinvested only in (a) direct obligations of the United States of America, (b) non-callable 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) non-callable 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 payment or deposit, the Bonds shall no longer be regarded as outstanding and unpaid. However, if the maturity date on the Bonds shall not have then arrived, provision shall be made by the District for payment to the Registered Owners of the Bonds at the date of maturity or at a date fixed for redemption in full amount to which the Registered Owners would be entitled by way of principal, interest and redemption price to the date of such maturity or redemption as provided in the Bond Order, and further provided written notice thereof shall have been given as provided in the Bond Order.

## **Annexation**

Most of the land within the District is located within the extraterritorial jurisdiction (“ETJ”) of the City of Conroe, and the balance of land within the District is located within the ETJ of the City of Houston. Under Texas law, the land within a district that is within the ETJ of a city may be annexed by that city without the consent of the district or its residents. In the event of such annexation of a portion of the District either by the City of Houston or the City of Conroe, there is no provision in the law for either city to dissolve the District or assume the District’s obligations following annexation, and the District would retain the obligation to make debt service payments on the Bonds if annexation should occur.

## **Consolidation**

A district (such as 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, with the assets of districts with which it is consolidating as well as its liabilities (which would include the Bonds). No representation is made concerning the likelihood of consolidation.

## **Legal Investment and Eligibility to Secure Public Funds in Texas**

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

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

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

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

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

### **Amendments**

The District has reserved the right to amend the Bond Order without the consent of the Registered Owners as may be required (a) by the provisions of the Bond Order, (b) for the purpose of curing any ambiguity, inconsistency, or formal defect or omission in the Bond Order, or (c) in connection with any other change not to the prejudice of the Registered Owners, but the District may not otherwise amend the terms of the Bonds or of the Bond Order without the consent of the Registered Owners.

### **Registered Owners' Remedies**

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

## **THE DISTRICT**

### **General**

The District is a political subdivision of the State of Texas created by an order of the Commissioners Court of Montgomery County on May 19, 2003 and confirmed by the District's voters at an election held for and within the District on September 13, 2003. The District is a water control and improvement district created and operating pursuant to the provisions of Chapters 49 and 51, Texas Water Code and Article XVI, Section 59 of the Constitution of the State of Texas.

The District was created for the purposes of prevention of floods, drainage of land within the District through drainage ditches and other facilities for drainage, construction of levees for protection of land in the District from overflow of storm water and alteration of the land elevations, as necessary.

The District provides major outfall drainage facilities to serve a portion of the development within Rayford Road MUD and provides such facilities for all of the land within MUD 99. The District is authorized to construct and maintain drainage channels and storm water detention facilities to provide outfall drainage within the Woodson's Gully watershed and White Oak Creek watershed.

### **Description and Location**

The District contains approximately 718 acres of land and is located in southern Montgomery County, Texas between the cities of Houston and Conroe, approximately 30 miles north of downtown Houston, and 8 miles south of Conroe, Texas. Most of the District is within the extraterritorial jurisdiction of the City of Conroe, and the balance of the District is within the extraterritorial jurisdiction of the City of Houston. All of the District lies within the Conroe Independent School District.

**Status of Development**

Approximately 526 acres of land within the District have been developed as single- family residential subdivisions, which include Imperial Oaks Park, Sections 6 through 11, Enclave at Imperial Oaks, Imperial Oaks Forest, Sections 1 and 2, Imperial Lake, Section 1, Imperial Oaks Park, Sections 12, 12A and 14 (which is being marketed as Meadows at Imperial Oaks), and Meadows at Imperial Oaks, Sections 1 through 8 and 9 and 13 (collectively, 1,739 single-family residential lots). Construction of underground utilities and street paving is complete in these sections. As of January 28, 2020, the District had a total of 1,571 completed single-family homes and 168 vacant lots available for homebuilding.

Homebuilders active in the District include Ashton Woods Homes, David Weekley Homes, and MHI d.b.a. Plantation Homes and Coventry Homes. New homes in the District are being offered for sale at prices ranging from approximately \$200,000 to \$450,000.

Additionally, approximately 106 acres of developable land within the District are currently undeveloped. In addition to the residential development, the Conroe Independent School District has built an elementary school in the District on approximately 15 acres, which is not subject to taxation, and approximately 71 acres are located in streets, detention ponds, drainage channels, ditch rights-of-way, parks, recreation and open space and plant sites.

**Community Facilities**

A Kroger-anchored strip shopping center is located on Rayford Road approximately one mile south of the District. Several retail centers located at the intersection of IH-45 and Rayford Road and along IH-45 between Rayford Road and The Woodlands Parkway also provide residents of the District with shopping and banking facilities, and The Woodlands Mall, a regional shopping center, is located approximately five miles from the District. Imperial Oaks Park, a 40-acre recreational facility with many amenities, is located one mile west of the District. Medical care for District residents is available from Memorial Hermann Woodlands Hospital, approximately seven miles from the District.

**MANAGEMENT**

**Board of Directors**

The District is governed by the Board of Directors, consisting of five (5) directors, which has control over and management supervision of all affairs of the District. Directors are elected to four-year staggered terms, and elections are held in May in even numbered years only. None of the Directors resides within the District, but each owns a small parcel of land within the District, subject to a deed of trust in favor of one of the developers of land in the District. The Directors and Officers of the District are listed below:

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Arthur Donnelly	President	May 2020
Bryan P. Muecke	Vice President	May 2022
Renee Knight	Secretary	May 2022
Thomas E. Smith, Jr.	Director	May 2020
Cliff Harris	Director	May 2022

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

**Tax Appraisal**

Land and improvements within the District are appraised for ad valorem taxation purposes by the Montgomery Central Appraisal District.

**Tax Assessor/Collector**

The District's tax assessor/collector is the Montgomery County Tax Office (the “Tax Assessor/Collector”).

### **Bookkeeper**

The District contracts with Myrtle Cruz, Inc. for bookkeeping services.

### **Operator**

The District contracts with Municipal Operations & Consulting for operations and maintenance services.

### **Engineer**

The consulting engineer for the District in connection with the design and construction of certain District facilities is Huitt- Zollars, Inc. (the "Engineer").

### **Attorney**

The District has engaged Smith, Murdaugh, Little & Bonham, L.L.P. as general counsel and as Bond Counsel in connection with the issuance of the Bonds. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered, and, therefore, such fees are contingent on the sale and delivery of the Bonds.

### **Financial Advisor**

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

### **Auditor**

As required by the Texas Water Code, the District retains an independent auditor to audit the District's financial statements annually, which audit is filed with the Commission. The District's audited financial statements for the fiscal year ending May 31, 2019 have been prepared by McCall Gibson Swedlund Barfoot PLLC. See "APPENDIX A" for a copy of the District's May 31, 2019 audited financial statements.

## **THE DEVELOPERS**

### **Role of a Developer**

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

Development in Rayford Road MUD has been conducted by single purpose entities owned by James R. Holcomb, Richard A. Schubert and various investors. Mr. Holcomb and Mr. Schubert are active in serving as joint venture partners and managers of numerous subdivision developments in the Houston area. The developer of land in MUD 99 is 2005 Imperial Oaks, Ltd., a Texas limited partnership and 2014 Imperial Oaks Development, Inc., affiliates of MHI.

The developers of land in the District are not obligated to pay principal of or interest on the Bonds. Furthermore, the developers of land in the District have no binding commitment to the District to carry out any plan of development, and the furnishing of information relating to the proposed development by such developers should not be interpreted as such a commitment. Prospective purchasers are encouraged to inspect the District in order to acquaint themselves with the nature of development that has occurred or is occurring within the District's boundaries.

## **STORM WATER DRAINAGE**

The District provides outfall storm drainage facilities for the land within the District's boundaries. Internal storm water collection facilities are operated by Rayford Road MUD and MUD 99 for the portions of the District that lie within their respective boundaries as described below.

The District's drainage system consists of three drainage channels, two storm water detention ponds, and a storm water pump station consisting of four individual pumps and associated electrical controls, a storm water quality detention pond.

Additional outfall storm water drainage improvements will be required to serve the undeveloped area of the District within MUD 99.

### **Storm Drainage System and 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 no assurance that homes built in such area will not be flooded. The District's drainage system has been designed and constructed to all current standards.

All of the land in MUD 99 and a portion of the land within Rayford Road MUD are within the boundaries of the District, whose system of drainage channels and storm water detention ponds are constructed to remove and protect land in the District from the 100-year floodplain. According to the most recent Federal Emergency Management Agency (FEMA) Floodplain Maps, approximately 5 acres of developable land in MUD 99 are within the 100-year floodplain, in addition to the area contained within the District's drainage facilities. To date, there has been no development on the approximate 5 acres of developable land within the floodplain. See "INVESTMENT CONSIDERATIONS—Recent Extreme Weather Events; Hurricane Harvey."

### **Stormwater Discharge Permit**

On August 13, 2007, the Commission issued a general permit for stormwater discharges associated with small municipal separate storm sewer systems in certain urbanized areas of the State of Texas, including the area of Rayford Road MUD. Initially MUD 99 and the District were not included in any urbanized area, but in 2012 maps were updated after receipt of census data, and The Woodlands Urbanized Area was expanded to incorporate the area of MUD 99 and the District. The first Commission permit expired on August 12, 2012 and the renewed permit was adopted on December 11, 2013.

The District and MUD 99 joined Montgomery County Drainage District No. 6, four other municipal utility districts, and the City of Oak Ridge North, all located in The Woodlands Urbanized Area, in a series of Inter-Local Cooperation Agreements that formed and provided for operation of the South Montgomery County Storm Water Coalition (the "Coalition") for the purpose of combining and sharing resources to file applications for municipal separate storm sewer system ("MS4") permits as required by the Commission general permit.

The Coalition participants, except for MUD 99 and the District, each obtained MS4 permits under the 2007 permit and adopted storm water management plans to achieve six minimum control measures that were called for in the 2007 MS4 permits. Because MUD 99 was not initially in The Woodlands Urbanized Area, it did not participate in the permitting effort in 2007. Rayford Road MUD, MUD 99 and the District and other Coalition participants applied for coverage under the renewed 2013 general MS4 permit. Rayford Road MUD, MUD 99 and the District and other Coalition participants are acting together to perform tasks to carry out certain best management practices and take actions to accomplish the minimum control measures and file annual reports with the Commission as required by the permits. Accordingly, Rayford Road MUD and MUD 99 and the District are in compliance with the Commission general permit and the MS4 permits.

On January 24, 2019, the Commission issued a new general permit for storm water discharges associated with small MS4s in UA of the state of Texas. The coalition members have prepared a storm water management plan and as of January 10, 2020 it is under review by the Commission.

## **WATER SUPPLY AND WASTEWATER TREATMENT**

### **Regulation**

Construction and operation of the water, wastewater and storm drainage systems serving the land within the District as they now exist or as they may be expanded from time-to-time is subject to regulatory jurisdiction of federal, state and local authorities. The Commission exercises continuing, supervisory authority over the District, Rayford Road MUD and MUD 99. Discharge of treated sewage into Texas waters is also subject to the regulatory authority of the Commission and the United States Environmental Protection Agency (“EPA”). Construction of all storm drainage facilities is subject to the regulatory authority of Montgomery County, Texas, the Commission and the EPA.

### **Water Supply**

Rayford Road MUD is served by Water Plant No. 1, Water Plant No. 2, and a 1,000 gallon per minute (“gpm”) remote well that serves Water Plant No. 2. Water Plant No. 1 consists of a 1,026-gpm well and pump, 640,000 gallons of ground storage tank capacity, 2,600 gpm of booster pump capacity and 30,000 gallons of pressure tank capacity. Water Plant No. 2 consists of a 1,176-gpm well and pump, 856,000 gallons of ground storage capacity, 4,000 gpm of booster pump capacity, and 30,000 gallons of pressure tank capacity. According to the Engineer for Rayford Road MUD, Rayford Road MUD’s water supply facilities are sufficient to serve approximately 3,750 equivalent single family connections, in accordance with the elevated storage variance dated April 10, 2017.

Rayford Road MUD receives surface water from the San Jacinto River Authority in connection with implementing its first phase of its groundwater reduction plan. See “—San Jacinto River Authority GRP Agreement” herein.

Rayford Road MUD has emergency water interconnects with Spring Creek Utility District, Southern Montgomery County Municipal Utility District, Montgomery County Municipal Utility District No. 115 (“MUD 115”), and MUD 99. All interconnects are normally closed but will be opened to allow one of the districts to receive water during an emergency that substantially reduces the production capability of the receiving district’s water supply system.

MUD 99 owns water supply capacity in the shared water plant operated by MUD 99 and shared with MUD 115 and Montgomery County Municipal Utility District No. 127 (“MUD 127”). The existing water plant consists of a 900 gallon per minute (“gpm”) well, a guaranteed 410 gpm surface water feed, two 318,000 gallon ground storage tanks, two 15,000 gallon pressure tanks, booster pump capacity of 3,450 gpm and related appurtenant equipment. According to the District Engineer for MUD 99, the water plant has sufficient capacity to serve approximately 2,183 equivalent single family connections (“ESFCs”). MUD 99's share of the capacity is 328 ESFCs and pursuant to the Water Supply Agreement, MUD 99 has a right to purchase additional capacity or upgrade the facilities, as needed, to serve its development.

Additionally MUD 99 has two emergency interconnects with Rayford Road MUD, which are normally closed.

### **Wastewater Treatment**

Rayford Road MUD owns and operates a 950,000 gallon per day (“gpd”) wastewater treatment plant which is capable of providing wastewater treatment capacity for approximately 3,800 equivalent single family residential connections, under current regulatory criteria. The engineer for Rayford Road MUD has certified that sufficient wastewater treatment capacity is available for the developed sections within Rayford Road MUD that are located entirely or partially within the District.

