OFFICIAL STATEMENT DATED APRIL 16, 2020

IN THE OPINION OF RADCLIFFE BOBBITT ADAMS POLLEY PLLC, BOND COUNSEL, BASED UPON AN ANALYSIS OF EXISTING LAWS, REGULATIONS, RULINGS AND COURT DECISIONS, AND ASSUMING, AMONG OTHER MATTERS, THE ACCURACY OF CERTAIN REPRESENTATIONS AND COMPLIANCE WITH CERTAIN COVENANTS, INTEREST ON THE BONDS WILL BE EXCLUDED FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER SECTION 103 OF THE INTERNAL REVENUE CODE OF 1986. IN THE FURTHER OPINION OF BOND COUNSEL, INTEREST ON THE BONDS IS NOT A SPECIFIC PREFERENCE ITEM FOR PURPOSES OF THE FEDERAL ALTERNATIVE MINIMUM TAX. BOND COUNSEL EXPRESSES NO OPINION REGARDING ANY OTHER TAX CONSEQUENCES RELATED TO THE OWNERSHIP OR DISPOSITION OF, OR THE AMOUNT, ACCRUAL OR RECEIPT OF INTEREST ON, THE BONDS. SEE "TAX MATTERS" HEREIN.

The District has designated the Bonds as "qualified tax-exempt obligations" for purposes of the calculation of interest expense by financial institutions which may own the Bonds. See "TAX MATTERS -- Qualified Tax-Exempt Obligations for Financial Institutions."

NEW ISSUE	**RATINGS: (S&P–AGM) "AA" (stable outlook)**
BOOK-ENTRY ONLY	**(See "BOND INSURANCE" herein)**
CUSIP Base No. 307342	**(S&P's–underlying) "BBB" (Stable)**

FAR HILLS UTILITY DISTRICT

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

$2,195,000
WATERWORKS AND SEWER SYSTEM COMBINATION UNLIMITED TAX AND REVENUE REFUNDING BONDS, SERIES 2020

Bonds Dated: May 1, 2020 | **Due: April 1, as shown on inside cover**

The $2,195,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, Series 2020 (the "Bonds") are obligations solely of Far Hills Utility District (the "District") and are not obligations of the State of Texas; Montgomery County, Texas; the City of Conroe, Texas; or any other political subdivision or agency. See "THE BONDS--Source of and Security for Payment."

Interest on the Bonds will accrue from May 1, 2020, and will be payable October 1, 2020 and each April 1 and October 1 thereafter, and will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds are issuable only in fully registered form in principal denominations of $5,000 or integral multiples thereof initially registered solely in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"), acting as securities depository for the Bonds, until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only. So long as Cede & Co. is the registered owner of the Bonds, as nominee for DTC, the Bonds shall be payable to Cede & Co., which will in turn, remit such amount to DTC participants for subsequent disbursement to the beneficial owners of the Bonds. See "THE BONDS--Book-Entry-Only System."

Principal of and the redemption price for the Bonds are payable by UMB Bank n.a., Houston, Texas or any successor paying agent/registrar (the "Paying Agent/Registrar"). Interest on the Bonds will be payable by check mailed on or before the interest payment date to registered owners shown on the records of the Paying Agent/Registrar on the fifteenth (15th) day of the month preceding each interest payment date or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and the registered owner at the risk and expense of the registered owner. See "THE BONDS--Description."

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

ASSURED GUARANTY MUNICIPAL

SEE INSIDE COVER PAGE FOR MATURITY SCHEDULE

The Bonds, when issued, will constitute valid and legally binding obligations of the District and will be payable from (a) the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against taxable property within the District and (b) the Net Revenues (as defined herein) of the District's waterworks and sewer system. See "THE BONDS–Source of and Security for Payment." The Bonds are subject to special investment considerations described herein. See "RISK FACTORS." **Neither the State of Texas, Montgomery County, Texas, the City of Conroe, nor any political subdivision other than the District shall be obligated to pay the principal of and interest on the Bonds.**

The Bonds will be delivered when, as, and if issued by the District and accepted by the initial purchaser of the Bonds (the "Underwriter"), subject, amongst other things, to the approval of the initial Bonds by the Attorney General of the State of Texas and by the approval of certain legal matters by Radcliffe Bobbitt Adams Polley PLLC, Houston, Texas, Bond Counsel, Houston, Texas. Certain legal matters will be passed upon for the District by Orrick, Herrington & Sutcliffe LLP, Houston, Texas, Disclosure Counsel and Underwriter's Counsel. Delivery of the Bonds is expected on May 21, 2020, in Houston, Texas.

SAMCO Capital Markets, Inc.

MATURITY SCHEDULE

Bonds Dated: May 1, 2020 **Due: April 1, as shown below**

$1,550,000 Serial Bonds

Maturity	*Amount*	*Interest Rate*	*Initial Yield(a)*	*CUSIP (b)*	*Maturity*	*Amount*	*Interest Rate*	*Initial Yield(a)*	*CUSIP (b)*
2021	$40,000	3.000%	1.640%	307342 JA4	2034(c)	280,000	2.375%	2.620%	307342 JP1
2022	40,000	3.000%	1.700%	307342 JB2	2035(c)	290,000	2.375%	2.670%	307342 JQ9
***	***	***	***	***	2036(c)	305,000	2.500%	2.730%	307342 JR7
2033(c)	270,000	2.250%	2.570%	307342 JN6	2037(c)	325,000	2.500%	2.790%	307342 JS5

$645,000 Term Bonds

$165,000 Term Bonds, Due April 1, 2026 (d), 2.000% Interest Rate, 2.000% Initial Yield (a)
CUSIP (b) 307342 JF3

$135,000 Term Bonds, Due April 1, 2029 (c)(d), 2.00% Interest Rate, 2.150% Initial Yield (a)
CUSIP (b) 307342 JJ5

$345,000 Term Bonds, Due April 1, 2032 (c)(d), 2.250% Interest Rate, 2.500% Initial Yield (a)
CUSIP (b) 307342 JM8

(a) Initial yield represents the initial reoffering yield to the public which has been established by the Underwriter for public offerings and which subsequently may be changed. The initial yields indicated above represent the lower of the yields resulting when priced to maturity or to the first call date. Accrued interest from May 1, 2020 is to be added to the price.

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

(c) Bonds maturing on or after April 1, 2027, are subject to redemption prior to maturity at the option of the District, as a whole or, from time to time, in part, on April 1, 2026, or on any date thereafter, at par plus accrued interest from the most recent interest payment date to the date fixed for redemption. See "THE BONDS–Optional Redemption."

(d) Term Bonds are also subject to mandatory redemption in part by lot or other customary method at a price of par plus accrued interest to the redemption date. See "THE BONDS–Mandatory Redemption."

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 "BOND INSURANCE" and "APPENDIX B–Specimen Municipal Bond Insurance Policy."

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USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

All of the summaries of the statutes, orders, contracts, audited financial statements, engineering and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from the District, c/o Radcliffe Bobbitt Adams Polley PLLC, 2929 Allen Parkway, Suite 3450, Houston, Texas 77019-7120 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 condition of the District or other matters described herein since the date hereof. The District has agreed to keep this Official Statement current by amendment or sticker to reflect material changes in the affairs of the District and, to the extent that information actually comes to its attention, the other matters described in this Official Statement until delivery of the Bonds to the Underwriter and thereafter only as specified in "PREPARATION OF THE OFFICIAL STATEMENT-- Updating of Official Statement" and "CONTINUING DISCLOSURE OF INFORMATION."

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this offering document.

SALE AND DISTRIBUTION OF THE BONDS

Prices and Marketability

The delivery of the Bonds is conditioned upon the receipt by the District of a certificate executed and delivered by the Underwriter prior to delivery of the Bonds stating the prices at which a substantial amount of the Bonds of each maturity has been sold to the public. For this purpose, the term "public" shall not include any person who is a bond house, broker or similar person acting in the capacity of underwriter or wholesaler. Otherwise, the District has no understanding with the Underwriter or control regarding the reoffering yields or prices of the Bonds. Information concerning reoffering yields or prices is the sole responsibility of the Underwriter.

THE PRICES AND OTHER TERMS RESPECTING THE OFFERING AND SALE OF THE BONDS MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER AFTER THE BONDS ARE RELEASED FOR SALE, AND THE BONDS MAY BE OFFERED AND SOLD AT PRICES OTHER THAN THE INITIAL OFFERING PRICES, INCLUDING SALES TO DEALERS WHO MAY SELL THE BONDS INTO INVESTMENT ACCOUNTS. IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The District has no control over trading of the Bonds in the secondary market. Moreover, there is no guarantee that a secondary market will be made in the Bonds. In such a secondary market, the difference between the bid and asked price of special 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 governmental 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 Bonds has been filed with the United States 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 jurisdictions.

Underwriter

The Bonds are being purchased by SAMCO Capital Markets, Inc. (the "Underwriter") pursuant to a bond purchase agreement with the District (the "Bond Purchase Agreement") at a price of $2,117,364.20 (being the par amount of the Bonds, less a net discount on the Bonds of $58,429.55 less an underwriter's discount of $19,206.25), plus accrued interest on the Bonds to the date of delivery. The obligation of the Underwriter to purchase the Bonds is subject to certain conditions contained in the Bond Purchase Agreement.

The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into unit investment trusts) and others at prices lower than the public offering price stated on the inside cover page hereof. The initial offering price may be changed from time to time by the Underwriter within the guidelines prescribed by applicable laws and regulations of the United States Securities and Exchange Commission.

Municipal Bond Rating

S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P") is expected to assign its municipal rating of "AA" (stable outlook) to the Bonds, as a result of a municipal bond insurance policy issued by Assured Guaranty Municipal Corp. at the time of delivery of the Bonds (see "BOND INSURANCE" and "APPENDIX B–Specimen Municipal Bond Insurance Policy"). An explanation of the significance of such rating may be obtained from S&P. The rating reflects only the views of S&P and the District makes no representation as to the appropriateness of such rating.

In connection with the sale of the Bonds, the District made application to S&P, which has assigned a rating of "BBB" to the Bonds. An explanation of the significance of such rating may be obtained from S&P. The rating reflects only the view of S&P and the District makes no representation as to the appropriateness of such rating.

The District can make no assurance that the S&P ratings will continue for any period of time or that such ratings will not be revised downward or withdrawn entirely by S&P if in the judgment of S&P circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

SUMMARY

The following information is a summary of certain information contained herein and is qualified in its entirety by the more detailed information and financial statements appearing elsewhere in this Official Statement, reference to which is made for all purposes. This summary should not be detached and should be used in conjunction with more complete information contained herein.

- The District -

Description	Far Hills Utility District (the "District"), a political subdivision of the State of Texas created by order of the Texas Water Rights Commission, predecessor to the Texas Commission on Environmental Quality ("TCEQ"), effective January 4, 1972, is located in Montgomery County, Texas, approximately 50 miles north of Houston's central business district, approximately 12 miles northwest of the City of Conroe, and is comprised of approximately 435.9007 acres. The District is located within the exclusive extraterritorial jurisdiction of the City of Conroe.
Development	Land within the District has been developed as the residential subdivisions of Far Hills, Hawthorn Ridge, Shelter Bay, Rancho Escondido, Lake Breeze, Twin Shores, French Quarter and Clearview Estates. As of March 2020, there were 518 active customers within the District.
Authority	The rights, powers, privileges, authority and functions of the District are established by the general laws of the State of Texas pertaining to water control and improvement districts, including particularly Chapters 49 and 51 of the Texas Water Code, as amended. See "THE DISTRICT-Authority."

- The Bonds -

Description	The $2,195,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, Series 2020 (the "Bonds") bear interest at the rates per annum set forth on the inside cover page hereof, from May 1, 2020, and are payable October 1, 2020 and each April 1 and October 1thereafter until the earlier of maturity or prior redemption. The Bonds mature serially on April 1 in the years 2021 and 2022 and in the years 2033 through 2037, both inclusive (the "Serial Bonds"), in the principal amounts set forth on the inside cover page hereof, and on April 1 in the years 2026, 2029 and 2032 (herein the "Term Bonds"). The Term Bonds are subject to mandatory redemption as described herein under "THE BONDS–Mandatory Redemption." Bonds scheduled to mature on or after April 1, 2027, are subject to optional redemption at the option of the District on any date on or after April 1, 2026, at a price of par plus accrued interest to the date of redemption. See "THE BONDS--Description" and "--Optional Redemption."
Source of Payment	Principal of and interest on the Bonds are payable from (a) the proceeds of a continuing, direct annual ad valorem tax, without legal limitation as to rate or amount, levied against taxable property within the District and (b) a pledge of the Net Revenues (as defined herein), if any, of the District's waterworks and sewer system. The Bonds are obligations of the District and are not obligations of Montgomery County, the State of Texas, the City of Conroe, or any political subdivision other than the District. See "THE BONDS — Source of and Security for Payment."
Use of Proceeds	Proceeds of the Bonds will be used to currently refund the outstanding portions of the District's Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2012 (the "Refunded Bonds") and to pay the costs of issuance of the Bonds. See "THE BONDS — Use of Proceeds."