MUD 99 owns capacity in the shared 399,000 gallon per day (“gpd”) interim wastewater treatment plant. The current permitted capacity of the interim treatment plant is 399,000 gpd, and the ultimate capacity of the permanent plant is projected to be 1,500,000 gpd. Construction of the treatment plant will be completed in phases. The current interim treatment plant has the capacity to serve approximately 1,564 ESFCs, of which MUD 99 owns 692 ESFCs. MUD 115 is planning to purchase 32 ESFCs from MUD 99 in the near term, which will reduce MUD 99 capacity to 412 ESFCs. As of January 2020, the shared wastewater treatment plant is serving a total of 2,120 connections for both MUD 99 and MUD 115 and operating at approximately 76% percent of its permitted capacity.

Unused connections in the plant are available until the next expansion is completed and can be utilized by either MUD 99 or MUD 115, which would provide both districts with the capacity they need to serve the existing connections.

## **Lone Star Groundwater Conservation District**

The land within 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 MUD 99 and Rayford Road MUD, 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 the County to prevent the long term depletion of the aquifers.

Large water users, including MUD 99 and Rayford Road MUD, were required to prepare and submit a two-part Water Resources Assessment Plan (“WRAP”) that identified methods and plans for reduction of groundwater usage through the development of alternate water resources, including the design and construction of infrastructure facilities to purchase and transport surface water to affected areas within the County. The initial requirement and deadline for reduction of groundwater use by MUD 99 and Rayford Road MUD by 30% was January 1, 2016.

MUD 99 and Rayford Road MUD participated in a joint WRAP prepared by the San Jacinto River Authority as described below, and are in compliance with Conservation District requirements.

Upon passage of House Bill 1982 by the 85th Texas Legislature in 2017, the Conservation District board of directors was changed from a nine member appointed board to a seven member elected board. The first election was held on November 6, 2018, and the new board assumed office in on November 18, 2018. Since taking office the new board members have indicated that there will be major changes to the Conservation District’s approach to groundwater management.

In 2015, dissatisfied with the production limits the Conservation District created through the rulemaking authority delegated to it by the Texas Legislature, a group of large water producers filed suit claiming that the rules the Conservation District created imposing per-producer yearly production limits on their production of groundwater were invalid because they purported to regulate the production limits on their production of groundwater in ways the Texas Legislature never authorized. On October 2, 2018, the 284th District Court of Montgomery County, ruled that, as a matter of law, the core groundwater regulation, which the Conservation District had imposed on large groundwater producers, is outside of the Conservation District’s authority under the Texas Water Code and is not valid. The Conservation District appealed to the Beaumont Court of Appeals for review of the decision. However, at the Conservation District board meeting held on January 23, 2019, the newly elected board announced that they unanimously agreed on a settlement offer with the large water producers, and the appeal was withdrawn. As a result of the settlement, it is expected that the Conservation District board will consider and adopt new groundwater regulations in the future.

## **San Jacinto River Authority GRP Agreement and Supplemental Agreement (Non-Mandatory Conversion to Surface Water)**

In response to the then current Conservation District requirements, the San Jacinto River Authority (“SJRA”) expressed a willingness to assume responsibility to construct and operate a surface water treatment plant at or near Lake Conroe and a water transmission system to major populated areas of Montgomery County, thus enabling the entire county to comply with the then current Conservation District requirements.

SJRA offered to enter into a contract for groundwater reduction planning, alternative water supply, and related goods and services (the “GRP Contract”) with all large water users in the county to achieve the goals for reduction of groundwater pumpage for the entire county. Approximately 147 larger volume water users in Montgomery County, including MUD 99 and Rayford Road MUD, approved and entered into the GRP Contract (“collectively the “Participants”) and are in compliance with SJRA and Conservation District requirements applicable to groundwater pumpage from the MUD 99 well.

Pursuant to the GRP Contract, SJRA will develop, implement and enforce a groundwater reduction plan (“GRP”) covering all Participants to achieve and maintain compliance with the Conservation District requirements. The initial focus of the GRP will be the design and construction of a surface water treatment and transmission system (the “Project”) to be owned and operated by SJRA for the benefit of all Participants.

The SJRA will design, permit, finance, construct, own, operate and maintain the Project, and the Project will be constructed in phases. A group compliance approach will be utilized. Certain large volume Participants may be wholly-converted to treated surface water while other users may continue to use groundwater. This approach is expected to minimize the overall Project cost, equalize costs for Participants and avoid geographic advantages and disadvantages.

All Participants will pay a monthly groundwater pumpage fee for groundwater pumped from wells. The pumpage fee shall be set so that Participants are neither benefitted nor penalized for utilizing groundwater, and allowances will be made for Participant costs of operating and maintaining their wells.

The Participants are also required to pay well permit fees assessed by the Conservation District, and the District's well permit is now aggregated with other GRP participants and is managed by the SJRA. The Conservation District currently bills permit holders (SJRA) 0.105 per 1,000 of water pumped from wells. SJRA passes those costs to the Participants.

Participants that receive treated surface water from the Project will pay the prevailing rate for water, which rate will be set so that Participants are neither benefitted nor penalized for being required to take water from the Project under the GRP, and allowances will be made for Participant costs of operating on-site water facilities, as well as operating and maintaining their wells. The pumpage fees and water service fees received from the Project will be comparable, so that all Participants will be paying equivalent charges without preference for customers within or outside the areas converted to surface water.

SJRA has issued \$544,555,358 principal amount of special project and water revenue bonds to finance the capital costs of the Project, and groundwater pumpage fees and water service fees will be used to cover costs of debt service on the bonds. Effective September 1, 2016, the SJRA assessed groundwater pumpage fees of \$3.15 per 1,000 gallons pumped from the Rayford Road MUD and MUD 99 wells. Rayford Road MUD and MUD 99 pay the pumpage fees based upon the amount of water delivered to each district each month. Rayford Road MUD and MUD 99 pass these pumpage fees and Conservation District fees on to customers in the districts. The SJRA pumpage fees will increase as the costs of the Project are incurred, but neither Rayford Road MUD nor MUD 99 is unable to predict the magnitude of such increases.

**Use and Distribution of Bond Proceeds**

The estimated use and distribution of Bond proceeds is shown below. Of proceeds to be received from sale of the Bonds, \$3,627,034 is for construction costs, and \$442,966 is for nonconstruction costs.

**CONSTRUCTION COSTS**

Clearing and Grubbing to Serve The Meadows at Imperial Oaks, Phase Three.....	\$ 46,295
Clearing and Grubbing to Serve The Meadows at Imperial Oaks, Phase Four.....	91,734
The Meadows at Imperial Oaks, Phase Three Stormwater Detention Facilities.....	138,750
The Meadows at Imperial Oaks, Phase Four Stormwater Detention Facilities.....	190,350
The Meadows at Imperial Oaks Phases One, Two & Three Mass Excavation Appraisals.....	1,978,300
Land Costs for Drainage Easements.....	507,287
Stormwater Pump Station Diesel Generator.....	250,000
Contingencies.....	44,035
Engineering and Surveying.....	380,283

**Total Construction Costs** **\$ 3,627,034**

**NON-CONSTRUCTION COSTS**

Legal Fees.....	\$ 81,400
Financial Advisory Fees.....	76,050
Developer Interest.....	68,237
Bond Discount.....	122,100
Bond Issuance Expenses.....	36,934
Bond Application Report.....	44,000
TCEQ Fee (0.25%).....	10,175
Attorney General Fee.....	4,070

**Total Non-Construction Costs** **\$ 442,966**

**TOTAL BOND ISSUE** **\$ 4,070,000**

**Future Debt**

After reimbursement from the proceeds of the Bonds, the District will have fulfilled its reimbursement obligations to the Developer. The District presently contains approximately 106 acres of developable land not presently served with storm drainage facilities. It is anticipated that additional bonds will be issued to finance the construction of these facilities to serve the undeveloped acreage within the District. See “THE BONDS—Issuance of Additional Debt.” The District can make no representation that any additional development will occur within the District. According to the District Engineer, the District has adequate voted bonds to complete the current and planned land use projects.

**BONDS AUTHORIZED BUT UNISSUED**

<u>Date of Authorization</u>	<u>Purpose</u>	<u>Amount Authorized</u>	<u>Issued to Date</u>	<u>Amount Unissued</u>
9/13/2003	Storm Drainage Facilities and Refunding	\$82,000,000	\$16,785,000*	\$65,215,000*

\* Includes the Bonds.

**FINANCIAL STATEMENT**

2019 Certified Taxable Assessed Valuation .....	\$387,223,791	(a)
Direct Debt:		
Outstanding Bonds (as of December 1, 2019) .....	\$ 9,705,000	(b)
Plus: The Bonds .....	<u>4,070,000</u>	
Gross Debt Outstanding .....	\$13,775,000	
Ratio of Gross Debt to:		
2019 Certified Taxable Assessed Valuation .....		3.56%

Area of District – 718 Acres  
Estimated 2020 Population – 5,499 (c)

- (a) As certified by Montgomery Central Appraisal District (the “Appraisal District”). See “TAX PROCEDURES.”  
 (b) See “Outstanding Bonds” herein.  
 (c) Based upon 3.5 persons per occupied home.

**Cash and Investment Balances** (unaudited as of January 28, 2020)

Capital Projects Fund	Cash and Temporary Investments	\$ 438,691
Operating Fund	Cash and Temporary Investments	\$1,719,461
Debt Service Fund	Cash and Temporary Investments	\$ 1,573,195 (a)

(a) Neither Texas law nor the Bond Order requires the District to maintain any minimum balance in the Debt Service Fund.

**Outstanding Bonds** (as of December 1, 2019)

Series	Original Principal Amount	Outstanding Bonds (as of 12/1/2019)
2015	\$ 2,550,000	\$ 2,475,000
2017 (a)	<u>7,535,000</u>	<u>7,230,000</u>
Total	\$ 10,085,000	\$ 9,705,000

(a) Unlimited tax refunding bonds.

**District Investment Policy**

The District’s goal is to minimize credit and market risks while maintaining a competitive yield on its portfolio. Funds of the District are invested either in short term U.S. Treasury obligations or certificates of deposit insured by the Federal Deposit Insurance Corporation or secured by collateral held by a third party institution. The District does not own any long term securities or derivative products in the District’s investment portfolio.

## ESTIMATED OVERLAPPING DEBT AND TAX RATES STATEMENT

Expenditures of the various taxing entities which include the territory in the District are paid out of ad valorem taxes levied by such entities on properties within the District. Such entities are independent of the District and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax bonds ("Tax Debt") was developed from information contained in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional bonds since the date of such reports, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt allocable to the District.

<u>Taxing Jurisdiction</u>	<u>Outstanding Bonds</u>	<u>As of</u>	<u>Percent</u>	<u>Overlapping Amount</u>
Montgomery County.....	\$522,350,000	10/31/19	0.54%	\$ 2,820,690
Conroe Independent School District.....	1,207,585,000	10/31/19	0.86%	10,385,231
Lone Star College System.....	579,645,000	10/31/19	0.16%	927,432
Rayford Road MUD .....	15,910,000	10/31/19	30.34%	4,827,094
Montgomery County MUD No. 99.....	14,835,000	10/31/19	100.00%	<u>14,835,000</u>
Total Estimated Overlapping Debt .....				\$33,795,447
The District's Total Direct Debt (a).....				<u>13,775,000</u>
Total Direct and Estimated Overlapping Debt.....				<u>\$47,570,447</u>
Direct and Estimated Overlapping Debt as a Percentage of:				
2019 Certified Taxable Assessed Valuation of \$387,223,791 .....				12.29%

(a) The Bonds and the Outstanding Bonds.

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**Overlapping Tax Rates for 2019**

For 338 acres of District within Rayford Road MUD (a)

	2019 Tax Rate per \$100 of Taxable <u>Assessed Valuation</u>
Montgomery County.....	\$ 0.44750
Montgomery County Hospital District.....	0.05890
Montgomery County Emergency Services District No. 8.....	0.10000
Rayford Road MUD.....	0.50000
Conroe Independent School District.....	1.23000
Lone Star College System.....	<u>0.10780</u>
Total Overlapping Tax Rate.....	\$ 2.44420
The District.....	<u>0.44000</u> (a)
Total Tax Rate.....	\$ 2.88420

For 380 acres of District within Montgomery County MUD No. 99 (a)

	2019 Tax Rate per \$100 of Taxable <u>Assessed Valuation</u>
Montgomery County.....	\$ 0.44750
Montgomery County Hospital District.....	0.05890
Montgomery County Emergency Services District No. 8.....	0.10000
Montgomery Co. MUD No. 99.....	1.04000
Conroe Independent School District.....	1.23000
Lone Star College System.....	<u>0.10780</u>
Total Overlapping Tax Rate.....	\$ 2.98420
The District.....	<u>0.44000</u> (a)
Total Tax Rate.....	\$ 3.42420

(a) Approximately 338 acres of land in the District are within the boundaries of Rayford Road MUD. The remaining 380 acres of land in the District are within the boundaries of MUD 99.

## TAX DATA

### Tax Collections

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

Tax Year	Taxable Assessed Valuation	Tax Rate	Total Tax Levy	Total Collections as of October 31, 2019 (a)	
				Amount	Percent
2014	\$ 248,230,781	\$ 0.44	\$ 1,092,215	\$ 1,092,215	100.00%
2015	278,641,912	0.44	1,226,024	1,226,024	100.00%
2016	308,016,647	0.44	1,355,273	1,354,996	99.98%
2017	328,662,032	0.44	1,446,113	1,445,254	99.94%
2018	344,731,718	0.44	1,516,820	1,512,748	99.73%
2019	387,223,791	0.44	1,703,785	(b)	(b)

(a) Unaudited.

(b) In process of collection. 2019 taxes are due January 31, 2020.

Taxes are due October 1 and are delinquent after January 31 of the following year. No split payments are allowed, and no discounts are allowed.

### Tax Rate Distribution

	2019	2018	2017	2016	2015
Debt Service	\$ 0.210	\$ 0.210	\$ 0.220	\$ 0.240	\$ 0.275
Maintenance and Operations	0.230	0.230	0.220	0.200	0.165
Total	\$ 0.440	\$ 0.440	\$ 0.440	\$ 0.440	\$ 0.440

### Tax Rate Limitations

Debt Service: Unlimited (no legal limit as to rate or amount).

Maintenance: Unlimited (no legal limit as to rate or amount).

### Debt Service Tax

The Board covenants in the Bond Order to levy and assess, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax adequate to provide funds to pay the principal of and interest on the Bonds. The District levied a debt service tax for 2019 at the rate of \$0.21 per \$100 assessed valuation. See "Tax Rate Distribution" above.

### Maintenance Tax

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for maintenance of the District's improvements, if such maintenance tax is authorized by the District's voters. At an election held September 13, 2003, the Board was authorized to levy such a maintenance tax in an unlimited rate in accordance with the constitution and laws of the state of Texas. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds and any additional tax bonds which may be issued in the future. The District levied a maintenance tax for 2019 at the rate of \$0.23 per \$100 taxable assessed valuation. See "Tax Rate Distribution" above.

**Tax Exemptions**

As discussed in the section titled “TAX PROCEDURES” herein, certain property in the District may be exempt from taxation by the District. The District does not exempt any percentage of the market value of any residential homesteads from taxation. For 2020, the District has adopted a \$10,000 exemption for persons who are 65 or older and/or disabled. The Developer has executed a Waiver of Special Appraisal, waiving its right to claim any agriculture or open space exemptions, or any other type of exemption or valuation, for the property it owns within the District that would reduce the assessed value of such land below its market value for purposes of ad valorem taxation by the District. Such waiver is binding for a period of thirty years.

**Additional Penalties**

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

**Principal Taxpayers**

The following list of principal taxpayers was provided by the District’s Tax Assessor/Collector based upon the 2019 Certified Taxable Assessed Valuation which reflects ownership at January 1, 2019.

<u>Taxpayer</u>	<u>Type of Property</u>	<u>2019 Certified Taxable Assessed Valuation</u>	<u>% of 2019 Certified Taxable Assessed Valuation</u>
2014 Imperial Oaks Development Inc. (a)	Acreage and Lots	\$ 3,728,140	0.96%
MHI Partnership Ltd. (a)	Lots and Homes	3,600,430	0.93%
Ashton Houston Residential	Lots and Homes	1,201,070	0.31%
Centerpoint Energy	Utilities	733,960	0.19%
J Patrick Homes Inc.	Lots and Homes	724,900	0.19%
Individual	Residence	715,570	0.18%
2005 Imperial Oaks LTD (a)	Acreage and Lots	639,470	0.17%
Individual	Residence	558,960	0.14%
Individual	Residence	552,420	0.14%
Individual	Residence	525,420	0.14%
Total		\$ 12,980,340	3.35%

(a) See “THE DEVELOPERS.”

**Summary of Assessed Valuation**

The following summary of the 2019, 2018 and 2017 Certified Taxable Assessed Valuation is provided by the District’s Tax Assessor/Collector based on information contained in the 2019, 2018 and 2017 tax rolls of the District. Information in this summary may differ slightly from the assessed valuations shown herein due to differences in dates of data.

	<u>2019 Certified Taxable Assessed Valuation</u>	<u>2018 Certified Taxable Assessed Valuation</u>	<u>2017 Certified Taxable Assessed Valuation</u>
Land	\$ 50,710,090	\$ 46,843,990	\$ 44,683,880
Improvements	350,832,150	311,215,950	295,851,680
Personal Property	4,595,204	4,437,616	3,722,487
Exemptions	(18,913,653)	(17,765,838)	(15,596,015)
Total	<u>\$ 387,223,791</u>	<u>\$ 344,731,718</u>	<u>\$ 328,662,032</u>

**Tax Adequacy for Debt Service**

The calculations shown below assume, solely for purposes of illustration, no increase or decrease in assessed valuation over the 2019 Certified Taxable Assessed Valuation of \$387,223,791, and a debt service tax rate necessary to pay the District’s average annual debt service requirement on the District’s Outstanding Bonds and the Bonds at a ninety-five percent (95%) collection rate. See “INVESTMENT CONSIDERATIONS—Impact on District Tax Rates.”

Average Annual Debt Service Requirement (2020-2043).....	\$796,680
\$0.22 Tax Rate on the 2019 Certified Taxable Assessed Valuation.....	\$809,298

**TAX PROCEDURES**

**Authority to Levy Taxes**

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

**Tax Code and County-Wide Appraisal District**

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

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

**Property Subject to Taxation by the District**

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; certain goods, wares and merchandise in transit; farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years or older and of certain disabled persons to the extent deemed advisable by the Board. The District has adopted a residential homestead exemption in the amount of \$10,000 for persons age 65 and older and disabled persons. Additionally, the District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between \$5,000 and \$12,000 depending on the disability rating of the veteran. 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. See “TAX DATA.”

Partially disabled veterans 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. The surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. The surviving spouse of a first responder who was killed or fatally injured in the line of duty is, subject to certain conditions, also entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and, subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

***Residential Homestead Exemptions:*** The Tax Code authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) (not less than \$5,000) of the appraised value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The District has never granted such a general homestead exemption and has no plans to do so. See "TAX DATA."

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

### **Tax Abatement**

Montgomery County, the City of Conroe or the City of Houston may designate all or part of the area within the District as a reinvestment zone. Thereafter, Montgomery County, the District, the City of Conroe and the City of Houston (after annexation of the District), under certain circumstances, may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the District, for a period of up to ten (10) years, all or any part of any increase in the 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.

### **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. Generally, assessments under the Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Tax Code. In determining market value, either the replacement cost or the income or the market data method of valuation may be used, whichever is appropriate. Nevertheless, certain land may be appraised at less than market value under the Tax Code. Increases in the appraised value of residence homesteads are limited by the Texas Constitution to 10 percent annually regardless of the market value of the property.

The Tax Code permits land designated for agricultural or timber land use to be appraised at its value based on the land's capacity to produce agricultural products or, with respect to timber land, the value based upon accepted income capitalization methods. The 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. Landowners wishing to avail themselves of the agricultural, timber land or residential real property appraisal must apply for such appraisal, and the Appraisal District is required to act on each claimant's application individually. If a claimant receives the agricultural or timber land appraisal on land and later changes the land use or sells the land to an unqualified owner, an additional tax is imposed on the land equal to the difference between the taxes imposed on the land for each of the five years preceding the year in which the change of use occurs that the land was appraised as agricultural or timber land and the tax that would have been imposed had the land been taxed on the basis on market value in each of those years, plus interest at an annual rate of seven percent (7%) calculated from the dates on which the differences would have become due. Provisions of the Tax Code are complex and are not fully summarized here.

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

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

### **District and Taxpayer Remedies**

Under certain circumstances taxpayers and taxing units (such as the District) may appeal the orders of the Appraisal Review Board by filing a timely petition for review in State district court. In such event, the value of the property in question will be determined by the court or by a jury if requested by any party. Additionally, taxing units may bring suit against the Appraisal District to compel compliance with the Tax Code. The Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

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

The District is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. The rate of taxation is set by the Board of Directors, after the legally required notice has been given to owners of property within the District, based upon: a) the valuation of property within the District as of the preceding January 1, and b) the amount required to be raised for debt service, maintenance purposes, and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent if not paid before February 1 of the year following the year in which imposed. However, a person who is 65 years of age or older or disabled is entitled by law to pay current taxes on his residential homestead in installments or to receive a deferral or abatement of delinquent taxes without penalty during the time he owns or occupies his property as his residential homestead. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. A delinquent tax on personal property incurs an additional penalty, in an amount established by the District and a delinquent tax attorney, 60 days after the date the taxes become delinquent. The delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, which may be rejected by taxing units. The District's tax collector is required to enter into an installment payment agreement with any person who is delinquent on the payment of tax on a residence homestead for payment of tax, penalties and

interest, if the person requests an installment agreement in writing and has not entered into an installment agreement with the collector in the preceding 24 months. The installment agreement must provide for payments to be made in equal monthly installments and must extend for a period of at least 12 months and no more than 36 months. Additionally, the owner of a residential homestead property who is (i) sixty-five (65) years of age or older, (ii) disabled, or (iii) a disabled veteran, is entitled by law to pay current taxes on a residential homestead in installments without penalty or to defer the payment of taxes during the time of ownership. In the instance of tax deferral, a tax lien remains on the property and interest continue to accrue during the period of deferral.

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

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

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

During the 86th Regular Legislative Session, Senate Bill 2 ("SB 2") was passed and signed by the Governor, with an effective date of January 1, 2020, and the provisions described below 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 the operations and maintenance tax rate that would impose 1.08 times more operation and maintenance taxes on the average residential homestead.

*Developed Districts:* Developed Districts that adopt a total tax rate that would impose more than 1.035 times the amount of the total tax imposed by the district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead, subject to certain homestead exemptions for the preceding tax year, plus any unused increment rates, as calculated and described in Section 26.013 of the Tax Code, are required to hold an election within the district to determine whether to approve the adopted total tax rate. If the adopted total tax rate is not approved at the election, the total tax rate for a Developed District is the current year's debt service and contract tax rate plus the operations and maintenance tax rate that would impose 1.035 times more operation and maintenance taxes on the average residential homestead. 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 the operations and maintenance tax rate that would impose 1.08 times more operation and maintenance taxes on the average residential homestead.

*The District:* A determination as to a district's status as a Special Taxing Unit, Developed District or Developing District will be made by the Board of Directors on an annual basis, beginning with the 2020 tax 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 for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State of Texas and each local taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of such other taxing units. See "ESTIMATED OVERLAPPING DEBT AND TAX RATES STATEMENT." A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

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

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

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

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

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

## GENERAL FUND

### General

The Bonds and the Outstanding Bonds are payable from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District. However, surplus revenues, if any, of the District's general fund are not pledged to the payment of the Bonds or the Outstanding Bonds but are available for any lawful purpose including payment of debt service on the Bonds and the Outstanding Bonds, at the discretion and upon action of the Board. Residents of the District receive water and sewer service from the entities described in "WATER SUPPLY AND WASTEWATER TREATMENT." Consequently, the District does not collect revenues from sources other than taxes, and the District's general fund is used primarily for administration, operation and maintenance of the District's facilities.

### Waterworks and Sewer System Operating Statement

The following statement sets forth in condensed form the historical results of operation of the District's General Operating Fund. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Such summary is based upon information obtained from the District's audited financial statements for the fiscal years ended 2016 through 2019 and an unaudited summary for the period ending December 31, 2019 provide by the Bookkeeper. Reference is made to such statements for further and complete information.

	6/1/19 to 12/31/2019 (a)	Fiscal Year Ended May 31			
		2019	2018	2017	2016
<b>Revenues</b>					
Property Taxes	\$ 765,432	\$ 790,524	\$ 724,093	\$ 614,852	\$ 459,805
Penalty and Interest	-	3,176	4,857	3,267	3,460
Investment Revenues	5,187	8,873	5,203	1,962	3,809
Miscellaneous Revenues	-	-	4,681	-	-
<b>Total Revenues</b>	<b>\$ 770,619</b>	<b>\$ 802,573</b>	<b>\$ 738,834</b>	<b>\$ 620,081</b>	<b>\$ 467,074</b>
<b>Expenditures</b>					
Professional Fees	\$ 122,268	\$ 168,788	\$ 142,629	\$ 142,573	\$ 153,531
Contracted Services	25,135	43,077	43,235	42,514	41,621
Utilities	12,344	16,524	15,195	14,325	13,953
Repairs and Maintenance	137,909	204,873	295,764	226,875	327,857
Other	25,361	23,825	24,877	16,927	18,694
Capital Outlay	-	10,559	-	-	-
<b>Total Expenditures</b>	<b>\$ 323,017</b>	<b>\$ 467,646</b>	<b>\$ 521,700</b>	<b>\$ 443,214</b>	<b>\$ 555,656</b>
<b>Net Revenues</b>	<b>\$ 447,603</b>	<b>\$ 334,927</b>	<b>\$ 217,134</b>	<b>\$ 176,867</b>	<b>\$ (88,582)</b>
<b>Other Sources (Uses)</b>					
Transfers In(Out)	\$ -	\$ -	\$ -	\$ 328,001 (b)	\$ 22,214
<b>Net Change in Fund Balances</b>			<b>\$ 217,134</b>	<b>\$ 504,868</b>	<b>\$ (66,368)</b>
<b>Fund Balance (Beginning of Year)</b>	<b>\$ 1,229,542</b>	<b>\$ 894,615</b>	<b>\$ 677,481</b>	<b>\$ 172,613</b>	<b>\$ 238,981</b>
<b>Fund Balance (End of Year)</b>	<b>\$ 1,677,145</b>	<b>\$ 1,229,542</b>	<b>\$ 894,615</b>	<b>\$ 677,481</b>	<b>\$ 172,613</b>

(a) Unaudited, provided by the Bookkeeper.

(b) Transfer from Capital Projects Fund.

## DEBT SERVICE REQUIREMENTS

The following sets forth the debt service requirements for the Outstanding Bonds and the Bonds.