Qualified Tax-Exempt Obligations	The District has designated the Bonds as "qualified tax-exempt obligations" pursuant to section 265(b) of the Internal Revenue Code of 1986, as amended, and represents that the total amount of tax-exempt bonds (including the Bonds) issued by it during the calendar year 2020 is not reasonably expected to exceed $10,000,000. See "TAX MATTERS--Qualified Tax-Exempt Obligations."
Payment Record	The District has never defaulted on the payment of any bond obligation. See “DISTRICT DEBT.”
Book-Entry Only System	The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York (“DTC”), pursuant to the Book-Entry Only System described herein. Beneficial ownership of the Bonds may be acquired in principal denominations of $5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co. and Cede & Co. will make distribution of the amounts so paid to the beneficial owners of the Bonds (see “THE BONDS--Book-Entry Only System”).
Legal Opinions	Radcliffe Bobbitt Adams Polley PLLC, Houston, Texas, Bond Counsel. See “LEGAL MATTERS.”
Underwriter’s Counsel and Disclosure Counsel	Orrick, Herrington & Sutcliffe LLP, Houston, Texas
Verification Agent	Ritz & Associates PA, A Professional Association, Bloomington, Minnesota.
Financial Advisor	Blitch Associates, Inc., Houston, Texas.
Municipal Bond Rating	The District made application to S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC business (“S&P”), which has assigned an underlying rating of “BBB” to the Bonds. See “SALE AND DISTRIBUTION OF THE BONDS--Municipal Bond Rating.”
Municipal Bond Rating and Municipal Bond Insurance	S&P is expected to assign a municipal rating of “AA” (stable outlook) as a result of a municipal bond insurance policy issued by Assured Guaranty Municipal Corp. See “SALE AND DISTRIBUTION OF THE BONDS–Municipal Bond Rating,” “BOND INSURANCE” and “APPENDIX B–Specimen Municipal Bond Insurance Policy.”

RISK FACTORS

THE PURCHASE AND OWNERSHIP OF THE BONDS ARE SUBJECT TO SPECIAL RISK FACTORS AND ALL PROSPECTIVE PURCHASERS ARE URGED TO EXAMINE CAREFULLY THE ENTIRE OFFICIAL STATEMENT WITH RESPECT TO THE INVESTMENT SECURITY OF THE BONDS, INCLUDING PARTICULARLY THE SECTION CAPTIONED “RISK FACTORS.”

- Financial Highlights -
(Unaudited)

2019 Taxable Assessed Valuation (100% of Market Value)		$190,919,177	(a)
Direct Debt			
Outstanding Bonds (As of April 1, 2020)		$9,675,000	
Less: The Refunded Bonds		(2,015,000)	
The Bonds		2,195,000	
Total Direct Debt		$9,855,000	
Estimated Overlapping Debt		8,930,852	(b)
Direct and Estimated Overlapping Debt		$18,785,852	
Direct Debt Ratios:			
Direct Debt to Value		5.16%	
Direct & Estimated Overlapping Debt to Value		9.84%	
2019 Tax Rate per $100 of Assessed Value			
Debt Service		$0.335	
Maintenance		0.339	
Total		$0.674	
	Current	***Total***	
2018 Tax Collection Percentage	99.77%	101.21%	
Five-Year Average (2014/2018) Collection Percentage	99.24%	99.78%	
Average Annual Debt Service Requirements (2020/42)		$640,247	
Maximum Annual Debt Service Requirements (2042)		$656,288	
Tax Rate Required to pay such Requirements at 98% Collection			
Average (2020/2042)		$0.343	
Maximum (2042)		$0.351	
Fund Balances as of April 9, 2020 (Cash & Investments)			
General Fund		$2,592,541	
Debt Service Fund		$637,934	
Capital Projects Fund		$245,935	

(a) Certified by the Montgomery County Appraisal District (the "Appraisal District"). See "TAX PROCEDURES."
(b) See "DISTRICT DEBT--Estimated Overlapping Debt."

FAR HILLS UTILITY DISTRICT
$2,195,000
WATERWORKS AND SEWER SYSTEM COMBINATION
UNLIMITED TAX AND REVENUE REFUNDING BONDS, SERIES 2020

This Official Statement of Far Hills Utility District (the "District") is provided to furnish certain information with respect to the sale by the District of its $2,195,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, Series 2020 (the "Bonds").

The Bonds are issued pursuant to the Texas Constitution, the general laws of the State of Texas and an order authorizing the issuance of the Bonds (the "Order") adopted by the Board of Directors of the District (the "Board"), Article XVI, Section 59 of the Texas Constitution and Chapters 49 and 51 of the Texas Water Code, as amended. See "THE BONDS." The Board has delegated final pricing of the Bonds to an authorized representative who will execute a pricing certificate (the "Pricing Certificate") on the date of sale of the Bonds to effectuate the sale. The Order and the Pricing Certificate are collectively referred to herein as the "Bond Order."

This Official Statement includes descriptions of the Bonds, the Bond Order and certain other information about the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document, copies of which may be obtained by contacting the District, c/o Radcliffe Bobbitt Adams Polley PLLC, located at 2929 Allen Parkway, Suite 3450, Houston, Texas 77019-7120

THE BONDS

Description

The following is a description of some of the terms and conditions of the Bonds, which description is qualified in its entirety by reference to the Bond Order. A copy of the Bond Order may be obtained upon request to the District and payment of the applicable copying charges.

The Bonds will mature on April 1 of the years and in principal amounts, and will bear interest from May 1, 2020, at the rates per annum, set forth on the inside cover page of this Official Statement. Interest on the Bonds will be payable on October 1, 2020, and semiannually thereafter on each April 1 and October 1 thereafter until the earlier of maturity or redemption. Principal of and interest on the Bonds will be payable to Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC"), by the paying agent/registrar, initially UMB Bank n.a., Houston, Texas (the "Paying Agent/Registrar"). Cede & Co. will make distribution of the principal and interest so paid to the beneficial owners of the Bonds. For so long as DTC shall continue to serve as securities depository for the Bonds, all transfers of beneficial ownership interest will be made by book-entry only and no investor or other party purchasing, selling or otherwise transferring beneficial ownership of the Bonds is to receive, hold or deliver any Bond certificate.

If at any time, DTC ceases to hold the Bonds as securities depository, then principal of the Bonds will be payable to the registered owner at maturity or redemption upon presentation and surrender at the principal payment office of the Paying Agent/Registrar. Interest on the Bonds will be payable by check, dated as of the interest payment date, and mailed by the Paying Agent/Registrar to the registered owners as shown on the records of the Paying Agent/Registrar at the close of business on the 15th day of the month next preceding the interest payment date (the "Record Date"). The Bonds of each maturity will be issued in fully-registered form only in the principal amount of $5,000 or any integral multiple thereof.

If the specified date for any payment of principal (or redemption price) or interest on the Bonds shall be a Saturday, Sunday or legal holiday or equivalent (other than a moratorium) for banking institutions generally in the City of Houston, Texas, such payment may be made on the next succeeding date which is not one of the foregoing days without additional interest and with the same force and effect as if made on the specified date for such payments.

Use of Proceeds

Proceeds of the Bonds will be used to currently refund the outstanding portions of the District's Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2012 (the "Refunded Bonds") and to pay the costs of issuance of the Bonds.

The Refunded Bonds will be called May 21, 2020 and consist of the following:

Maturity	***Amount***	***Rate***
2021	$25,000	2.650%
2022	25,000	2.750%
2023	25,000	3.000%
2024	25,000(a)	3.500%
2025	30,000(a)	3.500%
2026	25,000(a)	3.500%
2027	30,000(a)	3.500%
2028	30,000(b)	3.500%
2029	30,000(b)	3.500%
2030	30,000(b)	3.500%
2031	30,000(b)	3.500%
2032	245,000(c)	3.700%
2033	260,000(c)	3.700%
2034	275,000(c)	3.700%
2035	290,000(d)	3.750%
2036	310,000(d)	3.750%
2037	330,000(d)	3.750%
Totals	$2,015,000	

(a) Represents sinking fund redemption payment for term bond maturing on April 1, 2027.
(b) Represents sinking fund redemption payment for term bond maturing on April 1, 2031.
(c) Represents sinking fund redemption payment for term bond maturing on April 1, 2034.
(d) Represents sinking fund redemption payment for term bond maturing on April 1, 2037.

The proceeds derived from the sale of the Bonds will be applied as follows:

Sources:	
Par Amount	$2,195,000.00
Transfer From Debt Service Funds	18,336.25
Accrued Interest	2,862.50
Total Sources	$2,216,198.75
Uses:	
Cash Deposit for Refunding	$2,025,261.81
Underwriter's Discount	19,206.25
Original Issue Discount	58,429.55
Insurance Premium	14,853.44
Costs of Issuance	91,625.00
Deposit to Debt Service Fund (includes contingency)	6,822.70
Total Uses	$2,216,198.75

Refunded Bonds

In the Bond Order, the District will give irrevocable instructions to provide notice to the owners of the Refunded Bonds that the Refunded Bonds will be redeemed prior to stated maturity on which date money will be made available to redeem the Refunded Bonds from money held by the paying agent for the Refunded Bonds, BOKF, NA.

Proceeds from the sale of the Bonds will be used to refund the Refunded Bonds in order to lower the District's overall debt service and to pay costs of issuing the Bonds. The Refunded Bonds and the interest due thereon are to be paid on the date of redemption from funds to be deposited with BOKF, NA.

The Bond Order provides that from a portion of the proceeds of the sale of the Bonds to the underwriter listed on the cover page hereof (the "Underwriter"), together with other legally available funds of the District, if any, the District will deposit with BOKF, NA, the amount necessary to accomplish the discharge and final payment of the Refunded Bonds. The Bond Order provides that from a portion of the proceeds of the sale of the Bonds to the Underwriter, together with other legally available funds of the District, if any, the District will deposit with the paying agents for the Refunded Bonds, the amount necessary to accomplish the discharge and final payment of the Refunded Bonds on the redemption date thereof.

Ritz & Associates PA, A Professional Association, a firm of independent certified public accountants, will verify at the time of delivery of the Bonds to the Underwriter thereof the mathematical accuracy of the schedules that demonstrate the funds on deposit with the paying agents for the Refunded Bonds will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds. Such funds on deposit with the paying agents for the Refunded Bonds will not be available to pay the Bonds. See "VERIFICATION OF ACCURACY OF MATHEMATICAL COMPUTATIONS."

By the deposit of the cash with BOKF, NA, the District will have effected the defeasance of the Refunded Bonds pursuant to the terms of Chapter 1207, Texas Government Code, and the order authorizing the issuance of the Refunded Bonds. In the opinion of Bond Counsel, as a result of such deposit, firm banking and financial arrangements will have been made for the discharge and final payment of the Refunded Bonds, and such Refunded Bonds will be deemed to be fully paid and no longer outstanding, except for the purpose of being paid from the funds deposited with BOKF, NA.

Book-Entry-Only System

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

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

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

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

Purchases of Bonds under the DTC system must be made by or through DTC Participants, which will receive a credit for such purchases 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 or 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 interest 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 the 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 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 such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the District or Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, Paying Agent/Registrar or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or Paying Agent/Registrar, disbursement of such payments to Direct Participants shall 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 securities depository with respect to the Bonds at any time by giving reasonable notice to the District or Paying Agent/Registrar. Under such circumstances, in the event that a successor securities depository is not obtained, Bonds 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, Bonds 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.