Year	Outstanding Bonds Debt Service Requirements	Plus: Debt Service on the Bonds			Total Debt Service Requirements
		Principal	Interest	Total	
2020	\$ 728,488	\$ -	\$ 44,138	\$ 44,138	\$ 772,625
2021	730,438	50,000	88,275	138,275	868,713
2022	728,388	50,000	86,025	136,025	864,413
2023	731,000	50,000	83,775	133,775	864,775
2024	733,100	50,000	81,525	131,525	864,625
2025	734,725	50,000	79,275	129,275	864,000
2026	735,875	50,000	77,025	127,025	862,900
2027	736,550	50,000	76,025	126,025	862,575
2028	735,563	50,000	75,025	125,025	860,588
2029	734,063	50,000	74,025	124,025	858,088
2030	735,800	50,000	73,025	123,025	858,825
2031	736,838	50,000	72,025	122,025	858,863
2032	742,175	50,000	71,025	121,025	863,200
2033	740,875	50,000	70,025	120,025	860,900
2034	703,113	70,000	69,025	139,025	842,138
2035	675,463	100,000	67,625	167,625	843,088
2036	493,000	275,000	65,625	340,625	833,625
2037	476,000	300,000	60,125	360,125	836,125
2038	459,000	325,000	54,125	379,125	838,125
2039	442,000	350,000	47,625	397,625	839,625
2040	-	500,000	40,625	540,625	540,625
2041	-	500,000	30,625	530,625	530,625
2042	-	500,000	20,625	520,625	520,625
2043	-	500,000	10,625	510,625	510,625
<b>Total</b>	<b>\$ 13,532,450</b>	<b>\$ 4,070,000</b>	<b>\$ 1,517,863</b>	<b>\$ 5,587,863</b>	<b>\$ 19,120,313</b>

Maximum Annual Debt Service Requirement (2021)..... \$868,713  
Average Annual Debt Service Requirement (2020-2043)..... \$796,680

## INVESTMENT CONSIDERATIONS

### **General**

The Bonds are obligations solely of the District and are not obligations of the City of Conroe, the City of Houston, Montgomery County, the State of Texas, or any entity other than the District. Payment of the principal of and interest on the Bonds depends upon the ability of the District to collect taxes levied on taxable property within the District in an amount sufficient to service the District's bonded debt or in the event of foreclosure, on the value of the taxable property in the District and the taxes levied by the District and other taxing authorities upon the property within the District. See "THE BONDS—Source of Payment." The collection by the District of delinquent taxes owed to it and the enforcement by Registered Owners of the 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.

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

The greater Houston area, including the District, is subject to occasional severe weather events, including tropical storms and hurricanes. If the District were to sustain damage to its facilities requiring substantial repair or replacement, or if substantial damage were to occur to taxable property within the District as a result of such a weather event, the investment security of the Bonds could be adversely affected. The greater Houston area has experienced four storms exceeding a 0.2% probability (i.e. "500-year flood" events) since 2015, including Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 26, 2017 and brought historic levels of rainfall during the successive four days.

According to the Operator, Rayford Road MUD and MUD 99's systems did not sustain any material damage as a result of Hurricane Harvey. With the exception of an unverified report of one home flooding in MUD 99, the District is not aware of any homes within the District that experienced structural flooding or other material damage as a result of Hurricane Harvey.

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

### **Specific Flood Type Risks**

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

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

### **Economic Factors and Interest Rates**

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

### **Credit Markets and Liquidity in the Financial Markets**

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

### **Competition**

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

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

### **Landowner Obligation to the District**

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

### **Impact on District Tax Rates**

Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of District property owners to pay their taxes. The 2019 Certified Taxable Assessed Valuation of the District (see “FINANCIAL STATEMENT”) is \$387,223,791. After issuance of the Bonds, the maximum annual debt service requirement will be \$868,713 (2021) and the average annual debt service requirement will be \$796,680 (2020-2043). Assuming no increase or decrease from the 2019 Certified Taxable Assessed Valuation, a tax rate of \$0.24 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the maximum annual debt service requirement and a tax rate of \$0.22 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the average annual debt service requirement. See “DEBT SERVICE REQUIREMENTS.” Although calculations have been made regarding average and maximum tax rates necessary to pay the debt service on the Bonds and the Outstanding Bonds based upon the 2019 Certified Taxable Assessed Valuation, the District can make no representations regarding the future level of taxable assessed valuation within the District. Increases in the tax rate may be required in the event the District's taxable assessed valuation does not continue to increase or in the event major taxpayers do not pay their District taxes timely. Increases in taxable values depend primarily on the continuing construction and sale of homes and other taxable improvements within the District.

## **District Tax Levy and Overlapping District Taxes and Functions**

Approximately 338 acres of land within the District is also located within Rayford Road MUD. Rayford Road MUD, which covers 1,314 acres of land, has issued bonds to finance the acquisition or construction of water, sanitary sewer and drainage facilities to serve the land within its boundaries. See “THE DISTRICT.” Rayford Road MUD levies a tax, which tax is in addition to the tax levied by the District. Rayford Road MUD levied a tax rate of \$0.50 per \$100 of taxable assessed valuation in 2019. The remaining 380 acres of land in the District are located within MUD 99. MUD 99 has issued bonds to finance the acquisition or construction of water, sanitary sewer and drainage facilities to serve the land within its boundaries and plans to issue additional bonds in the future. MUD 99 levies a tax, which tax is in addition to the tax levied by the District. MUD 99 levied a tax rate of \$1.04 per \$100 of taxable assessed valuation in 2019. As described in this Official Statement under the caption “ESTIMATED OVERLAPPING DEBT AND TAX RATE STATEMENT,” the aggregate of the tax levies of all units of government which levy taxes against the property located within the portions of the District within the boundaries of Rayford Road MUD and MUD 99 is \$2.88420 and \$3.42420 per \$100 of taxable assessed valuation, respectively. One must consider the total tax burden of all overlapping jurisdictions imposed upon property located with the District as contrasted with property located in comparable real estate developments to gauge the relative tax burden on property within the District. The tax rate necessary to service the debt issued or to be issued by the District and the tax rates levied by other overlapping jurisdictions are subject to numerous uncertainties and variables, and thus the District can give no assurance that the composite tax rates imposed by overlapping jurisdictions, plus the District's tax rate, will be competitive with the tax rates of competing projects. To the extent that the District's composite tax rates are not competitive with competing developments, the growth of property tax values in the District and the investment quality or security of the Bonds could be adversely affected.

## **Future Debt**

The District reserves in the Bond Order the right to issue the remaining \$65,215,000 principal amount of authorized but unissued unlimited tax bonds for the purpose of acquiring or constructing the District's storm drainage system and for refunding such bonds. The District may issue additional bonds approved by District voters in future elections. See “THE BONDS—Issuance of Additional Debt” and “THE SYSTEM—Future Debt.” The issuance of such obligations may adversely affect the investment security of the Bonds. The District does not employ any formula with regard to assessed valuations or tax collections or otherwise to limit the amount of bonds which may be issued. Any bonds issued by the District, however, must be approved by the Attorney General of Texas and the Board of the District and any bonds issued to acquire or drainage facilities must be approved by the Commission.

## **Tax Collections Limitations**

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

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

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Order, 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 Order. Except for mandamus, the Bond Order does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners. Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages, so that in the absence of other waivers of such immunity by the

Texas Legislature, a default by the District in its covenants in the Bond Order may not be reduced to a judgment for money damages. If such a judgment against the District were obtained, it could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the District.

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

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

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

A district may not be forced into bankruptcy involuntarily.

### **Continuing Compliance with Certain Covenants**

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

### **Marketability**

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

### **Environmental Regulation and Air Quality**

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

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

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

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

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

Discharge Issues: Discharge regulations that Utility Districts, including the District, may be required to comply with involve: (1) storm water discharges, and (2) wetlands dredge and fill activities. Each of these is addressed below:

Operations of Utility Districts are potentially subject to stormwater discharge permitting requirements under the Clean Water Act and EPA and TCEQ regulations. The TCEQ issued a general permit for stormwater discharges associated with industrial activities (which was amended and reissued on July 22, 2011, effective August 14, 2011) and a general permit for stormwater discharges associated with small municipal separate storm sewer systems (which was issued on August 13, 2007 and was amended and reissued on December 11, 2013). Utility Districts in certain urbanized areas are also required to develop and implement stormwater pollution prevention plans and stormwater management plans. The District could incur substantial costs to develop and implement such 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. Failure to comply with these requirements may result in the imposition of administrative, civil, and criminal penalties as well as injunctive relief under the Clean Water Act or the Texas Water Code. A small portion of the District is located in the Woodlands Urbanized Area, but the portion of the District in that area does not service any residents. The District is therefore entitled to and has received a waiver.

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

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

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

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

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

### **Changes in Tax Legislation**

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

## LEGAL MATTERS

### Legal Opinion

The District will furnish the Initial Purchaser a transcript of certain certified proceedings incident to the authorization and issuance of the Bonds. Such transcript will include a certified copy of the approving opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Bonds are valid and binding obligations of the District, payable from the proceeds of an annual ad valorem tax levied without limitation as to rate or amount upon all taxable property within the District. The District also will furnish the approving legal opinion of Smith, Murdaugh, Little & Bonham, L.L.P., Houston, Texas, Bond Counsel to the District (“Bond Counsel”), to the effect that, based upon an examination of such transcript, the Bonds are valid and binding obligations of the District under the Constitution and laws of the State of Texas, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium or other similar laws of general application affecting rights of creditors of political subdivisions such as the District. The legal opinion of Bond Counsel will further state that the Bonds, including principal of and interest thereon, are payable from ad valorem taxes, without legal limitation as to rate or amount, upon all taxable property located within the District and that interest on the Bonds is excludable from gross income for federal income tax purposes under existing laws subject to the matters described under the caption which follows entitled “TAX MATTERS.”

### Legal Review

In its capacity as Bond Counsel, Smith, Murdaugh, Little & Bonham, L.L.P. has reviewed the information appearing in this Official Statement under the captions “THE BONDS,” (except for “Book-Entry-Only System”) “THE DISTRICT—General,” “MANAGEMENT—Attorney,” “TAX PROCEDURES,” “LEGAL MATTERS,” “TAX MATTERS,” and “CONTINUING DISCLOSURE OF INFORMATION” to determine whether such information fairly summarizes the procedures, law and documents referred to therein. Bond Counsel has not, however, independently verified any of the other factual information contained in this Official Statement nor 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 of the information contained herein. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered, and therefore, such fees are contingent on the sale and delivery of the Bonds. Bond Counsel acts as general counsel for the District on matters other than the issuance of bonds.

### No-Litigation Certificate

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

### No Material Adverse Change

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

## TAX MATTERS

### Opinion

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

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

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

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

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

#### **Federal Income Tax Accounting Treatment of Original Discount Bonds**

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

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

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

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

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

### **Federal Income Tax Accounting Treatment of Premium Bonds**

The initial public offering price of certain Bonds (the “Premium Bonds”) is greater than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon the sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser’s yield to maturity. Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium with respect to the Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning Premium Bonds.

### **Collateral Federal Income Tax Consequences**

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

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

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

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

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

### **Future and Proposed Legislation**

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

## **State, Local and Foreign Taxes**

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

## **Qualified Tax-Exempt Obligations for Financial Institutions**

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

The District will designate the Bonds as “qualified tax-exempt obligations” within the meaning of Section 265(b) of the Code. In furtherance of that designation, the District will covenant to take such action that would assure, or to refrain from such action that would adversely affect the treatment of the Bonds as “qualified tax-exempt obligations.”

## **MUNICIPAL BOND RATING**

It is expected that S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC, (“S&P”) and Moody's Investors Service, Inc. (Moody's) will assign municipal bond ratings of “AA” (stable outlook) and “A2” (stable outlook), respectively, to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Assured Guaranty Municipal Corp. Moody's has also assigned an underlying rating of “A3” to the Bonds. An explanation of the ratings may be obtained from the company furnishing each rating.

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

## **MUNICIPAL BOND INSURANCE**

### **Bond Insurance Policy**

Concurrently with the issuance of the Bonds, 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 APPENDIX B 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 international public finance (including infrastructure) and structured finance markets and, as of October 1, 2019, asset management services. 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 December 19, 2019, 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.

On November 7, 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 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.

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, 2019.

#### *Capitalization of AGM*

At December 31, 2019:

- The policyholders’ surplus of AGM was approximately \$2,691 million.
- The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. (“MAC”) (as described below) were approximately \$986 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 \$2,027 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 document 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: the Annual Report on Form 10-K for the fiscal year ended December 31, 2019 (filed by AGL with the SEC on February 28, 2020).

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”.

## **SALE AND DISTRIBUTION OF THE BONDS**

### **Award of the Bonds**

After requesting competitive bids for the Bonds, the District accepted the bid resulting in the lowest net interest cost, which bid was tendered by SAMCO Capital Markets, Inc. (the “Initial Purchaser”) bearing the interest rates shown on the cover page hereof, at a price of \$3,947,900.00, representing 97.00% of the principal amount thereof plus accrued interest to the date of delivery which resulted in a net effective interest rate of 2.214221% as calculated pursuant to Chapter 1204 of the Texas Government Code.

### **Prices and Marketability**

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

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

## **Securities Laws**

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

## **PREPARATION OF OFFICIAL STATEMENT**

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

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

### **Financial Advisor**

Masterson Advisors LLC is engaged as the Financial Advisor to the District to render certain professional services, including advising the District on a plan of financing and preparing the Official Statement, including the Official Notice of Sale and the Official Bid Form for the sale of the Bonds. In its capacity as Financial Advisor, Masterson Advisors LLC has compiled and edited this Official Statement. In addition to compiling and editing, the Financial Advisor has obtained the information set forth herein under the caption indicated from the following sources:

"THE DISTRICT" - Huitt Zollars, Inc. ("Engineer") and Records of the District ("Records"); "THE DEVELOPERS" - the Developers; "THE SYSTEM" - Engineer; "BONDS AUTHORIZED BUT UNISSUED" - Records; "FINANCIAL STATEMENT" - Montgomery Central Appraisal District and Montgomery County Tax Office, Tax Assessor/Collector; "ESTIMATED OVERLAPPING DEBT AND TAX RATES STATEMENT" - Municipal Advisory Council of Texas and Financial Advisor; "TAX DATA" - Equi-Tax, Inc.; "MANAGEMENT" - District Directors; "GENERAL FUND" - Records; "DEBT SERVICE REQUIREMENTS" - Financial Advisor; "THE BONDS," (except for "Book-Entry-Only System") "TAX PROCEDURES," "LEGAL MATTERS," "TAX MATTERS" and "CONTINUING DISCLOSURE OF INFORMATION" - Smith, Murdaugh, Little & Bonham, L.L.P.

The Financial Advisor has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the District and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

## **Consultants**

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

*Auditor:* The District's audited financial statements for the year ended May 31, 2019, were prepared by McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountant. See "APPENDIX A" for a copy of the District's May 31, 2019, audited financial statements.