Registration and Transfer

The Bonds will be transferable only on the bond register kept by the Paying Agent/Registrar upon surrender and reissuance. The Bonds are exchangeable for an equal aggregate principal of Bonds of the same maturity and of any authorized denomination upon surrender of the Bonds to be exchanged at the principal office of the Paying Agent/Registrar in Dallas, Texas. No service charge will be made for any registration, transfer or exchange of Bonds, but the District or the Paying Agent/Registrar may require payment of a sum sufficient to cover any tax or governmental charge payable in connection therewith. Neither the District nor the Paying Agent/Registrar is required to issue, transfer or exchange any Bond during the period beginning at the opening of business on a Record Date and ending at the close of business on the next succeeding interest payment date or to transfer or exchange any Bond selected for redemption, in whole or in part, beginning 15 calendar days prior to the date of the first mailing of any notice of redemption and ending at the close of business on the date of such mailing, or to transfer or exchange any Bond called for redemption during the thirty (30) day period prior to the date fixed for redemption of such Bond.

Optional Redemption

The District reserves the right, at its option, to redeem the Bonds maturing on or after April 1, 2027, in whole or in part in principal amounts of $5,000 or any integral multiple thereof on April 1, 2026, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. If less than all of the Bonds are to be redeemed, the Paying Agent/Registrar shall select by lot those Bonds to be redeemed.

At least thirty (30) days prior to the date fixed for any such redemption a written notice of such redemption shall be given to the registered owner of each Bond or a portion thereof being called for redemption by depositing such notice in the United States mail, first class, postage prepaid, addressed to each such registered owner at his address shown on the registration books of the Paying Agent/Registrar; provided, however, that the failure to receive such notice shall not affect the validity or effectiveness of the proceedings for the redemption of any Bond. By the date fixed for any such redemption due provision shall be made with the Paying Agent/Registrar for the payment of the required redemption price for the Bonds or the portions thereof which are to be so redeemed, plus accrued interest to the date fixed for redemption. If a portion of any Bond shall be redeemed, a substitute Bond having the same maturity date, bearing interest at the same rate, in any integral multiple of $5,000, and in aggregate principal amount equal to the unredeemed position thereof, will be issued to the registered owner upon the surrender of the Bonds being redeemed, at the expense of the District, all as provided for in the Bond Order.

Mandatory Redemption

The Bonds maturing April 1 in the years 2026, 2029 and 2032 (the "Term Bonds") are subject to mandatory redemption in part prior to maturity in the amounts (subject to redemption as described below) and on the dates set out below, at a price equal to the principal amount to be redeemed plus accrued interest to the redemption date:

Redemption Date	***Principal Amount***
$165,000 Term Bonds Due April 1, 2026	
April 1, 2023	$40,000
April 1, 2024	40,000
April 1, 2025	45,000
April 1, 2026 (maturity)	40,000
$135,000 Term Bonds Due April 1, 2029	
April 1, 2027	$45,000
April 1, 2028	45,000
April 1, 2029 (maturity)	45,000
$345,000 Term Bonds Due April 1, 2032	
April 1, 2030	$45,000
April 1, 2031	45,000
April 1, 2032 (maturity)	255,000

The particular Term Bonds to be mandatorily redeemed shall be selected by lot or other customary random selection method. The principal amount of the Term Bonds of a maturity required to be redeemed pursuant to the operation of such mandatory redemption requirements shall be reduced, at the option of and as determined by the District, by the principal amount of any Term Bonds of such maturity which, at least 45 days prior to such mandatory redemption, (1) shall have been acquired by the District and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the District, or (3) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

Ownership

The District, the Paying Agent/Registrar and any agent of either may treat the person in whose name any Bond is registered as the absolute owner of such Bond for the purpose of receiving payment of the principal and the interest thereon, and for all other purposes, whether or not such Bond is overdue. Neither the District, the Paying Agent/Registrar nor any agent of either shall be bound by any notice or knowledge to the contrary. All payments made to the person deemed to be the owner of any Bond in accordance with the Bond Order shall be valid and effective and shall discharge the liability of the District and the Paying Agent/Registrar for such Bond to the extent of the sums paid.

Source of and Security for Payment

The Bonds and the Outstanding Bonds (as hereinafter defined) (together with any additional unlimited tax or combination unlimited tax bonds as may hereafter be issued) are payable as to principal and interest from the proceeds of a continuing, direct, annual ad valorem tax without legal limitation as to rate or amount, levied against all taxable property located within the District. In the Bond Order, the District covenants to levy annually a tax sufficient in amount to pay principal of and interest on the Bonds, full allowance being made for delinquencies and costs of collection. Collected taxes will be placed in the District's debt service fund and used solely to pay principal and interest on the Bonds, the Outstanding Bonds and on any additional bonds payable from taxes which may be issued. See "Issuance of Additional Debt" below.

The Bonds are further payable from and secured by a pledge of and lien on certain Net Revenues, if any, of the District's waterworks, sanitary sewer and drainage system (the "System"). "Net Revenues" are defined in the Bond Order as all income or increment which may grow out of the ownership and operation of the District's System, less such funds as reasonably may be required to provide for the administration, efficient operation and adequate maintenance of the District's plants, facilities and improvements. It is not expected that the Net Revenues from the District's System will ever be used to pay debt service on the Bonds. The Net Revenues are entirely dependent upon the sale of water and sewer services to users in the District.

Replacement of Paying Agent/Registrar

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

Authority for Issuance

The District has issued nine (9) installments of $35,200,000 in bonds for waterworks, sanitary sewer and drainage facilities authorized at various elections held within the District for that purpose in 1972, 1973, 2001 and 2013. An aggregate of $23,075,000 principal amount of bonds remains authorized but unissued. Additionally, unlimited tax and revenue refunding bonds in the amount of 150% of the remaining outstanding bonds have been authorized by the District's voters in the 2013 election. See "Issuance of Additional Debt."

The Bonds are issued pursuant to the Bond Order, Chapters 49 and 51 of the Texas Water Code, as amended, and Article XVI, Section 59 of the Texas Constitution.

Outstanding Debt

The District has previously issued its $2,160,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2012 (the "Series 2012 Bonds"); $1,185,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2013 (the "Series 2013 Bonds"); $2,535,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, Series 2015 (the "Series 2015 Refunding Bonds"); $3,470,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2015 (the "Series 2015 Bonds"); and the $1,625,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2018 (the "Series 2018 Bonds"). As of April 1, 2020, $2,015,000 of the Series 2012 Bonds, $930,000 of the Series 2013 Bonds, $1,855,000 of the Series 2015 Refunding Bonds, $3,285,000 of the Series 2015 Bonds, and $1,590,000 of the Series 2018 Bonds remain outstanding (the "Outstanding Bonds"). The District has timely made payments due on the Outstanding Bonds.

Issuance of Additional Debt

The District may issue additional bonds to provide those improvements for which the District was created. $23,075,000 unlimited tax and revenue bonds authorized by the District's voters will remain unissued. The District has no plans to sell additional bonds within the next twelve months.

According to the District's Engineer, the remaining authorized but unissued bonds will be sufficient to extend the utility system to the remaining undeveloped acres within the District. Depending upon the rate of development and increases in assessed valuation of taxable property within the District and the amount, maturity schedule and time of issuance of such additional bonds, increases in the District's annual tax rate may be required to provide for the payment of the principal of and interest on such additional bonds, the Outstanding Bonds and the Bonds. Additional tax bonds and/or tax and revenue bonds may be voted in the future. The Board is further empowered to borrow money for any lawful purpose and pledge the revenues of the waterworks and sewer system therefor and to issue bond anticipation notes and tax anticipation notes.

The Bond Order imposes no limitation on the amount of additional bonds which may be issued by the District. Any additional bonds issued by the District may be on a parity with the Bonds, and may dilute the security of the Bonds.

Defeasance

The Bond Order provides that the obligation of the District to make money available to pay the principal of and interest on the Bonds may be terminated by the deposit of money and/or non-callable direct or indirect Bonds of the United States of America, sufficient for such purpose, in the manner described in the Bond Order.

Mutilated, Lost, Stolen or Destroyed Bonds

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

Annexation and Consolidation

The District is located entirely within the extraterritorial jurisdiction of the City of Conroe, Texas (the "City"). Under prior Texas law, a municipality could annex and dissolve a utility district located within its extraterritorial jurisdiction without consent of the district or its residents. Under House Bill 347 approved in 2019 during the 86th Regular

Legislative Session ("HB 347"), (a) a municipality may annex a district with a population of less than 200 residents only if: (i) the municipality obtains consent to annex the district through a petition signed by more than 50% of the registered voters of the district, and (ii) if the registered voters in the area to be annexed do not own more than 50% of the land in the area, a petition has been signed by more than 50% of the landowners consenting to the annexation; and (b) a municipality may annex a district with a population of 200 residents or more only if: (i) such annexation has been approved by a majority of those voting in an election held for that purpose within the area to be annexed, and (ii) if the registered voters in the area to be annexed do not own more than 50% of the land in the area, a petition has been signed by more than 50% of the landowners consenting to the annexation. Notwithstanding the foregoing, a municipality may annex an area if each owner of land in the area requests annexation. As of the date hereof, the District had an estimated population in excess of 200, thus triggering the voter approval and/or landowner consent requirements discussed in clause (b) above. The described election and petition process does not apply, however, during the term of a strategic partnership agreement between a municipality and a district specifying the procedures for annexation of all or a portion of the District.

The District has the right to consolidate with other districts and, in connection therewith, to provide for the consolidation of its water and sewer system with the water and sewer systems of the district or districts with which it is consolidating. Should any such consolidation occur, the net revenues from the operation of the consolidated system would be applied to the payment of principal, interest, redemption price and bank charges on the combination unlimited tax and revenue bonds of the District, if any, and of the district or districts with which the District is consolidated without prejudice to any series of bonds, except that bonds with subordinate liens on net revenues shall continue to be subordinate. No representations are made that the District will ever consolidate its utility system with other systems.

Amendments to the Bond Order

The District may, without the consent of or notice to any registered owners, amend the Bond Order in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency or formal defect or omission therein. In addition, the District may, with the written consent of the registered owners of a majority in aggregate principal amount of the Bonds then outstanding affected thereby, amend, add to or rescind any of the provisions of the Bond Order; provided that, without the consent of the registered owners of all of the Bonds affected, no such amendment, addition or rescission may (a) extend the time or times of payment of the principal of and interest (or accrual of interest) on the Bonds, or reduce the principal amount thereof or the rate of interest thereon or in any other way modify the terms of payment of the principal of or interest on the Bonds, (b) give preference of any Bond over any other Bond, or (c) extend any waiver of default to subsequent defaults. In addition, a state, consistent with federal law, may in the exercise of its police power make such modifications in the terms and conditions of contractual covenants relating to the payment of indebtedness of a political subdivision as are reasonable and necessary for attainment of an important public purpose.

Registered Owners' Remedies and Effects of Bankruptcy

The Bond Order provides that, in the event the District defaults in the observance or performance of any covenant in the Bond Order, including payment when due of the principal of and interest on the Bonds, any registered owner may apply for a writ of mandamus from a court of competent jurisdiction requiring the Board or other officers of the District to observe or perform any covenants, obligations or conditions prescribed by the Bond Order. Such right is in addition to other rights of the registered owners of the Bonds that may be provided by the laws of the State of Texas.

The Bond Order does not provide additional remedies to a registered owner. Specifically, the Bond Order does not provide for appointment of a trustee to protect and enforce the interests of the registered owners or for the acceleration of maturity of the Bonds upon the occurrence of a default in the District's obligations. Consequently, the remedy of mandamus may have to be relied upon from year to year by the registered owners.

Under Texas law, no judgment obtained against the District may be enforced by execution or a levy against the District's public purpose property. The registered owners cannot themselves foreclose on taxable property within the District or sell property within the District in order to pay principal of and interest on the Bonds. In addition, the enforceability of the rights and remedies of the registered owners may be subject to limitation pursuant to federal bankruptcy laws or other similar laws affecting the rights of creditors of political subdivisions.

Bankruptcy Limitation to Registered Owners' Rights

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

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

Legal Investment and Eligibility to Secure Public Funds in Texas

Pursuant to Chapter 1201, Texas Government Code, and Section 49.186, Texas Water Code, the Bonds, whether rated or unrated, are (a) legal investments for banks, trust companies, building and loan associations, savings and loan associations, insurance companies of all kinds and types, fiduciaries, and trustees, and (b) legal investments and lawful security for the public funds of the State, and all agencies, subdivisions, and instrumentalities of the State, including all counties, cities, towns, villages, school districts, and other political subdivisions or public agencies of the State of Texas. The Bonds are also eligible under the Public Funds Collateral Act, Chapter 2257, Texas Government Code, to secure deposits of public funds of the State of Texas or any political subdivision or public agency of the State of Texas and are lawful and sufficient security for those deposits to the extent of their market value.

Most political subdivisions in the State of Texas are required to adopt investment guidelines under the Public Funds Investment Act, Chapter 2256, Texas Government Code, and such political subdivisions may impose a requirement consistent with such act that the Bonds have a rating of not less than "A" or its equivalent to be legal investments for such entity's funds. The District makes no representation that the Bonds will be acceptable to banks, savings and loan associations or public entities for investment purposes or to secure deposits of public funds. The District has made no investigation of other laws, regulations or investment criteria which might apply to or otherwise limit the suitability of the Bonds for investment or collateral purposes. Prospective purchasers are urged to carefully evaluate the investment quality of the Bonds as to the suitability of the Bonds for investment or collateral purposes.

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 that it had affirmed AGM's financial strength rating of "AA" (stable outlook). AGM can give no assurance as to any further rating actions that S&P may take.

On August 13, 2019, Moody's announced that it had 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 of AGM 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) pic ("AGE"), and (iii) 60.7% of the net unearned premium reserve of MAC.

The policyholders' surplus of AGM and the contingency reserves and 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 "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 "BOND INSURANCE."

THE DISTRICT

Authority

The District was created pursuant to Article 16, Section 59 of the Texas Constitution by the Texas Water Rights Commission, predecessor of the TCEQ, effective January 4, 1972. The District is vested with all of the rights, privileges, authority, and functions conferred by the general laws of the State applicable to water control and improvement districts, including without limitation those conferred by Chapter 51, Texas Water Code, as amended. The District is empowered to purchase, construct, operate, acquire, own and maintain all water and wastewater facilities, improvements and the control and diversion of storm water. The District is additionally empowered to establish, operate and maintain a fire department, independently or with one or more other conservation and reclamation districts, and to issue bonds for such purposes, after approval by the City of Conroe and the TCEQ and the District's voters of the District's plans in such regard. The District is subject to the continuing supervisory jurisdiction of the TCEQ.

Description

The District currently comprises approximately 435.9007 acres. The District is located approximately 50 miles north of Houston's central business district, and approximately 12 miles northwest of the City of Conroe. Accessible from Interstate Highway 45 west along FM 830 and south along Cude Cemetery Road, the District lies entirely within the exclusive extraterritorial jurisdiction of the City of Conroe and is located within the Willis Independent School District.

Management of the District

The District is governed by the Board of Directors (the "Board"), consisting of five (5) directors, which has management control over and management supervision of all affairs of the District. All Board members own property within the District. Directors are elected to serve four-year staggered terms, with elections held on the first Tuesday after the first Monday in November in even numbered years. The current members and officers of the Board are listed below:

Name	Title	Term Expires
Jim Haymon	President	2022
Christopher Kuhl	Vice President/Tax Compliance Officer	2022
Melinda Shelly	Secretary	2020
Vacant	Assistant Secretary	2022
Rich Cutler	Director	2020

In addition, the District contracts for the services indicated below:

Auditor - The District's audited financial statements for the year ended December 31, 2018 were prepared by McCall Gibson Swedlund Barfoot PLLC, Houston, Texas, Certified Public Accountants. See "APPENDIX A–Financial Statements of the District."

Bond Counsel - The District employs Radcliffe Bobbitt Adams Polley PLLC, Houston, Texas, as Bond Counsel in connection with the issuance of the Bonds. The legal fees to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of Bonds actually issued and sold; and therefore, such fees are contingent on the sale and delivery of the Bonds. See "LEGAL MATTERS."

Financial Advisor - The District's financial advisor is Blitch Associates, Inc., Houston, Texas.

Bookkeeper - The District's Bookkeeper is Myrtle Cruz, Inc., Houston, Texas.

Engineer - The consulting engineer for the District is Langford Engineering, Inc.

Operator - The District's System is operated by M. Marlon Ivy & Associates, Inc., Spring, Texas.

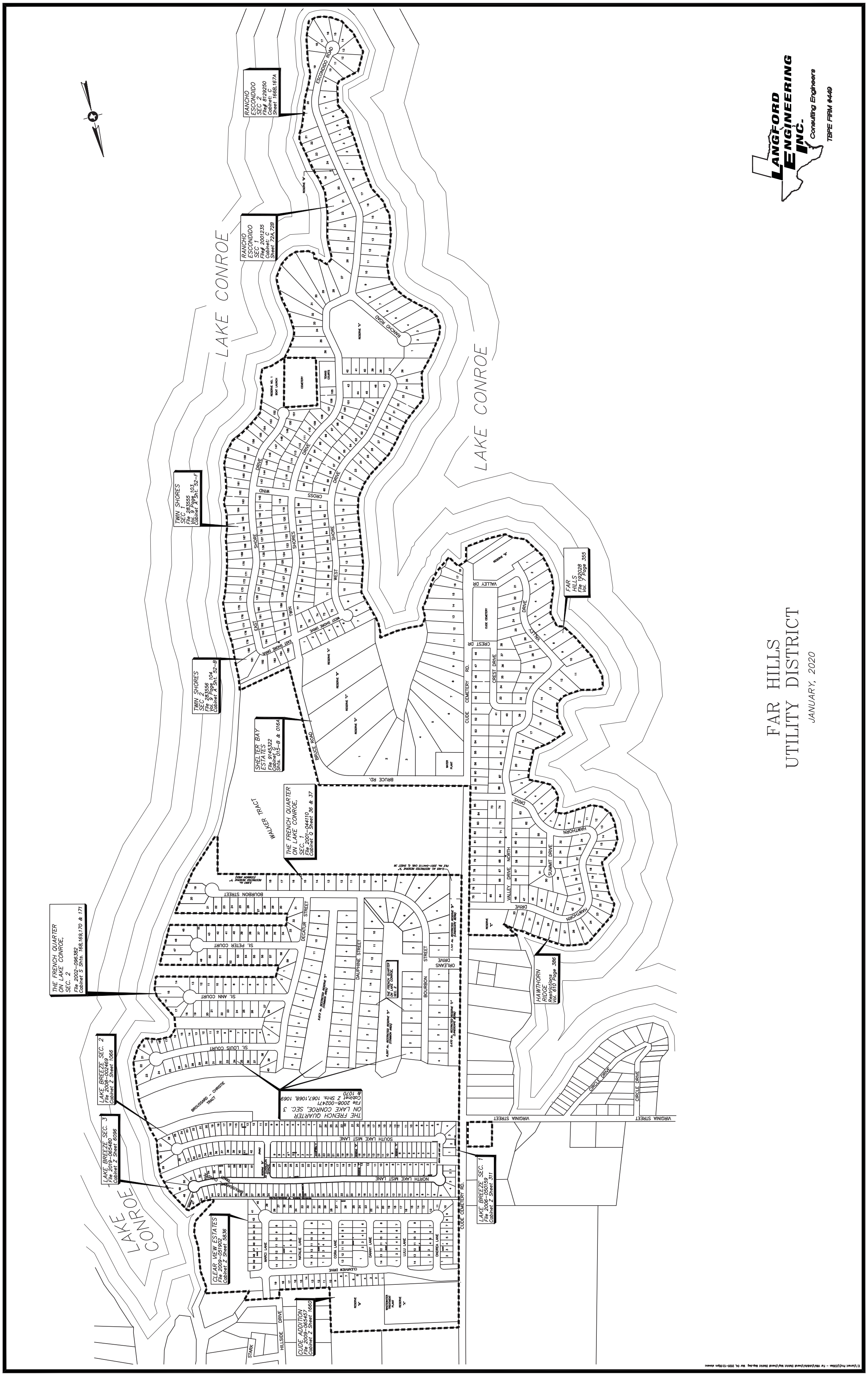
Tax Assessor/Collector - The District's tax assessor/collector is Tammy McRae, Montgomery County Tax Collector, Conroe, Texas.

Development

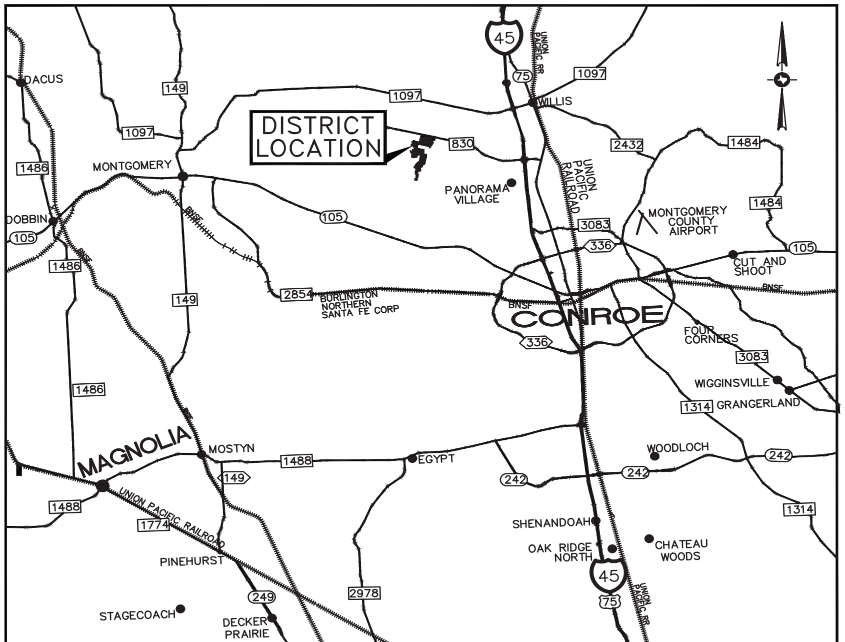
The District currently provides water supply and distribution, wastewater collection and treatment and storm drainage to the single-family homes constructed in the District and another three outside the District (two of which receive water service only). At January 1, 2020, approximately 423 fully developed lots remain to be improved, all as summarized below. The District also provides service to three homes outside the subdivisions listed below, to another 12 water connections for boat launches, entrances, parks and tennis courts, and wastewater service only to two RV parks.

Subdivision	*Developed Lots*	*Homes Completed*
Clear View Estates	138	0
Far Hills, Hawthorn Ridge & Shelter Bay	170	132
Twin Shores 1 & 2	194	179
French Quarter 1, 2 & 3	188	73
Lake Breeze 1 & 2	102	75
Lake Breeze 3	89	0
Rancho Escondido 1 & 2	60	59
Totals	941	518

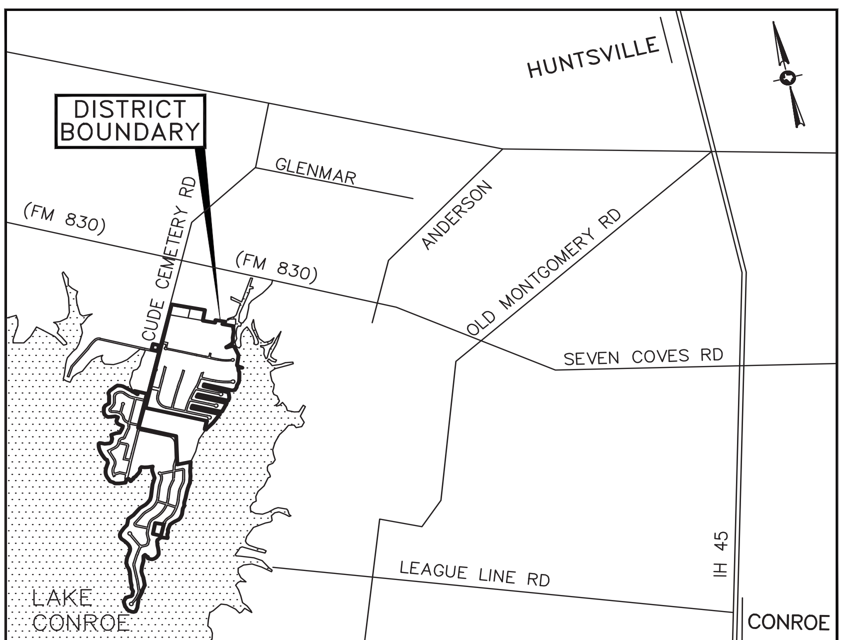
Map of the District



Location Map of the District



LOCATION MAP
MONTGOMERY COUNTY, TX
ZIP CODE: 77318



VICINITY MAP
N.T.S.