*Engineer:* The information contained in this Official Statement relating to engineering matters and to the description of the System and, in particular that information included in the sections entitled "THE DISTRICT," "STORM WATER DRAINAGE," and "WATER SUPPLY AND WASTEWATER TREATMENT," has been provided by Huitt-Zollars, Inc., and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

*Appraisal District:* The information contained in this Official Statement relating to the assessed valuations has been provided by the Montgomery Central Appraisal District and has been included herein in reliance upon the authority of such entity to establish the taxable value of property in Montgomery County, including the District.

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

*Bookkeeper:* The information related to the "unaudited" summary of the District's General Operating Fund as it appears in "GENERAL FUND" has been provided by Myrtle Cruz, Inc. and is included herein in reliance upon the authority of such firm as experts in the tracking and managing the various funds of municipal utility districts.

## **Updating the Official Statement**

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

## **Certification of Official Statement**

The District, acting through its Board of Directors in its official capacity, hereby certifies, as of the date hereof, that the information, statements, and descriptions or any addenda, supplement and amendment thereto pertaining to the District and its affairs contained herein, to the best of its knowledge and belief, contain no untrue statement of a material fact and do not omit to state any material fact necessary to make the statements herein, in light of the circumstances under which they are made, not misleading. With respect to information included in this Official Statement other than that relating to the District, the District has no reason to believe that such information contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements herein, in the light of the circumstances under which they are made, not misleading; however, the Board has made no independent investigation as to the accuracy or completeness of the information derived from sources other than the District.

## **CONTINUING DISCLOSURE OF INFORMATION**

In the Bond Order, the District has made the following agreement for the benefit of the registered and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (the "MSRB"). This information will be available to the public without charge through its Electronic Municipal Market Access ("EMMA") internet portal at [www.emma.msrb.org](http://www.emma.msrb.org).

## **Annual Reports**

The District will provide annually to the MSRB certain updated financial information and operating data. The information to be updated includes the quantitative financial information and operating data with respect to the District of the general type included in this Official Statement under the headings “DEBT SERVICE REQUIREMENTS” “FINANCIAL STATEMENT,” “TAX DATA,” and “GENERAL FUND” (most of which information is contained in the District's annual audit report and supplemental schedules) and in APPENDIX A. The District will update and provide this information to the MSRB within six (6) months after the end of each fiscal year ending in or after 2020.

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

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

## **Specified Event Notices**

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other events affecting the tax-exempt status of the Bonds; (7) modifications to rights of Beneficial Owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of CFR § 240.15c2-12 (the “Rule”); (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of an definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the 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 the 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 the financial obligation of the District or other obligated person within the 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 Order makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under “Annual Reports.”

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

The District has agreed to provide the foregoing information only to the MSRB. Investors will be able to access, without charge from the MSRB, continuing disclosure information filed with the MSRB at [www.emma.msrb.org](http://www.emma.msrb.org).

**Limitations and Amendments**

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

The District may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if but only if (1) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering made hereby in compliance with SEC Rule 15c2-12, taking into account any amendments or interpretations of SEC Rule 15c2-12 to the date of such amendment, as well as such changed circumstances, and (2) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the Registered Owners and Beneficial Owners of the Bonds. 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 so provided.

**Compliance With Prior Undertakings**

During the last five years, the District has complied in all material respects with its previous continuing disclosure agreements.

**MISCELLANEOUS**

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

This Official Statement was approved by the Board of Directors of Montgomery County Drainage District No. 10, as of the date shown on the cover page.

/s/ Arthur Donnelly  
President, Board of Directors

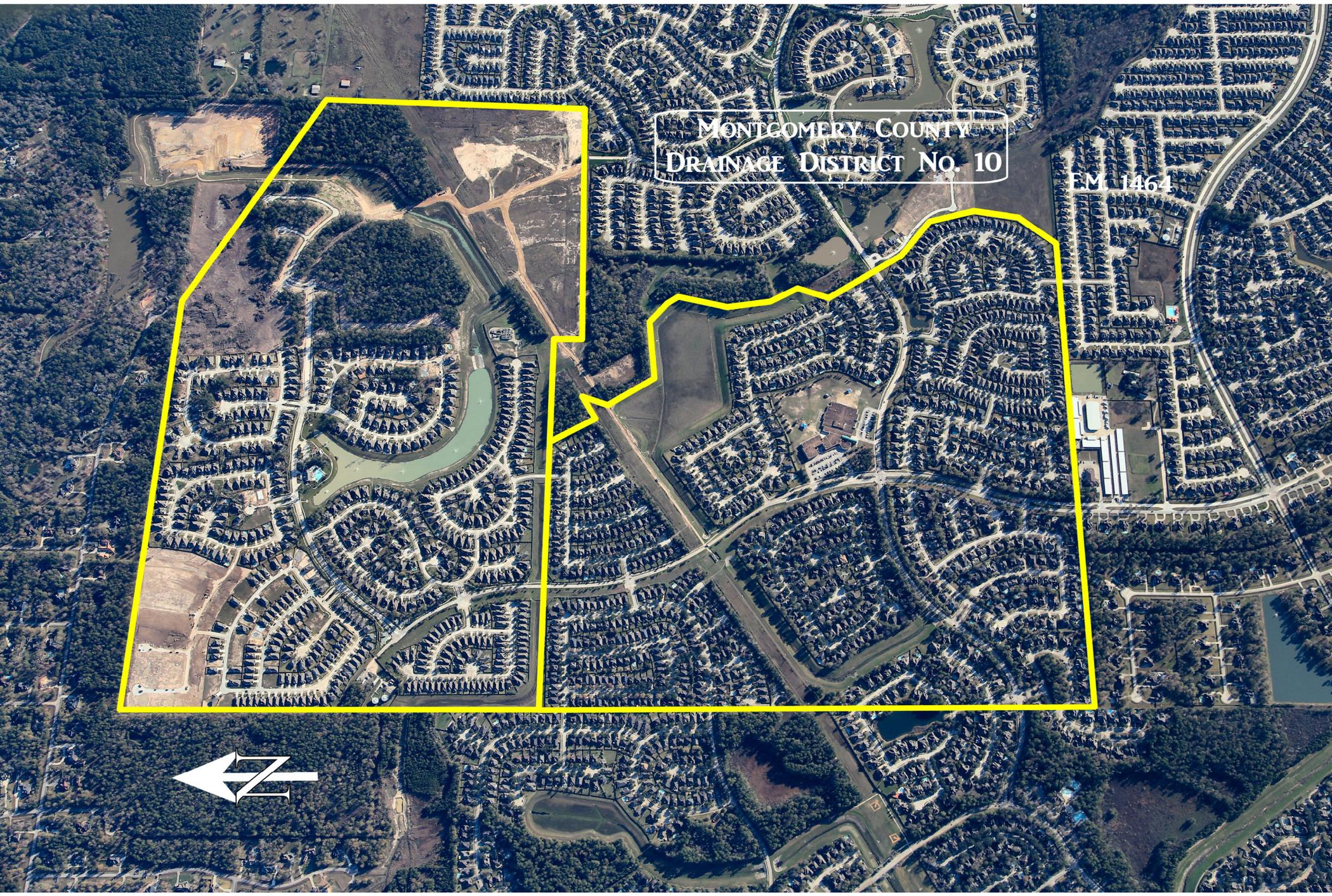
ATTEST:

/s/ Renee Knight  
Secretary, Board of Directors

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

MONTGOMERY COUNTY  
DRAINAGE DISTRICT No. 10

FM 1464



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













**APPENDIX A**

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

**MONTGOMERY COUNTY DRAINAGE DISTRICT NO. 10**

**MONTGOMERY COUNTY, TEXAS**

**ANUNAL FINANCIAL REPORT**

**MAY 31, 2019**

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

**MONTGOMERY COUNTY DRAINAGE DISTRICT NO. 10**

**MONTGOMERY COUNTY, TEXAS**

**ANNUAL FINANCIAL REPORT**

**MAY 31, 2019**

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# McCALL GIBSON SWEDLUND BARFOOT PLLC

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Montgomery County Drainage District No. 10  
Montgomery County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Montgomery County Drainage District No. 10 (the "District"), as of and for the year ended May 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of May 31, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

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

#### *Other Information*

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

*McCall Gibson Swedlund Barfoot PLLC*

McCall Gibson Swedlund Barfoot PLLC  
Certified Public Accountants  
Houston, Texas

August 27, 2019

**MONTGOMERY COUNTY DRAINAGE DISTRICT NO. 10  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED MAY 31, 2019**

Management's discussion and analysis of Montgomery County Drainage District No. 10's (the "District") financial performance provides an overview of the District's financial activities for the year ended May 31, 2019. Please read it in conjunction with the District's financial statements.

**USING THIS ANNUAL REPORT**

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

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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

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

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

**FUND FINANCIAL STATEMENTS**

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

**MONTGOMERY COUNTY DRAINAGE DISTRICT NO. 10  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED MAY 31, 2019**

**FUND FINANCIAL STATEMENTS (Continued)**

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

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

**NOTES TO THE FINANCIAL STATEMENTS**

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

**OTHER INFORMATION**

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities by \$565,742 as of May 31, 2019.

A portion of the District's net position reflects its net investment in capital assets (drainage facilities, less any debt used to acquire those assets that is still outstanding). The District uses these assets to provide drainage services to the District.

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

**MONTGOMERY COUNTY DRAINAGE DISTRICT NO. 10  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED MAY 31, 2019**

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

	Summary of Changes in the Statement of Net Position		
	2019	2018	Change Positive (Negative)
Current and Other Assets	\$ 3,221,116	\$ 2,873,916	\$ 347,200
Capital Assets (Net of Accumulated Depreciation)	7,411,175	7,569,084	(157,909)
Total Assets	\$ 10,632,291	\$ 10,443,000	\$ 189,291
Deferred Outflows of Resources	\$ 255,269	\$ 272,506	\$ (17,237)
Due to Developer	\$ 53,495	\$ 53,495	\$
Long -Term Liabilities	9,704,796	10,085,604	380,808
Other Liabilities	563,527	542,312	(21,215)
Total Liabilities	\$ 10,321,818	\$ 10,681,411	\$ 359,593
Net Position:			
Net Investment in Capital Assets	\$ (2,039,635)	\$ (2,232,899)	\$ 193,264
Restricted	1,368,889	1,367,602	1,287
Unrestricted	1,236,488	899,392	337,096
Total Net Position	\$ 565,742	\$ 34,095	\$ 531,647

The following table provides a summary of the District's operations for the years ended May 31, 2019, and May 31, 2018. The Districts net position increased by \$531,647.

	Summary of Changes in the Statement of Activities		
	2019	2018	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 1,516,244	\$ 1,448,692	\$ 67,552
Other Revenues	26,514	22,916	3,598
Total Revenues	\$ 1,542,758	\$ 1,471,608	\$ 71,150
Expenses for Services	1,011,111	1,304,440	293,329
Change in Net Position	\$ 531,647	\$ 167,168	\$ 364,479
Net Position, Beginning of Year	34,095	(133,073)	167,168
Net Position, End of Year	\$ 565,742	\$ 34,095	\$ 531,647

**MONTGOMERY COUNTY DRAINAGE DISTRICT NO. 10  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED MAY 31, 2019**

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

The District's combined fund balances as of May 31, 2019, were \$3,115,170, an increase of \$333,830 for the year then ended.

The General Fund fund balance increased by \$334,927, primarily due to property tax revenues exceeding operating expenditures.

The Debt Service Fund fund balance decreased by \$3,699, primarily due to the structure of the District's outstanding debt service requirements.

The Capital Projects Fund fund balance increased by \$2,602.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The Board of Directors did not amend the budget for the fiscal year ended May 31, 2019. Actual revenue was \$68,073 more than budgeted revenue primarily due to higher property tax revenues than originally budgeted. Actual expenditures were \$60,004 less than budgeted expenditures.

**CAPITAL ASSETS**

Capital assets as of May 31, 2019, amount to \$7,411,175 (net of accumulated depreciation), and include land and the drainage system.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2019	2018	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 1,310,899	\$ 1,298,990	\$ 11,909
Capital Assets, Net of Accumulated Depreciation:			
Drainage System	6,100,276	6,270,094	(169,818)
Total Net Capital Assets	\$ 7,411,175	\$ 7,569,084	\$ (157,909)

Additional information on the District's capital assets can be found in Note 6 of this report.

**MONTGOMERY COUNTY DRAINAGE DISTRICT NO. 10  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED MAY 31, 2019**

**LONG-TERM DEBT ACTIVITY**

As of May 31, 2019, the District had total bond debt payable of \$10,090,000.

The changes in the debt position of the District during the year ended May 31, 2019, are summarized as follows:

Bond Debt Payable, June 1, 2018	\$ 10,460,000
Less: Bond Principal Paid	<u>370,000</u>
Bond Debt Payable, May 31, 2019	<u>\$ 10,090,000</u>

The District's bonds do not carry an underlying rating. The District's Series 2008 Bonds are insured by virtue of bond insurance issued by Assured Guaranty Corp. (AGC), formerly Radian Asset Assurance, Inc. AGC has a rating of "AA" from Standard & Poor's. The above ratings reflect all rating changes during the fiscal year ended May 31, 2019.

**CONTACTING THE DISTRICT'S MANAGEMENT**

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Montgomery County Drainage District No. 10, c/o Smith, Murdaugh, Little & Bonham, L.L.P., 2727 Allen Parkway, Suite 1100, Houston, TX 77019.