FAR HILLS UTILITY DISTRICT

LOCATION MAP

LANGFORD ENGINEERING INC.
Consulting Engineers

1080 W. Sam Houston Pkwy N. Ste 200
Houston, Texas 77043-5014
Ph. 713-461-3530 Fax 713-932-7505
TBPE FIRM #449

DESIGN : S.M.C.	JOB NO. 233-003 CONT. NO. 110
DRAWN : S.M.C.	DATE : MARCH 2020
CHECKED : T.B.H.	SCALE : VERT. HORIZ. N.T.S.
APPROVED : T.B.H.	SHEET NO. 1 OF 1

E:\Current Proj\233Gen – Far Hills\Exhibits\Location Map\Far Hills Location Vicinity Map.dwg Mar 04, 2020–11:10am stevenc

Photographs Taken in the District (March 2020)











DISTRICT DEBT

Debt Statement

2019 Taxable Assessed Valuation (100% of Market Value)	$190,919,206	(a)
Direct Debt		
Outstanding Bonds (As of April 1, 2020)	$9,675,000	
Less: The Refunded Bonds	(2,015,000)	
The Bonds	2,195,000	
Total Direct Debt	$9,855,000	
Estimated Overlapping Debt	8,930,852	(b)
Direct and Estimated Overlapping Debt	$18,785,852	
Direct Debt Ratios:		
Direct Debt to Value	5.16%	
Direct & Estimated Overlapping Debt to Value	9.84%	
Average Annual Debt Service Requirements (2020/42)	$64,024	
Maximum Annual Debt Service Requirements (2042)	$656,288	
Fund Balances as of April 9, 2020 (Cash & Investments)		
General Fund	$2,592,541	
Debt Service Fund	$637,934	
Capital Projects Fund	$245,935	

(a) Certified by the Montgomery County Appraisal District (the "Appraisal District"). See "TAX PROCEDURES."
(b) See "Estimated Overlapping Debt."

Estimated Overlapping Debt

The following table indicates the indebtedness, defined as outstanding bonds payable from ad valorem taxes, of governmental entities within which the District is located and the estimated percentages and amounts of such indebtedness attributable to property within the District. This information is based upon data secured from the individual jurisdiction and/or the Texas Municipal Reports. Such figures do not indicate the tax burden levied by the applicable taxing jurisdictions for operation and maintenance or for other purposes. See "TAX DATA--Estimated Overlapping Taxes."

Jurisdiction	***Debt As Of April 1, 2020***	***Overlapping Percent***	***Overlapping Amount***
Lone Star College System	$579,645,000	0.090%	$521,681
Montgomery County (a)	522,350,000	0.327%	1,708,085
Willis Independent School District	145,107,984	4.618%	6,701,087
Estimated Overlapping Debt			$8,930,852
The District (Includes the Bonds and deletes the Refunded Bonds)			9,855,000
Total Direct & Estimated Overlapping Debt			$18,785,852

Debt Service Schedule

The following sets forth the debt service requirements on the District's Outstanding Bonds and the Bonds. (*Note: Totals may not add due to rounding*)

Year	***Outstanding Debt Service***	***Refunded Debt Service***	***The Bonds Principal***	***The Bonds Interest***	***The Bonds Total D/S***	***Grand Total Debt Service***
2020	$645,248	($36,943)		$21,469	$21,469	$629,774
2021	646,048	(98,554)	$40,000	50,925	90,925	638,419
2022	646,354	(97,879)	40,000	49,725	89,725	638,200
2023	646,148	(97,160)	40,000	48,725	88,725	637,713
2024	645,491	(96,348)	40,000	47,925	87,925	637,069
2025	644,366	(100,385)	45,000	47,075	92,075	636,056
2026	642,898	(94,423)	40,000	46,225	86,225	634,700
2027	646,098	(98,460)	45,000	45,375	90,375	638,013
2028	643,623	(97,410)	45,000	44,475	89,475	635,688
2029	645,457	(96,360)	45,000	43,575	88,575	637,672
2030	646,441	(95,310)	45,000	42,619	87,619	638,750
2031	646,538	(94,260)	45,000	41,606	86,606	638,884
2032	645,628	(304,203)	255,000	38,231	293,231	634,656
2033	648,710	(309,860)	270,000	32,325	302,325	641,175
2034	646,188	(314,963)	280,000	25,963	305,963	637,188
2035	647,913	(319,438)	290,000	19,194	309,194	637,669
2036	648,775	(328,188)	305,000	11,938	316,938	637,525
2037	648,903	(336,188)	325,000	4,063	329,063	641,788
2038	648,359					648,359
2039	651,650					651,650
2040	648,675					648,675
2041	649,775					649,775
2042	656,288					656,288
	$14,885,570	($3,016,328)	$2,195,000	$661,431	$2,856,431	$14,725,674

Average Annual Debt Service (2020/2042) $ 640,247
Maximum Annual Debt Service (2042) $ 656,288

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 sufficient amount to pay the principal of and interest on the Bonds and any additional bonds payable from taxes which the District may hereafter issue (see "RISK FACTORS – 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 above under "THE BONDS – Source of and Security for Payment." Under Texas law, the Board may also levy and collect annual ad valorem taxes for the operation and maintenance of the District and the System and for the payment of certain contractual obligations. At an election held within the District on May 4, 1972, the voters in the District authorized the levy of a maintenance and operation tax without limitation as to rate. Currently, a maintenance and operation tax of $0.339 per $100 assessed value is levied within the District.

Property Tax Code and County-Wide Appraisal Districts

Title I of 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 (the "Appraisal District") has the responsibility of appraising property for all taxing units within the County including the District. Such appraisal values will be 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; certain farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually-owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons 65 years or older and certain disabled persons, to the extent deemed advisable by the Board of Directors of the District. The District currently grants a $30,000 homestead exemption to persons who are 65 years of age or older and to disabled homestead owners. The District may be required to offer such exemptions if a majority of voters approve same at an election. The District would be required to call an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the preceding election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District's obligation to pay tax supported debt incurred prior to adoption of the exemption by the District. Furthermore, the District must grant exemptions to disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces, if requested, but only to the maximum extent of between $5,000 and $12,000 depending upon the disability rating of the veteran claiming the exemption. A veteran who receives a disability rating of 100% is entitled to an exemption for the full value of the veteran's residence homestead. Furthermore, qualifying surviving spouses of persons 65 years of age and older are entitled to receive a resident homestead exemption equal to the exemption received by the deceased spouse. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. This exemption will also apply to a residence homestead that was donated by a charitable organization at some cost to such veterans. Also, the surviving spouse of a member of the armed forces who was killed in action is entitled to an exemption of the total appraised value of the surviving spouse's residence homestead if the surviving spouse has not remarried since the service member's death and said property was the service member's residence homestead at the time of death. Such exemption may be transferred to a subsequent residence homestead of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

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

<u>Residential Homestead Exemption</u>: The Tax Code authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) of the appraised value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of a homestead exemption may be considered each year, but must be adopted before July 1. The District currently grants no percentage homestead exemption.

<u>Freeport Goods Exemption</u>: 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 2012 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 2013 and subsequent years, such Goods-in-Transit Exemption includes tangible personal property acquired in or imported into Texas for storage purposes only if such property is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit property. A taxing unit must exercise its option to tax goods-in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law. The District has taken official action to allow taxation of all such goods-in-transit personal property for all prior and subsequent years.

Tax Abatement

The County or the City may designate all or part of the area within the District as a reinvestment zone. Thereafter, the City (after annexation of the land within the District), the County, and the District, at the option and discretion of each entity, may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the District, for a period of up to ten (10) years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with the terms of the tax abatement. Each taxing jurisdiction has discretion to determine terms for its tax abatement agreements without regard to the terms approved by the other taxing jurisdictions. Currently, no part of the District has been designated as a reinvestment zone.

Valuation of Property for Taxation

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

The Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its market value. 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. Provisions of the Tax Code are complex and are not fully summarized here. Landowners wishing to avail themselves of the agricultural use, open space or timberland designation or residential real property inventory designation must apply for the designation and the appraiser is required by the Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions while claiming it as to another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous five years for agricultural use and taxes for the previous five years for open space land and timberland.

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 reappraisals will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone or county-wide basis. The District, however, at its expense, has the right to obtain from the Appraisal District a current estimate of appraised values within the District or an estimate of any new property or improvements within the District. While such current estimate of appraised values may serve to indicate the rate and extent of growth of taxable values within the District, it cannot be used for establishing a tax rate within the District until such time as the Appraisal District chooses to formally include such values on its appraisal roll.

District and Taxpayer Remedies

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

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

Levy and Collection of Taxes

The District is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. The rate of taxation is set by the Board of Directors, after the legally required notice has been given to owners of property within the District, based upon: a) the valuation of property within the District as of the preceding January 1, and b) the amount required to be raised for debt service, maintenance purposes and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent if not paid before February 1 of the year following the year in which imposed. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. For those taxes billed at a later date and that become delinquent on or after June 1, they will also incur an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. The delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, may be rejected 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 continues to accrue during the period of deferral.

Operation and Maintenance Tax Rates

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

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

Special Taxing Units

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

Developed Districts

Developed Districts that adopt a total tax rate that would impose more than1.035 times the amount of the total tax imposed by the district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead, subject to certain homestead exemptions for the preceding tax year, plus any unused increment rates, as calculated and described in Section 26.013 of the Tax Code, are required to hold an election within the district to determine whether to approve the adopted total tax rate. If the adopted total tax rate is not approved at the election, the total tax rate for a Developed District is the current year's debt service and contract tax rate plus 1.035 times the previous year's operation and maintenance tax rate plus any unused increment rates. In addition, if any part of a Developed District lies within an area declared for disaster by the Governor of Texas or President of the United States, alternative procedures and rate limitations may apply for a temporary period. If a district qualifies as both a Special Taxing Unit and a Developed District, the district will be subject to the operation and maintenance tax threshold applicable to Special Taxing Units.

Developing Districts

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

The District

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

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

Reappraisal of Property after Disaster

The Texas Tax Code provides that the governing body of a taxing unit located within an area declared to be a disaster area by the governor of the State of Texas may authorize reappraisal of all property damaged in the disaster at its market value immediately after the disaster. 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 of that year. Beginning on the date of the disaster and for the remainder of the year, the taxing unit assesses taxes on the reappraised market value of the property. Although the Texas governor declared Harris County (and therefore the District) a disaster area after Hurricane Harvey, the District did not authorize a reappraisal of property in the District.

Tax Payment Installments after Disaster

Certain qualified taxpayers, including owners of residential homesteads, located within a natural disaster area and whose property has been damaged physically 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 taxpayer pays at least one-fourth (1/4) 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 (6) months of the delinquency date. The District does not anticipate that taxpayers in the District, if any, that choose to pay taxes in installments as a result of an prior disaster will have a material effect on the District's finances or its ability to pay debt service on the Bonds.

TAX DATA

General

All taxable property within the District is subject to the assessment, levy and collection by the District of a continuing, direct annual ad valorem tax, without legal limitation as to rate or amount, sufficient to pay principal of and interest on the Outstanding Bonds, the Bonds, and any future tax-supported bonds which may be issued from time to time as may be authorized. Taxes are levied by the District each year against the District's assessed valuation as of January 1 of that year. Taxes become due October 1 of such year, or when billed, and become delinquent after January 31 of the following year. The Board covenants in the Bond Order to assess and levy for each year that all or any part of the Bonds remain outstanding and unpaid a tax ample and sufficient to produce funds to pay the principal and interest on the Bonds when due. The actual rate of such tax will be determined from year to year as a function of the District's tax base, its debt service requirements and available funds.