**MONTGOMERY COUNTY DRAINAGE DISTRICT NO. 10**  
**STATEMENT OF NET POSITION AND**  
**GOVERNMENTAL FUNDS BALANCE SHEET**  
**MAY 31, 2019**

	General Fund	Debt Service Fund
<b>ASSETS</b>		
Cash	\$ 991,253	\$ 1,003,996
Investments	345,522	426,665
Receivables:		
Property Taxes	6,946	6,464
Due from Other Funds		17,755
Prepaid Costs	3,058	
Land		
Capital Assets (Net of Accumulated Depreciation)		
<b>TOTAL ASSETS</b>	<b>\$ 1,346,779</b>	<b>\$ 1,454,880</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Charges on Refunding Bonds	\$ -0-	\$ -0-
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 1,346,779</b>	<b>\$ 1,454,880</b>

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

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 338,055	\$ 2,333,304	\$	\$ 2,333,304
99,157	871,344		871,344
	13,410		13,410
	17,755	(17,755)	
	3,058		3,058
		1,310,899	1,310,899
		<u>6,100,276</u>	<u>6,100,276</u>
<u>\$ 437,212</u>	<u>\$ 3,238,871</u>	<u>\$ 7,393,420</u>	<u>\$ 10,632,291</u>
<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 255,269</u>	<u>\$ 255,269</u>
<u>\$ 437,212</u>	<u>\$ 3,238,871</u>	<u>\$ 7,648,689</u>	<u>\$ 10,887,560</u>

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

**MONTGOMERY COUNTY DRAINAGE DISTRICT NO. 10**  
**STATEMENT OF NET POSITION AND**  
**GOVERNMENTAL FUNDS BALANCE SHEET**  
**MAY 31, 2019**

	General Fund	Debt Service Fund
<b>LIABILITIES</b>		
Accounts Payable	\$ 92,536	\$
Accrued Interest Payable		
Due to Developers		
Due to Other Funds	17,755	
Long-Term Liabilities:		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
<b>TOTAL LIABILITIES</b>	\$ 110,291	\$ -0-
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Property Taxes	\$ 6,946	\$ 6,464
<b>FUND BALANCES</b>		
Nonspendable:		
Prepaid Costs	\$ 3,058	\$
Restricted for Authorized Construction		
Restricted for Debt Service		1,448,416
Unassigned	1,226,484	
<b>TOTAL FUND BALANCES</b>	\$ 1,229,542	\$ 1,448,416
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	\$ 1,346,779	\$ 1,454,880
<b>NET POSITION</b>		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
<b>TOTAL NET POSITION</b>		

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

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$	\$ 92,536	\$	\$ 92,536
		85,991	85,991
		53,495	53,495
	17,755	(17,755)	
		385,000	385,000
		9,704,796	9,704,796
<u>\$ -0-</u>	<u>\$ 110,291</u>	<u>\$ 10,211,527</u>	<u>\$ 10,321,818</u>
<u>\$ -0-</u>	<u>\$ 13,410</u>	<u>\$ (13,410)</u>	<u>\$ -0-</u>
\$	\$ 3,058	\$ (3,058)	\$
437,212	437,212	(437,212)	
	1,448,416	(1,448,416)	
	1,226,484	(1,226,484)	
<u>\$ 437,212</u>	<u>\$ 3,115,170</u>	<u>\$ (3,115,170)</u>	<u>\$ - 0 -</u>
<u>\$ 437,212</u>	<u>\$ 3,238,871</u>		
		\$ (2,039,635)	\$ (2,039,635)
		1,368,889	1,368,889
		1,236,488	1,236,488
		<u>\$ 565,742</u>	<u>\$ 565,742</u>

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

**MONTGOMERY COUNTY DRAINAGE DISTRICT NO. 10**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**MAY 31, 2019**

Total Fund Balances - Governmental Funds \$ 3,115,170

Amounts reported for governmental activities in the Statement of Net Position are different because:

Interest paid in advance as part of a refunding bond sale is recorded as a deferred outflow in the governmental activities and systematically charged to interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. 255,269

Land and capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds. 7,411,175

Deferred inflows of resources related to property tax revenues for the 2018 and prior tax levies became part of recognized revenue in the governmental activities of the District. 13,410

Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year end consist of:

Due to Developer	\$ (53,495)	
Accrued Interest Payable	(85,991)	
Bonds Payable Within One Year	(385,000)	
Bonds Payable After One Year	<u>(9,704,796)</u>	<u>(10,229,282)</u>

Total Net Position - Governmental Activities \$ 565,742

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

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**MONTGOMERY COUNTY DRAINAGE DISTRICT NO. 10**  
**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF**  
**REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED MAY 31, 2019**

	General Fund	Debt Service Fund
<b>REVENUES</b>		
Property Taxes	\$ 790,524	\$ 722,052
Penalty and Interest	3,176	
Investment Revenues	8,873	11,648
<b>TOTAL REVENUES</b>	<b>\$ 802,573</b>	<b>\$ 733,700</b>
<b>EXPENDITURES/EXPENSES</b>		
Service Operations:		
Professional Fees	\$ 168,788	
Contracted Services	43,077	16,246
Utilities	16,524	
Repairs and Maintenance	204,873	
Depreciation		
Other	23,825	215
Capital Outlay	10,559	
Debt Service:		
Bond Principal		370,000
Bond Interest		350,938
<b>TOTAL EXPENDITURES/EXPENSES</b>	<b>\$ 467,646</b>	<b>\$ 737,399</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>\$ 334,927</b>	<b>\$ (3,699)</b>
<b>CHANGE IN NET POSITION</b>		
<b>FUND BALANCES/NET POSITION -</b> <b>JUNE 1, 2018</b>	<b>894,615</b>	<b>1,452,115</b>
<b>FUND BALANCES/NET POSITION -</b> <b>MAY 31, 2019</b>	<b>\$ 1,229,542</b>	<b>\$ 1,448,416</b>

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 1,512,576	\$ 3,668	\$ 1,516,244
	3,176		3,176
2,817	23,338		23,338
<u>\$ 2,817</u>	<u>\$ 1,539,090</u>	<u>\$ 3,668</u>	<u>\$ 1,542,758</u>
\$	\$ 168,788	\$	\$ 168,788
	59,323		59,323
	16,524		16,524
	204,873	(11,908)	192,965
		180,377	180,377
215	24,255		24,255
	10,559	(10,559)	
	370,000	(370,000)	
	350,938	17,941	368,879
<u>\$ 215</u>	<u>\$ 1,205,260</u>	<u>\$ (194,149)</u>	<u>\$ 1,011,111</u>
\$ 2,602	\$ 333,830	\$ (333,830)	\$
		531,647	531,647
434,610	2,781,340	(2,747,245)	34,095
<u>\$ 437,212</u>	<u>\$ 3,115,170</u>	<u>\$ (2,549,428)</u>	<u>\$ 565,742</u>

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

**MONTGOMERY COUNTY DRAINAGE DISTRICT NO. 10  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF  
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED MAY 31, 2019**

Net Change in Fund Balances - Governmental Funds \$ 333,830

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied. 3,668

Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities. (180,377)

Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected. 22,467

Governmental funds report bond principal payments as expenditures. However, in the Statement of Net Position, bond principal payments are reported as decreases in long-term liabilities. 370,000

Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end. (17,941)

Change in Net Position - Governmental Activities \$ 531,647

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

**MONTGOMERY COUNTY DRAINAGE DISTRICT NO. 10**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MAY 31, 2019**

**NOTE 1. CREATION OF DISTRICT**

Montgomery County Drainage District No. 10 (the "District"), located in Montgomery County, Texas is a conservation and reclamation district and a political subdivision of the State of Texas. The District was created by order of Commissioners Court of Montgomery County, Texas on May 23, 2003, in accordance with Article 16, Section 59 of the Constitution of Texas. The District operates under the provisions of Chapters 49 and 51 of the Texas Water Code and other general statutes applicable to water control and improvement districts having drainage powers. The Board of Directors held its first meeting on May 23, 2003, and the District sold its first series of bonds on September 21, 2006.

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES**

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

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

Financial Statement Presentation

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

**MONTGOMERY COUNTY DRAINAGE DISTRICT NO. 10**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MAY 31, 2019**

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

Financial Statement Presentation (Continued)

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

- Net Investment in Capital Assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- Restricted Net Position – This component of net position consists of external constraints placed on the use of assets imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – This component of net position consists of assets that do not meet the definition of Restricted or Net Investment in Capital Assets.

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

Government-Wide Financial Statements

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

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

**MONTGOMERY COUNTY DRAINAGE DISTRICT NO. 10**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MAY 31, 2019**

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

Government-Wide Financial Statements (Continued)

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

Fund Financial Statements

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

Governmental Funds

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

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

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

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

Basis of Accounting

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

**MONTGOMERY COUNTY DRAINAGE DISTRICT NO. 10**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MAY 31, 2019**

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

Basis of Accounting (Continued)

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

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Fund Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis.

Capital Assets

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

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

	Years
Buildings	40
Drainage System	10-45
All Other Equipment	3-20

**MONTGOMERY COUNTY DRAINAGE DISTRICT NO. 10**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MAY 31, 2019**

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

Budgeting

In compliance with governmental accounting principles, the Board of Directors annually adopts an unappropriated budget for the General Fund. The budget was not amended during the year ended May 31, 2019.

Pensions

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

Measurement Focus

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

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

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

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

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

**MONTGOMERY COUNTY DRAINAGE DISTRICT NO. 10**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MAY 31, 2019**

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

Measurement Focus (Continued)

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

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

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

Accounting Estimates

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

**NOTE 3. LONG-TERM DEBT**

	Series 2008
Amounts Outstanding - May 31, 2019	\$ 105,000
Interest Rates	4.50%
Maturity Dates – Serially Beginning/Ending	September 1, 2019
Interest Payment Dates	September 1/ March 1
Callable Dates	September 1, 2017*

\* The Bonds are subject to redemption at the option of the District prior to their maturity in whole or from time to time in part, on the call date or any date thereafter at a price of par value plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption.

**MONTGOMERY COUNTY DRAINAGE DISTRICT NO. 10**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MAY 31, 2019**

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

	Series 2015	Series 2017 Refunding
Amounts Outstanding - May 31, 2019	\$ 2,500,000	\$ 7,485,000
Interest Rates	2.60% - 4.00%	2.00% - 3.75%
Maturity Dates – Serially Beginning/Ending	September 1, 2019/2039	September 1, 2019/2035
Interest Payment Dates	September 1/ March 1	September 1/ March 1
Callable Dates	September 1, 2023*	September 1, 2023*

\* The Bonds are subject to redemption at the option of the District prior to their maturity in whole or from time to time in part, on the call date or any date thereafter at a price of par value plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. Series 2015 term bonds due in the years 2031, 2035, and 2039, are subject to mandatory redemption by lot or other customary method at a price of par plus accrued interest on September 1 in the years and amounts as reflected in the debt service schedules.

The following is a summary of transactions regarding long-term liabilities for the year ended May 31, 2019:

	June 1, 2018	Additions	Retirements	May 31, 2019
Bonds Payable	\$ 10,460,000	\$	\$ 370,000	\$ 10,090,000
Unamortized Discounts	(4,396)		(4,192)	(204)
Total Long-Term Liabilities	\$ 10,455,604	\$ -0-	\$ 365,808	\$ 10,089,796
		Amount Due Within One Year		\$ 385,000
		Amount Due After One Year		9,704,796
		Total Long-Term Liabilities		\$ 10,089,796

The District has additional authorized but unissued tax bonds totaling \$69,285,000.

**MONTGOMERY COUNTY DRAINAGE DISTRICT NO. 10**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MAY 31, 2019**

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

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

Fiscal Year	Principal	Interest	Total
2020	\$ 385,000	\$ 338,726	\$ 723,726
2021	395,000	329,462	724,462
2022	405,000	319,413	724,413
2023	415,000	307,193	722,193
2024	430,000	294,551	724,551
2025-2029	2,375,000	1,263,794	3,638,794
2030-2034	2,810,000	829,275	3,639,275
2035-2039	2,450,000	308,519	2,758,519
2040	425,000	8,500	433,500
	<u>\$ 10,090,000</u>	<u>\$ 3,999,433</u>	<u>\$ 14,089,433</u>

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

During the year ended May 31, 2019, the District levied an ad valorem debt service tax rate of \$0.21 per \$100 of assessed valuation, which resulted in a tax levy of \$724,657 on the adjusted taxable valuation of \$345,055,790 for the 2018 tax year. The bond orders require the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. See Note 7 for the maintenance tax levy.

The District's tax calendar is as follows:

Levy Date - October 1 or as soon thereafter as practicable.

Lien Date - January 1.

Due Date - Not later than January 31.

Delinquent Date - February 1, at which time the taxpayer is liable for penalty and interest.

**MONTGOMERY COUNTY DRAINAGE DISTRICT NO. 10**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MAY 31, 2019**

**NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS**

The bond orders state that all investments and any profits realized from or interest accruing on such investments shall belong to the fund from which the monies for such investments were taken; provided, however, at the discretion of the Board of Directors, the profits realized from and interest accruing on investments made from any fund may be transferred to the Debt Service Fund. In accordance with this provision, the earnings in each fund have been retained by the fund making the investment.

The bond orders state that the District is required by the Securities and Exchange Commission to provide continuing disclosure of certain general financial information and operating data with respect to the District to the state information depository. This information, along with the audited annual financial statements, is to be provided within six (6) months after the end of each fiscal year and shall continue to be provided through the life of the bonds.

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

**NOTE 5. DEPOSITS AND INVESTMENTS**

Deposits

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

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District's deposits was \$2,333,304 and the bank balance was \$2,364,063. The District was not exposed to custodial credit risk at fiscal year-end.