Tax Collection History

The following table indicates the collection history for taxes assessed by the District:

Tax Year	Assessed Valuation	Debt Tax	M&O Tax	Total Tax	Tax Levy (a)	Percent Current	Percent Total	Yr End Sept. 30
2000	$39,039,716	$0.010	$0.560	$0.570	$257,801	98.62%	100.69%	2001
2001	40,995,402	0.045	0.520	0.565	267,367	98.60%	100.20%	2002
2002	52,948,634	0.078	0.417	0.495	303,468	97.69%	98.36%	2003
2003	58,341,588	0.070	0.425	0.495	329,817	98.19%	99.97%	2004
2004	61,583,216	0.070	0.410	0.480	335,655	98.26%	100.26%	2005
2005	67,420,097	0.070	0.410	0.480	365,776	98.07%	99.71%	2006
2006	72,877,954	0.132	0.338	0.470	383,537	96.95%	101.32%	2007
2007	87,940,409	0.132	0.338	0.470	458,531	96.69%	97.70%	2008
2008	96,713,306	0.190	0.280	0.470	500,985	98.99%	102.78%	2009
2009	115,015,649	0.194	0.276	0.470	595,812	92.93%	93.44%	2010
2010	119,233,128	0.248	0.222	0.470	616,011	99.52%	105.81%	2011
2011	120,029,122	0.240	0.242	0.482	634,047	99.39%	99.93%	2012
2012	128,387,673	0.239	0.243	0.482	677,776	99.79%	100.46%	2013
2013	133,387,327	0.221	0.260	0.481	716,561	99.60%	99.77%	2014
2014	140,478,674	0.205	0.269	0.474	740,397	99.51%	99.92%	2015
2015	153,861,433	0.369	0.281	0.650	1,000,101	99.72%	100.06%	2016
2016	166,379,405	0.358	0.292	0.650	1,081,467	98.35%	98.43%	2017
2017	178,128,368	0.370	0.304	0.674	1,200,587	98.87%	99.25%	2018
2018	183,468,365	0.357	0.317	0.674	1,236,577	99.77%	101.21%	2019
2019	190,919,177	0.335	0.339	0.674	1,286,795	96.46%	96.44%	2020 (b)

(a) Tax levy and collections include the assessed benefits levied for debt service through the 2014 tax year.
(b) Collections through March 31, 2020 only.

Estimated Overlapping Taxes

Property within the District is subject to taxation by several taxing authorities in addition to the District. Under Texas law, a tax lien attaches to property to secure the payment of all taxes, penalty, and interest for the year, on January 1 of that year. The tax lien on property in favor of the District is on a parity with tax liens of other taxing jurisdictions. In addition to ad valorem taxes required to make debt service payments on bonded debt of the District and of such other jurisdictions, certain taxing jurisdictions are authorized by Texas law to assess, levy, and collect ad valorem taxes for operation, maintenance, administrative, and/or general revenue purposes.

Taxing Entities	*2019 Tax Rates*
Lone Star College System	$0.1078
Montgomery County	0.4475
Montgomery Co. Emergency Services District No. 1	0.1000
Montgomery Co. Hospital District	0.0589
Willis Independent School District	1.2700
Overlapping Taxes	$1.9842
The District	0.6740
Total Direct & Overlapping Taxes	$2.6582

Tax Rate Calculations

The tax rate calculations set forth below are presented to indicate the tax rates per $100 of assessed valuation which would be required to meet certain debt service requirements if no growth in the District's tax base occurs beyond the 2019 Taxable Value ($190,919,177). The calculations assume collection of 98% of taxes levied and the sale of no additional bonds (other than the Bonds) by the District.

Average Annual Debt Service Requirements (2020/2042)	$640,247
Tax Rate of $0.343 on the 2019 Taxable Value produces	$641,756
Maximum Annual Debt Service Requirements (2042)	$656,288
Tax Rate of $0.351 on the 2019 Taxable Value produces	$656,724

Analysis of Tax Base

Based on information provided to the District by its Tax Assessor/Collector, the following represents the composition of property comprising the tax roll valuations for each of the years indicated:

	2019 Amount	*2019 %'s*	*2018 Amount*	*2018 %'s*
Land	$59,185,970	29.51%	$58,541,930	30.35%
Improvements	140,142,030	69.87%	133,266,740	69.09%
Personal Property	1,240,269	0.62%	1,073,276	0.56%
Subtotal	$200,568,269		$192,881,946	
Less: Exemptions	(9,649,092)		(9,250,391)	
Total Taxable Value	$190,919,177		$183,631,555	
	2017 Amount	*2017 %'s*	*2016 Amount*	*2016 %'s*
Land	$60,231,310	31.80%	$53,462,500	31.08%
Improvements	128,093,920	67.64%	117,588,750	68.35%
Personal Property	1,052,129	0.56%	979,321	0.57%
Subtotal	$189,377,359		$172,030,571	
Less: Exemptions	(11,278,991)		(10,354,226)	
Total Taxable Value	$178,098,368		$161,676,345	

Note: Values shown above may reflect original certified amounts and may differ from those shown elsewhere herein.

Principal Taxpayers

Name of Taxpayer	***Type of Property***	***2019 Taxable Ass'd Value***	***% of Total***	***2018 Taxable Ass'd Value***	***% of Total***
Broussard-Christie LP	Developer	$2,301,760	1.21%	$3,016,530	1.64%
Homeowner	Residence	1,828,000	0.96%	1,828,000	1.00%
Homeowner	Residence	1,613,850	0.85%	1,613,850	0.88%
Homeowner	Residence	1,581,520	0.83%	1,115,230	0.61%
Homeowner	Residence	1,507,640	0.79%	1,083,980	0.59%
Clearlake Asset Management	Acreage	1,330,710	0.70%	1,330,710	0.73%
Homeowner	Residence	1,313,500	0.69%	1,263,250	0.69%
Homeowner	Residence	1,305,810	0.69%	1,305,810	0.71%
Homeowner	Residence	1,198,700	0.63%	1,161,840	0.63%
Homeowner	Residence	1,195,990	0.63%	(a)	
Homeowner	Residence	(a)		1,223,690	0.67%
Total--Top Ten		$15,177,480	7.96%	$14,942,890	8.14%

(a) Not among top ten this year.

THE SYSTEM

Regulation

The District's System has been designed in conformance with accepted engineering practices and the requirements of certain governmental agencies having regulatory or supervisory jurisdiction over the construction and operation of such facilities including, among others, the Texas Commission on Environmental Quality ("TCEQ"), the City of Conroe and the Montgomery County Engineering Department. During construction, facilities are subject to inspection by the District's Engineer and the foregoing governmental agencies.

Operation of the District's System is subject to regulation by, among others, the United States Environmental Protection Agency and the TCEQ. In many cases, regulations promulgated by these agencies have become effective only recently and are subject to further development and revision.

Description of the System

According to the District's Engineer, the total number of connections projected for the District at full development of approximately 435.9007 acres located in the District is 1,084 equivalent connections to serve the projected population of approximately 2,647 persons. A description of the primary components of the System follows and is based upon information supplied by the Engineer based on drawings and data furnished by others.

Proceeds of the sale of the Outstanding Bonds were used to finance the construction or acquisition of underground water supply, water distribution lines, wastewater collection lines, lift stations and stormwater drainage facilities to serve an aggregate of approximately 714 fully developed single-family lots in the District, along with commercial properties in the District, for a total of approximately 382 acres currently developed within the District. Of the remaining approximately 53 developable acres within the District, future bonds will provide for the reimbursement to the developer of the underground utilities. Approximately 6.8 acres of land within the District are designated for public use, rights-of-way and easements not considered as developable. The major trunk sewers and distribution lines were previously constructed to serve existing and future development; other lines will be added as development occurs.

- Wastewater System -

The District has constructed a 230,000 gallons per day ("gpd") wastewater treatment plant, capable of serving 767 connections. This facility represents the initial phase of an ultimate plant with a capacity of 700,000 gpd (average flow).

- Water System -

The District currently owns a complete water plant, with three (3) active water wells with a combined capacity of 1,476 gallons per minute ("gpm"), two (2) ground storage tanks with a combined capacity of 278,575 gallons, two (2) 10,000 gallon hydropneumatic tanks, three (3) 500 gpm booster pumps, electrical controls and appurtenant equipment.

The District has no existing interconnect with any other water system.

- Stormwater Drainage -

All developed areas within the District have underground storm sewers that flow to an open channel drainage system which eventually discharge into Lake Conroe.

Rate Order

The District's utility rate order, subject to change from time to time by Board, was amended January 9, 2020, effective February 1, 2020, and is summarized in part below:

-Water Rates-

Residential	
First 2,000 gallons	$18.00 minimum
Next 3,000 gallons	$1.37/1,000 gallons
Next 5,000 gallons	$1.50/1,000 gallons
Next 5,000 gallons	$2.12/1,000 gallons
Next 5,000 gallons	$2.62/1,000 gallons
Next 5,000 gallons	$2.87/1,000 gallons
Next 5,000 gallons	$3.37/1,000 gallons
Next 15,000 gallons	$3.50/1,000 gallons
Over 50,000 gallons	$4.00/1,000 gallons

In addition, each customer will pay $0.10 per 1,000 gallons of water used for the San Jacinto River Authority assessments.

-Sewer Rates-
(Based on water consumption)

Residential	
First 5,000 gallons	$33.00 minimum
Over 5,000 gallons	$0.17/1,000 gallons

Historical Operations of the General Operating Fund

The following statement sets forth in condensed form the historical operations 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 information has been prepared based upon information obtained from the District's audited financial statements (except for the fiscal year ending December 31, 2019, which was extracted from District records), reference to which is made for further and complete information.

	Fiscal Year Ended December 31,					
	2019(a)	2018	2017	2016	2015	2014
Revenues						
Property Taxes	$588,050	$537,563	$478,453	$432,649	$377,382	$346,651
Water/Sewer Service	411,372	426,731	474,177	489,946	481,718	416,034
Tap Connections	26,475	30,075	22,650	19,300	83,316	84,520
Interest on Investments	40,314	19,636	7,411	1,189	859	981
Other Revenues	11,409	13,153	12,499	105,643	84,152	14,094
Total Revenues	$1,077,620	$1,027,158	$995,190	$1,048,727	$1,027,42	$862,280
Expenses						
Professional Fees	$91,327	$82,252	$125,047	$140,364	$108,080	$90,130
Contracted Services	105,018	102,480	82,990	101,614	109,351	120,662
Utilities	54,640	52,791	63,519	48,815	77,524	60,548
Repairs/Maintenance	336,483	202,555	242,234	417,365	402,737	96,986
Other Expenses	119,870	114,515	189,460	228,019	241,125	291,036
Total Expenditures	$707,338	$554,593	$703,250	$936,177	$938,817	$659,362
Net Revenue (Expense)	$370,282	$472,565	$291,940	$112,550	$88,610	$202,918
Beginning Fund Balance	1,471,819	944,095	750,500	233,086	(471,581)	(586,466)
Capital Outlay	(930,562)	(113,435)	(83,714)	0	0	(60,528)
Sale of Capacity	0	75,291	0	0	0	0
Developer Contribution	897,243	83,689	0	0	0	0
Transfer from Other Funds	145,511	24,244	0	288,603	236,723	0
Capital Lease Debt Service	(14,631)	(14,630)	(14,631)	0	0	0
Capital Lease Proceeds	0	0	0	120,854	0	0
Refunding Bonds	0	0	0	(4,593)	388,988	0
Interest on Note (b)	0	0	0	0	(9,654)	(27,505)
Ending Fund Balance	$1,939,662	$1,471,819	$944,095	$750,500	$233,086	($471,581)
Ending Cash/Inv. (c)	$2,119,764	$1,848,202	$1,360,115	$681,150	$501,199	$251,593
% of Expenditures	299.68%	333.25%	193.40%	72.76%	53.39%	38.16%
Ending Active Customers	517	514	502	494	494	454

(a) Unaudited.
(b) Revenue Note refunded with proceeds of the District's Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, Series 2015.
(c) Exclusive of customer deposits.

RISK FACTORS

General

The Bonds, which are obligations of the District and are not obligations of the State of Texas, Montgomery County, Texas, the City of Conroe or any other political subdivision, will be secured by a continuing, direct, annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District. The ultimate security for payment of the principal of and interest on the Bonds depends on the ability of the District to collect from the property owners within the District all taxes levied against the property, or in the event of foreclosure, on the value of the taxable property with respect to taxes levied by the District and by other taxing authorities. At this point in the development of the District, the potential increase in taxable values of property is directly related to the demand for commercial and residential development, not only because of general economic conditions, but also due to particular factors discussed below.

The economy of the Montgomery County and southeast Texas regional area is largely dependent on the petrochemical industry. Recent decreases in the price of oil have the potential to negatively affect the economy of Montgomery County and southeast Texas and decrease housing prices and assessed valuations in the District. The District can make no prediction on what effect current or future oil prices may have on assessed valuations in the District or on the Montgomery County economy generally.

Recent Extreme Weather Events; Hurricane Harvey

The greater Houston area, including the District, is subject to occasional severe weather events, including tornadoes, flooding, 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 Houston area, including Harris County, sustained widespread rain damage and flooding as a result of Hurricane Harvey's landfall along the Texas Gulf Coast on August 25, 2017, and historic levels of rainfall during the succeeding four days.