**MONTGOMERY COUNTY DRAINAGE DISTRICT NO. 10**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MAY 31, 2019**

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

Deposits (Continued)

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at May 31, 2019, as listed below:

	Cash
GENERAL FUND	\$ 991,253
DEBT SERVICE FUND	1,003,996
CAPITAL PROJECTS FUND	338,055
TOTAL DEPOSITS	\$ 2,333,304

Investments

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

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

**MONTGOMERY COUNTY DRAINAGE DISTRICT NO. 10**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MAY 31, 2019**

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

Investments (Continued)

All investments are recorded at cost, which the District considers to be fair value. The District invests in TexPool, an external investment pool that is not SEC-registered. The State Comptroller of Public Accounts of the State of Texas has oversight of the pool. Federated Investors, Inc. manages the daily operations of the pool under a contract with the Comptroller. TexPool meets the criteria established in GASB Statement No. 79 and measures all of its portfolio assets at amortized cost. As a result, the District also measures its investments in TexPool at amortized cost for financial reporting purposes. There are no limitations or restrictions on withdrawals from TexPool. As of May 31, 2019, the District had the following investments and maturities:

<u>Fund and Investment Type</u>	<u>Fair Value</u>	<u>Maturities in Less Than 1 year</u>
<u>GENERAL FUND</u>		
TexPool	\$ 345,522	\$ 345,522
<u>DEBT SERVICE FUND</u>		
TexPool	426,665	426,665
<u>CAPITAL PROJECTS FUND</u>		
TexPool	<u>99,157</u>	<u>99,157</u>
<b>TOTAL INVESTMENTS</b>	<b><u>\$ 871,344</u></b>	<b><u>\$ 871,344</u></b>

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At May 31, 2019, the District's investment in TexPool was rated AAAM by Standard and Poor's.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District considers the investment in TexPool to have a maturity of less than one year due to the fact the share position can usually be redeemed each day at the discretion of the District, unless there has been a significant change in value.

Restrictions

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

**MONTGOMERY COUNTY DRAINAGE DISTRICT NO. 10**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MAY 31, 2019**

**NOTE 6. CAPITAL ASSETS**

Capital asset activity for the year ended May 31, 2019:

	June 1, 2018	Increases	Decreases	May 31, 2019
<b>Capital Assets Not Being Depreciated</b>				
Land and Land Improvements	\$ 1,298,990	\$ 11,909	\$ - 0 -	\$ 1,310,899
<b>Capital Assets Subject to Depreciation</b>				
Drainage System	\$ 8,109,823	\$ 10,559	\$	\$ 8,120,382
<b>Accumulated Depreciation</b>				
Drainage System	\$ 1,839,729	\$ 180,377	\$	\$ 2,020,106
<b>Total Depreciable Capital Assets, Net of Accumulated Depreciation</b>	<u>\$ 6,270,094</u>	<u>\$ (169,818)</u>	<u>\$ - 0 -</u>	<u>\$ 6,100,276</u>
<b>Total Capital Assets, Net of Accumulated Depreciation</b>	<u>\$ 7,569,084</u>	<u>\$ (157,909)</u>	<u>\$ - 0 -</u>	<u>\$ 7,411,175</u>

**NOTE 7. MAINTENANCE TAX**

On September 13, 2003, the voters of the District approved the levy and collection of a maintenance tax in an unlimited amount per \$100 of assessed valuation of taxable property within the District. During the year ended May 31, 2019, the District levied an ad valorem maintenance tax rate of \$0.23 per \$100 of assessed valuation, which resulted in a tax levy of \$793,672 on the adjusted taxable valuation of \$345,055,790 for the 2018 tax year.

**NOTE 8. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions and natural disasters from which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

**MONTGOMERY COUNTY DRAINAGE DISTRICT NO. 10**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MAY 31, 2019**

**NOTE 9. ESCROW REQUIREMENT**

On May 13, 2008, the District closed on the sale of the \$3,515,000 Series 2008 Unlimited Tax Bonds. The District was required to escrow \$550,250 of the bond proceeds. These monies will be used to fund the costs related to White Oak Creek. On August 17, 2016, the Commission released \$421,500 from escrow. As of May 31, 2019, \$128,750 remained in escrow and is included in the deposit balance of the Capital Projects Fund.

**NOTE 10. INTERFUND LIABILITIES**

As of May 31, 2019, the District had the following interfund liabilities: the General Fund owed the Debt Service Fund \$17,400 for debt service tax collections and \$355 for an excess reimbursement of bond issuance costs paid by the General Fund.

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**MONTGOMERY COUNTY DRAINAGE DISTRICT NO. 10**

**REQUIRED SUPPLEMENTARY INFORMATION**

**MAY 31, 2019**

**MONTGOMERY COUNTY DRAINAGE DISTRICT NO. 10**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND**  
**FOR THE YEAR ENDED MAY 31, 2019**

	Original and Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>			
Property Taxes	\$ 725,000	\$ 790,524	\$ 65,524
Penalty and Interest		3,176	3,176
Investment Revenues	<u>9,500</u>	<u>8,873</u>	<u>(627)</u>
<b>TOTAL REVENUES</b>	<u>\$ 734,500</u>	<u>\$ 802,573</u>	<u>\$ 68,073</u>
<b>EXPENDITURES</b>			
Services Operations:			
Professional Fees	\$ 149,000	\$ 168,788	\$ (19,788)
Contracted Services	54,000	43,077	10,923
Utilities	15,000	16,524	(1,524)
Repairs and Maintenance	275,000	204,873	70,127
Other	34,650	23,825	10,825
Capital Outlay		<u>10,559</u>	<u>(10,559)</u>
<b>TOTAL EXPENDITURES</b>	<u>\$ 527,650</u>	<u>\$ 467,646</u>	<u>\$ 60,004</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>\$ 206,850</u>	<u>\$ 334,927</u>	<u>\$ 128,077</u>
<b>OTHER FINANCING SOURCES(USES)</b>			
Transfers In	<u>\$ 250,000</u>	<u>\$ -0-</u>	<u>\$ (250,000)</u>
<b>NET CHANGE IN FUND BALANCE</b>	\$ 456,850	\$ 334,927	\$ (121,923)
<b>FUND BALANCE - JUNE 1, 2018</b>	<u>894,615</u>	<u>894,615</u>	
<b>FUND BALANCE - MAY 31, 2019</b>	<u>\$ 1,351,465</u>	<u>\$ 1,229,542</u>	<u>\$ (121,923)</u>

See accompanying independent auditor's report.

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**MONTGOMERY COUNTY DRAINAGE DISTRICT NO. 10**

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

**MAY 31, 2019**

**MONTGOMERY COUNTY DRAINAGE DISTRICT NO. 10  
SERVICES AND RATES  
FOR THE YEAR ENDED MAY 31, 2019**

**1. SERVICES PROVIDED BY THE DISTRICT DURING THE CURRENT YEAR:**

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

**2. RETAIL SERVICE PROVIDERS**

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

Not Applicable

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons over Minimum Use</u>	<u>Usage Levels</u>
WATER:	N/A				
WASTEWATER:	N/A				

Total monthly charges per 10,000 gallons usage: Water: \$ N/A Wastewater: \$ N/A Surcharge: \$ N/A

See accompanying independent auditor's report.

**MONTGOMERY COUNTY DRAINAGE DISTRICT NO. 10**  
**SERVICES AND RATES**  
**FOR THE YEAR ENDED MAY 31, 2019**

**2. RETAIL SERVICE PROVIDERS (Continued)**

**b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)**

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered	_____	_____	x 1.0	_____
≤¾"	_____	_____	x 1.0	_____
1"	_____	_____	x 2.5	_____
1½"	_____	_____	x 5.0	_____
2"	_____	_____	x 8.0	_____
3"	_____	_____	x 15.0	_____
4"	_____	_____	x 25.0	_____
6"	_____	_____	x 50.0	_____
8"	_____	_____	x 80.0	_____
10"	_____	_____	x 115.0	_____
Total Water Connections	<u>N/A</u>	<u>N/A</u>		<u>N/A</u>
Total Wastewater Connections	<u>N/A</u>	<u>N/A</u>	x 1.0	<u>N/A</u>

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

Gallons pumped into system:	N/A	Water Accountability Ratio: (Gallons billed and sold/Gallons pumped and purchased)
Gallons billed to customers:	N/A	<u>N/A</u>

See accompanying independent auditor's report.

**MONTGOMERY COUNTY DRAINAGE DISTRICT NO. 10**  
**SERVICES AND RATES**  
**FOR THE YEAR ENDED MAY 31, 2019**

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

Does the District have Debt Service standby fees?                      Yes     No

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

**5. LOCATION OF DISTRICT:**

Is the District located entirely within one county?

Yes                       No

County or Counties in which District is located:

Montgomery County, Texas

Is the District located within a city?

Entirely                       Partly                       Not at all

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

Entirely                       Partly                       Not at all

ETJ's in which District is located:

City of Houston, Texas

City of Conroe, Texas

Are Board Members appointed by an office outside the District?

Yes                       No

See accompanying independent auditor's report.

**MONTGOMERY COUNTY DRAINAGE DISTRICT NO. 10**  
**GENERAL FUND EXPENDITURES**  
**FOR THE YEAR ENDED MAY 31, 2019**

PROFESSIONAL FEES:	
Auditing	\$ 12,250
Engineering	95,899
Legal	<u>60,639</u>
TOTAL PROFESSIONAL FEES	<u>\$ 168,788</u>
CONTRACTED SERVICES:	
Bookkeeping	\$ 14,718
Operations and Billing	<u>4,800</u>
TOTAL CONTRACTED SERVICES	<u>\$ 19,518</u>
UTILITIES	<u>\$ 16,524</u>
REPAIRS AND MAINTENANCE	<u>\$ 204,873</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 8,100
Insurance	5,676
Legal Notices	846
Office Supplies and Postage	8,321
Payroll Taxes	619
Travel and Meetings	163
Other	<u>100</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 23,825</u>
TOTAL CAPITAL OUTLAY	<u>\$ 10,559</u>
SECURITY	<u>\$ 23,559</u>
TOTAL EXPENDITURES	<u><u>\$ 467,646</u></u>

See accompanying independent auditor's report.

**MONTGOMERY COUNTY DRAINAGE DISTRICT NO. 10**  
**INVESTMENTS**  
**MAY 31, 2019**

<u>Funds</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at End of Year</u>
<u>GENERAL FUND</u>					
TexPool	XXXX0003	Varies	Daily	\$ 345,522	\$ - 0 -
<u>DEBT SERVICE FUND</u>					
TexPool	XXXX0001	Varies	Daily	\$ 426,665	\$
<u>CAPITAL PROJECTS FUND</u>					
TexPool	XXXX0002	Varies	Daily	\$ 99,157	\$ - 0 -
<b>TOTAL - ALL FUNDS</b>				<b>\$ 871,344</b>	<b>\$ - 0 -</b>

See accompanying independent auditor's report.

**MONTGOMERY COUNTY DRAINAGE DISTRICT NO. 10**  
**TAXES LEVIED AND RECEIVABLE**  
**FOR THE YEAR ENDED MAY 31, 2019**

	Maintenance Taxes		Debt Service Taxes
TAXES RECEIVABLE -			
JUNE 1, 2018	\$ 4,777		\$ 4,965
Adjustments to Beginning			
Balance	<u>(979)</u>	\$ 3,798	<u>(1,106)</u> \$ 3,859
Original 2018 Tax Levy	\$ 794,866		\$ 725,747
Adjustment to 2018 Tax Levy	<u>(1,194)</u>	<u>793,672</u>	<u>(1,090)</u> <u>724,657</u>
TOTAL TO BE			
ACCOUNTED FOR		\$ 797,470	\$ 728,516
 TAX COLLECTIONS:			
Prior Years	\$ 3,151		\$ 3,146
Current Year	<u>787,373</u>	<u>790,524</u>	<u>718,906</u> <u>722,052</u>
 TAXES RECEIVABLE -			
MAY 31, 2019		<u>\$ 6,946</u>	<u>\$ 6,464</u>
 TAXES RECEIVABLE BY			
YEAR:			
2018		\$ 6,299	\$ 5,751
2017		452	452
2016		146	175
2015		17	28
2014 & prior		<u>32</u>	<u>58</u>
TOTAL		<u>\$ 6,946</u>	<u>\$ 6,464</u>

See accompanying independent auditor's report.

**MONTGOMERY COUNTY DRAINAGE DISTRICT NO. 10**  
**TAXES LEVIED AND RECEIVABLE**  
**FOR THE YEAR ENDED MAY 31, 2019**

	2018	2017	2016	2015
<b>PROPERTY VALUATIONS:</b>				
Land	\$ 46,843,990	\$ 44,683,880	\$ 43,258,080	\$ 41,858,060
Improvements	311,215,950	295,851,670	276,844,650	246,100,780
Personal Property	4,761,688	3,872,487	3,798,453	3,009,319
Exemptions	(17,765,838)	(15,164,832)	(15,677,685)	(12,230,274)
<b>TOTAL PROPERTY VALUATIONS</b>	<b>\$ 345,055,790</b>	<b>\$ 329,243,205</b>	<b>\$ 308,223,498</b>	<b>\$ 278,737,885</b>
<b>TAX RATES PER \$100 VALUATION:</b>				
Debt Service	\$ 0.21	\$ 0.22	\$ 0.24	\$ 0.275
Maintenance	0.23	0.22	0.20	0.165
<b>TOTAL TAX RATES PER \$100 VALUATION</b>	<b>\$ 0.44</b>	<b>\$ 0.44</b>	<b>\$ 0.44</b>	<b>\$ 0.440</b>
<b>ADJUSTED TAX LEVY*</b>	<b>\$ 1,518,329</b>	<b>\$ 1,448,736</b>	<b>\$ 1,356,227</b>	<b>\$ 1,226,469</b>
<b>PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED</b>	<b>99.21 %</b>	<b>99.94 %</b>	<b>99.98 %</b>	<b>99.99 %</b>

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

Maintenance Tax – An unlimited maximum tax was approved by voters on September 13, 2003.

See accompanying independent auditor's report.

**MONTGOMERY COUNTY DRAINAGE DISTRICT NO. 10**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**MAY 31, 2019**

S E R I E S - 2 0 0 8			
Due During Fiscal Years Ending May 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2020	\$ 105,000	\$ 2,363	\$ 107,363
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
	\$ 105,000	\$ 2,363	\$ 107,363

See accompanying independent auditor's report.