According to the District, the System operated without material damage; however, the wastewater treatment plant lost several electrical components which were replaced/repaired. The flood waters caused structural flooding of approximately two homes during the Hurricane Harvey event. The District cannot predict the effect that additional extreme weather events may have upon the District and the Gulf Coast. Additional extreme weather events have the potential to cause damage within the District and along the Gulf Coast generally that could have a negative effect on taxable assessed valuations in the District and the economy of the District and the region.

If a future weather event significantly damaged taxable property 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

<u>Ponding (or Pluvial) Flood</u>: 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.

Factors Affecting Taxable Values and Tax Payments

Economic Factors: The growth of taxable values in the District is directly related to the vitality of the commercial development and housing and building industry in the Houston metropolitan area. The housing and building industry has historically been a cyclical industry, affected by both short and long-term interest rates, availability of mortgage and development funds, labor conditions and general economic conditions. During the late 1980's, an oversupply of single-family residential housing in the Houston metropolitan market and the general downturn in the Houston economy adversely affected the local residential development and construction industries. In addition to a decline in housing demand, mortgage foreclosure by private banks and government and financial institutions depressed housing prices and the value of residential real estate in the Houston metropolitan area. The Houston economy is still dependent on energy prices and a precipitous decline in such prices could result in additional adverse effects on the economy.

Maximum Impact on District 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 Taxable Valuation is $190,919,177. See "TAX DATA." After issuance of the Bonds, the maximum annual debt service requirement (2042) is $656,288 and the average annual debt service requirements (2020/2042) is $640,247. Assuming no increase or decrease from the 2019 Taxable Valuation and no use of funds other than tax collections, tax rates of $0.351 and $0.343 per $100 assessed valuation at a 98% collection rate against the 2019 Assessed Valuation, respectively, would be necessary to pay such debt service requirements. The Board levied a tax rate of $0.335 for debt service purposes and a tax rate of $0.339 for maintenance and operation purposes for tax year 2019. See "DISTRICT DEBT--Debt Service Schedule" and "TAX DATA--Tax Rate Calculations."

Overlapping Tax Rates

Consideration should be given to the total tax burden of all overlapping jurisdictions imposed upon property located within the District as contrasted with property located in comparable real estate developments to gauge the relative tax burden on property within the District. The combination of the District's tax rate and the overlapping taxing entities' tax rates is higher than the combined tax rates levied upon certain other comparable developments in the market area. Consequently, an increase in the District's tax rate above those anticipated above may have an adverse impact on future development or the construction of taxable improvements in the District. See "DISTRICT DEBT--Estimated Overlapping Debt" and "TAX DATA--Estimated Overlapping Taxes."

Infectious Disease Outbreak–COVID-19

The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, has been characterized as a pandemic (the "Pandemic") by the World Health Organization and is currently affecting many parts of the world, including the United States and Texas. On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States and on March 13, 2020, the President of the United States declared the outbreak of COVID-19 in the United States a national emergency. Subsequently, the President's Coronavirus Guidelines for America and the United States Centers for Disease Control and Prevention called upon Americans to take actions to slow the spread of COVID-19 in the United States.

On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in Texas in response to the Pandemic. Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. The Governor has since issued a number of executive orders relating to COVID-19 preparedness and mitigation. These include, for example, the issuance on March 19, 2020 of Executive Order GA-08 which, among other things, imposed limitations on social gatherings of more than 10 people and temporarily closed school districts throughout the state through April 3, 2020, unless otherwise extended, modified, rescinded, or superseded by the Governor. In addition to the actions by the state and federal officials, certain local officials have declared a local state of disaster and have issued "shelter-in-place" orders. Many of the federal, state and local actions and policies under the aforementioned disaster declarations and shelter-in-place orders are focused on limiting instances where the public can congregate or interact with each other, which affects the operation of businesses and directly impacts the economy.

The Pandemic has negatively affected travel, commerce, and financial markets globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide. These negative impacts may reduce or negatively affect property values and ad valorem tax revenues within the District. See "TAX PROCEDURES." The Bonds are secured by an ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds as well as the District's operations and maintenance expenses.

While the potential impact of the Pandemic on the District cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the District's operations and financial condition.

Tax Collection Limitations

The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other state and local taxing authorities on the property against which taxes are levied, and such lien may be enforced by foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by (a) collection procedures, (b) a bankruptcy court's stay of tax collection procedures against a taxpayer, or (c) market conditions limiting the proceeds from a foreclosure sale of taxable property. While the District has a lien on taxable property within the District for taxes levied against such property, such lien can be foreclosed only in a judicial proceeding. Because ownership of the land within the District may become highly fragmented among a number of taxpayers, attorney's fees and other costs of collecting any such taxpayer's delinquencies could substantially reduce the net proceeds to the District from a tax foreclosure sale. Finally, any bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes against such taxpayer.

Registered Owners' Remedies

In the event of default in the payment of principal of or interest on the Bonds, the registered owners may seek a writ of mandamus requiring the District to levy adequate taxes to make such payments. Except for the remedy of mandamus, the Bond Order does not specifically provide for remedies to a registered owner in the event of a District default, nor does it provide for the appointment of a trustee 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. Although the registered owners could obtain a judgment against the District, such a judgment could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on the property of the District or sell property within the District in order to pay the principal of or interest on the Bonds. The enforceability of the rights and remedies of the registered owners may be further limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the District. For example, a Chapter IX bankruptcy proceeding by the District could delay or eliminate payment of principal or interest to the registered owners.

Bankruptcy Limitation to Registered Owners' Rights

The enforceability of the rights and remedies of registered owners may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. Subject to the requirements of Texas law 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 USC sections 901-946. The filing of such petition would automatically stay the enforcement of registered owner's remedies, including mandamus and the foreclosure of tax liens upon property within the District discussed above. 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 subdivisions.

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 a registered owner by reducing or eliminating the amount of indebtedness, deferring or rearranging the debt service schedule, reducing or eliminating the interest rate, modifying or abrogating collateral or security arrangements, substituting (in whole or in part) other securities, and otherwise compromising and modifying the rights and remedies of the registered owner's claim against a district.

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; and
- Requiring remedial action to prevent or mitigate pollution.

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

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

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

Ozone Standards, leaving the HGB area subject only to the nonattainment area requirements under the 2008 Ozone Standard (and later, the 2015 Ozone Standard).

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

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

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

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

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

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

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

Texas Pollutant Discharge Elimination System ("TPDES") permits set limits on the type and quantity of discharge, in accordance with state and federal laws and regulations. The TCEQ reissued the TPDES Construction General Permit

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

Operations of utility districts, including the District, are also potentially subject to requirements and restrictions under the CWA regarding the use and alteration of wetland areas that are within the "waters of the United States." The District must also obtain a permit from the United States Army Corps of Engineers ("USACE") if operations of the District require that wetlands be filled, dredged, or otherwise altered. In 2015, the EPA and the United States Army Corps of Engineers ("USACE") promulgated a rule known as the Clean Water Rule ("CWR") aimed at redefining "waters of the United States" over which the EPA and USACE have jurisdiction under the CWA. The CWR significantly expanded the scope of the federal government's CWA jurisdiction over intrastate water bodies and wetlands. The CWR was challenged in various jurisdictions, including the Southern District of Texas causing significant uncertainty regarding the ultimate scope of "waters of the United States" and the extent of EPA and USACE jurisdiction.

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

On December 11, 2018, the EPA and USACE released a proposed replacement definition of "waters of the United States." The proposed definition outlines six categories of waters that would be considered "waters of the United States," including traditional navigable waters, tributaries to those waters, certain ditches, certain lakes and ponds, impoundments of jurisdictional waters, and wetlands adjacent to jurisdictional waters. The proposed rule also details what are not "waters of the United States," such as features that only contain water during or in response to rainfall (e.g., ephemeral features); groundwater; many ditches, including most roadside or farm ditches; prior converted cropland; stormwater control features; and waste treatment systems.

On September 12, 2019, the EPA and USACE issued a final rule that repealed the CWR and restored the previous regulatory regime as it existed prior to the CWR. The new rule will take place 60 days after publication in the Federal Register.

Due to possible litigation challenging the new rule, there still remains significant uncertainty regarding the ultimate scope of "waters of the United States" and the extent of EPA and USACE jurisdiction. Depending on the final outcome of such proceedings, operations of municipal utility districts, including the District, could potentially be subject to additional restrictions and requirements, including permitting requirements.

Future Debt

The District has $23,075,000 in authorized but unissued unlimited tax and revenue bonds. The District has the right to issue such bonds and such additional bonds as may hereafter be approved by both the Board and voters of the District. The remaining authorized but unissued bonds may be issued by the District from time to time as needed.

The District has no plans to sell additional bonds within the next twelve months.

Proposed Tax Legislation

Tax legislation, administrative actions taken by tax authorities, and court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to state income taxation, or otherwise prevent the beneficial owners of the Bonds from realizing the full current benefit of the tax status of such interest. For example, future legislation to resolve certain federal budgetary issues may significantly reduce the benefit of, or otherwise affect, the exclusion from gross income for federal income tax purposes of interest on all state and local obligations, including the Bonds. In addition, such legislation or actions (whether currently proposed, proposed in the future or enacted) could affect the market price or marketability of the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and its impact on their individual situations, as to which Bond Counsel expresses no opinion.

2019 Legislative Session

The 86th Texas Legislature convened on January 8, 2019 and adjourned on May 27, 2019. During the 86th Regular Legislative Session, the Texas Legislature passed Senate Bill 2 ("SB 2"), a law that materially changes ad valorem tax matters, including rollback elections for maintenance tax increases, and other matters which may have an adverse impact on the District's operations and financial condition. See "TAX PROCEDURES–Operation and Maintenance Tax Rates."

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 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.

Marketability

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

Approval of the Bonds

The Attorney General of Texas must approve the legality of the Bonds prior to their delivery. The Attorney General, however, does not pass upon or guarantee the security of the Bonds as an investment, nor has the Attorney General passed upon the adequacy or accuracy of the information contained in this Official Statement.

LEGAL MATTERS

The District will furnish the Underwriter a transcript of certain certified proceedings held incident to the authorization and issuance of the Bonds, including 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 legally binding obligations of the District. The District will also furnish the legal opinion of Radcliffe Bobbitt Adams Polley PLLC, Bond Counsel, to the effect that, based upon an examination of such transcript, the Bonds are legal, valid and binding obligations of the District and to the effect that interest on the Bonds is excludable from gross income for federal income tax purposes under existing statutes, regulations, published rulings and court decisions as described below under "TAX EXEMPTION." Such opinions will express no opinions with respect to the sufficiency of the security for or the marketability of the Bonds.

Legal Review

Bond Counsel has reviewed the information appearing in this Official Statement under the sections captioned: "THE BONDS" (except the subsection "--Book-Entry-Only System"), "THE DISTRICT--Authority," "TAX PROCEDURES--Authority," "LEGAL MATTERS - Legal Opinions," "LEGAL MATTERS–Legal Review," "TAX MATTERS–Tax Exemption," and "CONTINUING DISCLOSURE OF INFORMATION" (except the subsection "--Compliance with

Prior Undertakings") solely to determine whether such information fairly summarizes matters of law with respect to the provisions of the documents referred to therein. Bond Counsel has not, however, independently verified any of the factual information contained in this Official Statement, nor has it conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the information contained herein, other than the matters discussed immediately above.

The legal fees paid to Bond Counsel for services rendered in connection with the issuance of the Bonds are based upon a percentage of the Bonds actually issued, sold and delivered and, therefore, such fees are contingent upon the sale and delivery of the Bonds.

No-Litigation Certificate

On the date of delivery of the Bonds to the Underwriter, the District will execute and deliver to the Underwriter a certificate to the effect that no litigation of any nature has been filed or is pending, as of that date, of which the District has notice, to restrain or enjoin the issuance or delivery of the Bonds, or which would affect the provisions made for their payment or security, or in any manner question the validity of the Bonds.

No Material Adverse Change

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

Legal Opinions

Issuance of the Bonds is subject to the approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and binding obligations of the District secured by the proceeds of an ad valorem tax levied, without limit as to rate or amount, upon all taxable property in the District and, based upon examination of the transcript of the proceedings incident to authorization and issuance of the Bonds, the legal opinion of Bond Counsel to the effect that (1) the Bonds are valid and legally binding obligations of the District payable from the sources and enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity, and (2) are payable from annual ad valorem taxes, which are not limited by applicable law in rate or amount, levied against all property within the District which is not exempt from taxation by or under applicable law. 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.