**MONTGOMERY COUNTY DRAINAGE DISTRICT NO. 10**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**MAY 31, 2019**

S E R I E S - 2 0 1 5

Due During Fiscal Years Ending May 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2020	\$ 25,000	\$ 97,050	\$ 122,050
2021	25,000	96,400	121,400
2022	25,000	95,750	120,750
2023	25,000	95,081	120,081
2024	25,000	94,363	119,363
2025	25,000	93,600	118,600
2026	25,000	92,812	117,812
2027	25,000	92,000	117,000
2028	25,000	91,150	116,150
2029	25,000	90,263	115,263
2030	25,000	89,344	114,344
2031	25,000	88,406	113,406
2032	25,000	87,469	112,469
2033	25,000	86,500	111,500
2034	30,000	85,400	115,400
2035	210,000	80,600	290,600
2036	210,000	72,200	282,200
2037	425,000	59,500	484,500
2038	425,000	42,500	467,500
2039	425,000	25,500	450,500
2040	425,000	8,500	433,500
	<u>\$ 2,500,000</u>	<u>\$ 1,664,388</u>	<u>\$ 4,164,388</u>

See accompanying independent auditor's report.

**MONTGOMERY COUNTY DRAINAGE DISTRICT NO. 10**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**MAY 31, 2019**

SERIES - 2017 REFUNDING

Due During Fiscal Years Ending May 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2020	\$ 255,000	\$ 239,313	\$ 494,313
2021	370,000	233,062	603,062
2022	380,000	223,663	603,663
2023	390,000	212,112	602,112
2024	405,000	200,188	605,188
2025	420,000	187,812	607,812
2026	435,000	174,988	609,988
2027	450,000	161,712	611,712
2028	465,000	147,407	612,407
2029	480,000	132,050	612,050
2030	495,000	115,587	610,587
2031	515,000	97,913	612,913
2032	535,000	79,537	614,537
2033	560,000	60,025	620,025
2034	575,000	39,094	614,094
2035	380,000	21,187	401,187
2036	375,000	7,032	382,032
2037			
2038			
2039			
2040			
	<u>\$ 7,485,000</u>	<u>\$ 2,332,682</u>	<u>\$ 9,817,682</u>

See accompanying independent auditor's report.

**MONTGOMERY COUNTY DRAINAGE DISTRICT NO. 10**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**MAY 31, 2019**

ANNUAL REQUIREMENTS  
FOR ALL SERIES

Due During Fiscal Years Ending May 31	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2020	\$ 385,000	\$ 338,726	\$ 723,726
2021	395,000	329,462	724,462
2022	405,000	319,413	724,413
2023	415,000	307,193	722,193
2024	430,000	294,551	724,551
2025	445,000	281,412	726,412
2026	460,000	267,800	727,800
2027	475,000	253,712	728,712
2028	490,000	238,557	728,557
2029	505,000	222,313	727,313
2030	520,000	204,931	724,931
2031	540,000	186,319	726,319
2032	560,000	167,006	727,006
2033	585,000	146,525	731,525
2034	605,000	124,494	729,494
2035	590,000	101,787	691,787
2036	585,000	79,232	664,232
2037	425,000	59,500	484,500
2038	425,000	42,500	467,500
2039	425,000	25,500	450,500
2040	425,000	8,500	433,500
	<u>\$ 10,090,000</u>	<u>\$ 3,999,433</u>	<u>\$ 14,089,433</u>

See accompanying independent auditor's report.

**MONTGOMERY COUNTY DRAINAGE DISTRICT NO. 10**  
**CHANGE IN LONG-TERM BOND DEBT**  
**FOR THE YEAR ENDED MAY 31, 2019**

Description	Original Bonds Issued	Bonds Outstanding June 1, 2018
Montgomery County Drainage District No. 10 Unlimited Tax Bonds - Series 2006	\$ 6,370,000	\$ 195,000
Montgomery County Drainage District No. 10 Unlimited Tax Bonds - Series 2008	3,515,000	205,000
Montgomery County Drainage District No. 10 Unlimited Tax Bonds - Series 2015	2,550,000	2,525,000
Montgomery County Drainage District No. 10 Unlimited Tax Refunding Bonds - Series 2017	<u>7,535,000</u>	<u>7,535,000</u>
<b>TOTAL</b>	<u>\$ 19,970,000</u>	<u>\$ 10,460,000</u>

Bond Authority:	<u>Tax Bonds*</u>
Amount Authorized by Voters	\$ 82,000,000
Amount Issued	<u>12,715,000</u>
Remaining to be Issued	<u>\$ 69,285,000</u>

Debt Service Fund cash and investments balances as of May 31, 2019 \$ 1,430,661

Average annual debt service payment (principal and interest) for remaining term  
of all debt: \$ 670,925

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

\* Includes all bonds secured with tax revenues. Bonds in this category may also be secured with other revenues in combination with taxes.

See accompanying independent auditor's report.

Current Year Transactions					Paying Agent
Bonds Sold	Retirements		Bonds Outstanding May 31, 2019		
	Principal	Interest			
\$	\$ 195,000	\$ 3,900	\$	The Bank of New York Mellon Trust Company, N.A. Dallas, TX	
	100,000	6,975	105,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX	
	25,000	97,700	2,500,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX	
	50,000	242,363	7,485,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX	
<u>\$ - 0 -</u>	<u>\$ 370,000</u>	<u>\$ 350,938</u>	<u>\$ 10,090,000</u>		

See accompanying independent auditor's report.

**MONTGOMERY COUNTY DRAINAGE DISTRICT NO. 10**  
**COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES**  
**GENERAL FUND - FIVE YEARS**

	Amounts		
	2019	2018	2017
<b>REVENUES</b>			
Property Taxes	\$ 790,524	\$ 724,093	\$ 614,852
Penalty and Interest	3,176	4,857	3,267
Investment Revenues	8,873	5,203	1,962
Miscellaneous Revenues		4,681	
<b>TOTAL REVENUES</b>	<b>\$ 802,573</b>	<b>\$ 738,834</b>	<b>\$ 620,081</b>
<b>EXPENDITURES</b>			
Professional Fees	\$ 168,788	\$ 142,629	\$ 142,573
Contracted Services	43,077	43,235	42,514
Utilities	16,524	15,195	14,325
Repairs and Maintenance	204,873	295,764	226,875
Other	23,825	24,877	16,927
Capital Outlay	10,559		
<b>TOTAL EXPENDITURES</b>	<b>\$ 467,646</b>	<b>\$ 521,700</b>	<b>\$ 443,214</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>\$ 334,927</b>	<b>\$ 217,134</b>	<b>\$ 176,867</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In(Out)	\$ - 0 -	\$ - 0 -	\$ 328,001
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ 334,927</b>	<b>\$ 217,134</b>	<b>\$ 504,868</b>
<b>BEGINNING FUND BALANCE</b>	<b>894,615</b>	<b>677,481</b>	<b>172,613</b>
<b>ENDING FUND BALANCE</b>	<b>\$ 1,229,542</b>	<b>\$ 894,615</b>	<b>\$ 677,481</b>

See accompanying independent auditor's report.

		Percentage of Total Revenue						
2016	2015	2019	2018	2017	2016	2015		
\$ 459,805	\$ 445,743	98.5 %	98.0 %	99.2 %	98.5 %	99.4 %		
3,460	2,479	0.4	0.7	0.5	0.7	0.6		
3,809	126	1.1	0.7	0.3	0.8			
			0.6					
<u>\$ 467,074</u>	<u>\$ 448,348</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>		
\$ 153,531	\$ 127,008	21.0 %	19.3 %	23.0 %	32.9 %	28.3 %		
41,621	36,973	5.4	5.9	6.9	8.9	8.2		
13,953	15,112	2.1	2.1	2.3	3.0	3.4		
327,857	120,756	25.5	40.0	36.6	70.2	26.9		
18,694	18,324	3.0	3.4	2.7	4.0	4.1		
	76,138	1.3				17.0		
<u>\$ 555,656</u>	<u>\$ 394,311</u>	<u>58.3 %</u>	<u>70.7 %</u>	<u>71.5 %</u>	<u>119.0 %</u>	<u>87.9 %</u>		
<u>\$ (88,582)</u>	<u>\$ 54,037</u>	<u>41.7 %</u>	<u>29.3 %</u>	<u>28.5 %</u>	<u>(19.0) %</u>	<u>12.1 %</u>		
<u>\$ 22,214</u>	<u>\$ - 0 -</u>							
\$ (66,368)	\$ 54,037							
238,981	184,944							
<u>\$ 172,613</u>	<u>\$ 238,981</u>							

See accompanying independent auditor's report.

**MONTGOMERY COUNTY DRAINAGE DISTRICT NO. 10**  
**COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES**  
**DEBT SERVICE FUND - FIVE YEARS**

	Amounts		
	2019	2018	2017
<b>REVENUES</b>			
Property Taxes	\$ 722,052	\$ 725,138	\$ 738,784
Interest on Investments	11,648	6,662	3,717
<b>TOTAL REVENUES</b>	<u>\$ 733,700</u>	<u>\$ 731,800</u>	<u>\$ 742,501</u>
<b>EXPENDITURES</b>			
Tax Collection Expenditures	\$ 13,611	\$ 12,664	\$ 11,995
Debt Service Principal	370,000	310,000	270,000
Debt Service Interest and Fees	353,788	294,204	457,406
Bond Issuance Costs		282,760	
Payment to Refunded Bond Escrow Agent		125,000	
<b>TOTAL EXPENDITURES</b>	<u>\$ 737,399</u>	<u>\$ 1,024,628</u>	<u>\$ 739,401</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>\$ (3,699)</u>	<u>\$ (292,828)</u>	<u>\$ 3,100</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Long-Term Debt Issued	\$ - 0 -	\$ 7,535,000	\$ - 0 -
Payment to Refunded Bond Escrow Agent		(7,250,490)	
Bond Discount		(1,396)	
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>\$ - 0 -</u>	<u>\$ 283,114</u>	<u>\$ - 0 -</u>
<b>NET CHANGE IN FUND BALANCE</b>	\$ (3,699)	\$ (9,714)	\$ 3,100
<b>BEGINNING FUND BALANCE</b>	<u>1,452,115</u>	<u>1,461,829</u>	<u>1,458,729</u>
<b>ENDING FUND BALANCE</b>	<u>\$ 1,448,416</u>	<u>\$ 1,452,115</u>	<u>\$ 1,461,829</u>
<b>TOTAL ACTIVE RETAIL WATER CONNECTIONS</b>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
<b>TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS</b>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

See accompanying independent auditor's report.

		Percentage of Total Revenue				
2016	2015	2019	2018	2017	2016	2015
\$ 766,476	\$ 643,953	98.4 %	99.1 %	99.5 %	99.6 %	99.6 %
2,795	2,755	1.6	0.9	0.5	0.4	0.4
<u>\$ 769,271</u>	<u>\$ 646,708</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 10,155	\$ 9,067	1.9 %	1.7 %	1.6 %	1.3 %	1.4 %
260,000	245,000	50.4	42.4	36.4	33.8	37.9
397,544	383,369	48.2	40.2	61.6	51.7	59.3
			38.6			
			17.1			
<u>\$ 667,699</u>	<u>\$ 637,436</u>	<u>100.5 %</u>	<u>140.0 %</u>	<u>99.6 %</u>	<u>86.8 %</u>	<u>98.6 %</u>
\$ 101,572	\$ 9,272	(0.5) %	(40.0) %	0.4 %	13.2 %	1.4 %
\$ 49,338	\$ - 0 -					
<u>\$ 49,338</u>	<u>\$ - 0 -</u>					
\$ 150,910	\$ 9,272					
1,307,819	1,298,547					
<u>\$ 1,458,729</u>	<u>\$ 1,307,819</u>					
<u>N/A</u>	<u>N/A</u>					
<u>N/A</u>	<u>N/A</u>					

See accompanying independent auditor's report.

**MONTGOMERY COUNTY DRAINAGE DISTRICT NO. 10**  
**BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS**  
**MAY 31, 2019**

District Mailing Address - Montgomery County Drainage District No. 10  
c/o Smith, Murdaugh, Little & Bonham, L.L.P.  
2727 Allen Parkway, Suite 1100  
Houston, TX 77019-2115

District Telephone Number - (713) 652-6500

<b>Board Members:</b>	Term of Office (Elected or Appointed)	Fees of Office for the year May 31, 2019	Expense Reimbursements for the year ended May 31, 2019	<u>Title</u>
Arthur Donnelly	05/16 05/20 (Elected)	\$ 1,650	\$ -0-	President
Bryan P. Muecke	05/18 05/22 (Elected)	\$ 1,800	\$ 115	Vice President
Renee Knight	05/18 05/22 (Elected)	\$ 1,800	\$ -0-	Secretary
Thomas Smith	06/18 05/20 (Appointed)	\$ 1,350	\$ -0-	Director
Cliff Harris	05/18 05/22 (Elected)	\$ 1,500	\$ 65	Director

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

Submission date of most recent District Registration Form: July 6, 2019.

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by Board Resolution on July 16, 2003. Fees of Office are the amounts actually paid to a Director during the District's current fiscal year at \$150 for each day a director spent performing his or her duties.

See accompanying independent auditor's report.

**MONTGOMERY COUNTY DRAINAGE DISTRICT NO. 10**  
**BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS**  
**MAY 31, 2019**

<b>Consultants:</b>	<u>Date Hired</u>	<u>Fees for the year ended May 31, 2019</u>	<u>Title</u>
Smith, Murdaugh, Little & Bonham, L.L.P.	05/23/03	\$ 62,142 \$ -0-	General Counsel Bond Counsel
McCall Gibson Swedlund Barfoot PLLC	01/24/06	\$ 12,250 \$ -0-	Auditor Bond Related
Myrtle Cruz, Inc.	07/16/03	\$ 15,572	Bookkeeper
Bill Russell	12/02/03	\$ -0-	District Investment Officer
Huitt-Zollars, Inc.	05/23/03	\$ 93,877	Engineer
Masterson Advisors LLC	04/24/18	\$ -0-	Financial Advisor
Municipal Operations and Consulting, Inc.	03/23/04	\$ 201,373	Operator

See accompanying independent auditor's report.

**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