TAX MATTERS

In the opinion of Radcliffe Bobbitt Adams Polley PLLC, Bond Counsel ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of obligations, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislature proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the District or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The District has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the District or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the District and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the District legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the District or the Beneficial Owners to incur significant expense.

The District will designate the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3)(B) of the Internal Revenue Code of 1986, as amended. Pursuant to that section of the Code, a qualifying financial institution will be allowed a deduction from its own federal corporate income tax for the portion of interest expense the financial institution is able to allocate to designated "bank qualified" investments.

CONTINUING DISCLOSURE OF INFORMATION

The District, in the Bond Order, has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors. This information will be available free of charge from the Municipal Securities Rule Making Board ("MSRB") via the Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org.

Annual Reports

The District will provide certain financial information and operating data annually. The information to be updated includes the quantitative financial information and operating data of the general type included in this Official Statement under the headings "DISTRICT DEBT," "TAX DATA," "THE SYSTEM- Historical Operations of the General Operating Fund," and the District's audited financial statements and supplemental schedules as found in "APPENDIX A- Financial Statements of the District." The District will update and provide this information within six (6) months after the end of each of its fiscal years ending in or after 2020. The District will provide the updated information to the MSRB or any successor to its functions as a repository through its EMMA system. Any information concerning the District so provided shall be prepared in accordance with generally accepted auditing standards or other such principles as the District may be required to employ from time to time pursuant to state law or regulation, and audited if the audit report is completed within the period during which it must be provided. If the audit report of the District is not complete within such period, then the District shall provide unaudited financial statements for the applicable entity and fiscal year to the MSRB within such six month period, and audited financial statements when the audit report becomes available.

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

Event Notices

The District shall notify the MSRB, in a timely manner not in excess of ten business days after the occurrence of the event, of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders 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; (13) the consummation of a merger, consolidation, or acquisition involving the District or the System or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of trustee, if material; (15) incurrence of a financial obligation of the District or obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District or obligated person, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the financial obligation of the District or obligated person, any of which reflect financial difficulties.

For these purposes, any event described in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry or an order confirming a plan or reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District.

The term “Financial Obligation” shall mean, for purposes of the events in clauses (15) and (16), a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing, or planned debt obligation; or (iii) guarantee of (i) or (ii). The term “Financial Obligation” shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in Rule 15c2-12) has been provided to the MSRB consistent with Rule 15c2-12. The District intends the words used in clauses (15) and (16) and the definition of Financial Obligation to have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018 (the “2018 Release”) and any further written guidance provided by the SEC or its staff with respect to the amendments to Rule 15c2-12 effected by the 2018 Release.

Availability of Information From EMMA

Investors will be able to access continuing disclosure information filed with the MSRB at www.emma.msrb.org. The District has agreed in the Bond Order to provide the foregoing information only to the MSRB through EMMA. The information will be available to holders of Bonds only if the holders comply with the procedures of the MSRB or obtain the information through securities brokers who do so.

Limitations and Amendments

The District has agreed to update information and to provide notices of material events only as described above. The District has not agreed to provide other information that may be relevant or material to 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 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 (the “Rule”), taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as any 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 qualified professional unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. 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 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. The District may also amend or repeal the agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgement that such provisions of the Rule are invalid, and the District also may amend its continuing disclosure agreement in its discretion in any other manner or circumstance, but in either case only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds.

Compliance with Prior Undertakings

During the last five (5) years, the District has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

VERIFICATION OF ACCURACY OF MATHEMATICAL CALCULATIONS

The accuracy of the mathematical computations with respect to the adequacy of the funds available to provide for the payment of the Refunded Bonds will be verified by Ritz & Associates PA, a firm of independent certified public accountants. These computations will be based upon information and assumptions supplied by the Underwriter. Ritz & Associates PA has restricted its procedures to recalculating the computations provided by the Underwriter and has not evaluated or examined the assumptions or information used in the computations.

PREPARATION OF OFFICIAL STATEMENT

General

The information contained in this Official Statement has been obtained primarily from the District's records, the District's Engineer, the Appraisal District, the District's Tax Assessor/Collector and other sources believed to be reliable. The District, however, makes no representation as to the accuracy or completeness of the information derived from such sources. The summaries of the statutes, resolutions, orders, agreements and engineering and other related reports 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.

Consultants

The information contained in this Official Statement relating to the physical characteristics of the District and engineering matters and, in particular, that engineering information included in the sections captioned "THE DISTRICT" and "THE SYSTEM" has been provided by the District's Engineer and has been included herein in reliance upon the authority of such firm as experts in the field of civil engineering.

The information contained in this Official Statement relating to assessed valuations of property generally and, in particular, that information concerning historical breakdown of District valuations, principal taxpayers and collection rates contained in the sections captioned "TAX DATA" and "DISTRICT DEBT" has been provided by the Appraisal

District and the District's Tax Assessor/Collector and has been included herein in reliance upon their authority as experts in the field of tax assessing and collecting.

The information contained in this Official Statement in the section captioned "THE DISTRICT–The Developer" has been provided by the developer named in that section.

The financial statements contained in "APPENDIX A–Financial Statements of the District" have been included in reliance upon the accompanying report of the District's Auditor.

Updating the Official Statement

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

Certification of Official Statement

The District, acting through the Board in its official capacity, hereby certifies, as of the date hereof, that the information, statements and descriptions pertaining to the District and its affairs contained herein, to the best of its knowledge and belief, contain no untrue statements of a material fact and do not omit to state any material fact necessary to make the statements herein, in light of the circumstances under which they are made, not misleading. With respect to information included in this Official Statement other than that relating to the District, the Board 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 light of the circumstances under which they are made, not misleading; however, the Board can give no assurance as to the accuracy or completeness of the information derived from sources other than the District. This Official Statement is duly certified and approved by the Board of Directors of Far Hills Utility District as of the date specified on the first page hereof.

/s/ Jim Haymon
President, Board of Directors
Far Hills Utility District

ATTEST:
/s/ Melinda Shelly
Secretary, Board of Directors
Far Hills Utility District

FAR HILLS UTILITY DISTRICT

MONTGOMERY COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

DECEMBER 31, 2018

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

FAR HILLS UTILITY DISTRICT

MONTGOMERY COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

DECEMBER 31, 2018

T A B L E O F C O N T E N T S

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Far Hills Utility District
Montgomery County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Far Hills Utility District (the "District"), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Board of Directors
Far Hills Utility District

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of December 31, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

April 11, 2019

FAR HILLS UTILITY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2018

Management's discussion and analysis of Far Hills Utility District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2018. Please read it in conjunction with the District's financial statements.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The basic financial statements include: (1) combined fund financial statements and government-wide financial statements and (2) notes to 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 Fund 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 like 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 the District's assets, liabilities and, if applicable, deferred inflows and outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

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

FUND FINANCIAL STATEMENTS

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

FUND FINANCIAL STATEMENTS (Continued)

Governmental funds are reported in each of the financial statements. The focus in the fund financial 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 Fund Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities explain the differences between the two presentations and assist in understanding the differences between these two perspectives.

NOTES TO FINANCIAL STATEMENTS

The accompanying notes to 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"). The budgetary comparison schedule is included as RSI for the General Fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, liabilities and deferred inflows of resources exceeded assets by $621,364 as of December 31, 2018.

A portion of the District's net position reflects its net investment in capital assets (land, buildings and equipment as well as water, wastewater and drainage facilities, less any debt used to acquire those assets that is still outstanding).

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Summary of Changes in the Statement of Net Position

	2018	2017	Change Positive (Negative)
Current and Other Assets	$ 4,119,411	$ 3,599,485	$ 519,926
Capital Assets (Net of Accumulated Depreciation)	7,192,525	6,969,420	223,105
Total Assets	$ 11,311,936	$ 10,568,905	$ 743,031
Deferred Outflows of Resources	$ 2,798	$ 14,020	$ (11,222)
Due to Developer	$	$ 1,099,214	$ 1,099,214
Long-Term Liabilities	9,913,715	8,537,890	(1,375,825)
Other Liabilities	782,989	734,095	(48,894)
Total Liabilities	$ 10,696,704	$ 10,371,199	$ (325,505)
Deferred Inflows of Resources	$ 1,239,394	$ 1,200,587	$ (38,807)
Net Position:			
Net Investment in Capital Assets	$ (2,627,198)	$ (2,384,512)	$ (242,686)
Restricted	613,449	544,910	68,539
Unrestricted	1,392,385	850,741	541,644
Total Net Position	$ (621,364)	$ (988,861)	$ 367,497

The following table provides a summary of the District's operations for the years ended December 31, 2018, and December 31, 2017.

Summary of Changes in the Statement of Activities

	2018	2017	Change Positive (Negative)
Revenues:			
Property Taxes	$ 1,200,977	$ 1,076,755	$ 124,222
Charges for Services	473,782	511,264	(37,482)
Other Revenues	202,923	23,805	179,118
Total Revenues	$ 1,877,682	$ 1,611,824	$ 265,858
Expenses for Services	(1,510,185)	(1,274,460)	235,725
Change in Net Position	$ 367,497	$ 337,364	$ 30,133
Net Position, Beginning of Year	(988,861)	(1,326,225)	337,364
Net Position, End of Year	$ (621,364)	$ (988,861)	$ 367,497

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of December 31, 2018, were $2,443,522, an increase of $473,714 from the prior year.

The General Fund fund balance increased by $527,724, primarily due to current year revenues exceeding operating expenditures.

The Debt Service Fund fund balance increased by $64,050, primarily due to the timing of the District's debt service payments.

The Capital Projects Fund fund balance decreased by $118,060, primarily due to current year capital expenditures exceeding current year and prior year bond proceeds.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the budget during the fiscal year. Actual revenues were $178,161 more than budgeted revenues. Actual expenditures were $203,672 less than budgeted expenditures.

CAPITAL ASSETS

Capital assets as of December 31, 2018, total $7,192,525 (net of accumulated depreciation) and include land, buildings and equipment as well as the water, wastewater and drainage systems.

Capital asset events during the current fiscal year included reimbursement for engineering and construction for water, wastewater and drainage to serve French Quarter Sections 2 and 3 and Lake Breeze Section 2. Construction in progress includes water, sewer and drainage for Clear View Estates, installation of the Water Plant generator, Water Plant improvements, new Lift Station and Force Main, and Lift Station No. 1 improvements.

Capital Assets At Year-End, Net of Accumulated Depreciation

	2018	2017	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	$ 393,993	$ 393,993	$
Construction in Progress	362,770		362,770
Capital Assets, Net of Accumulated Depreciation:			
Buildings	271,570	287,106	(15,536)
Water System	3,166,476	3,269,865	(103,389)
Wastewater System	2,708,224	2,720,720	(12,496)
Drainage System	289,492	297,736	(8,244)
Total Net Capital Assets	$ 7,192,525	$ 6,969,420	$ 223,105

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

DEBT ACTIVITY

At the end of the current fiscal year, the District had total debt payable of $10,340,031. The changes in the debt position of the District during the fiscal year ended December 31, 2018, are summarized as follows:

Bond Debt

Bond Debt Payable, January 1, 2018	$ 8,820,000
Add: Series 2018 Bond Sale	1,660,000
Less: Bond Principal Paid	240,000
Bond Debt Payable, December 31, 2018	$ 10,240,000

Capital Lease Payable

Capital Lease Payable, January 1, 2018	$ 110,646
Less: Capital Lease Principal Paid	10,615
Capital Lease Payable, December 31, 2018	$ 100,031

The District's bonds carry an underlying rating of "BBB" by Standard & Poor's Ratings Services ("S&P"). The Series 2018 bonds carry an insured rating of "AA" by virtue of bond insurance by Build America Mutual Assurance Company.

CONTACTING THE DISTRICT'S FINANCIAL 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 Far Hills Utility District, c/o Radcliffe Bobbitt Adams Polley PLLC, 2929 Allen Parkway, Suite 3450, Houston, TX 77019.

FAR HILLS UTILITY DISTRICT
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET
DECEMBER 31, 2018

	General Fund	Debt Service Fund
ASSETS		
Cash	$ 951,480	$ 762,426
Investments	973,365	307,829
Cash with Tax Assessor/Collector		39,258
Receivables:		
Property Taxes	284,347	321,271
Penalty and Interest on Delinquent Taxes		
Service Accounts (Net of Allowance for Doubtful Accounts of $3,000)	27,393	
Annexation Costs	805	
Due from Other Funds	189,743	
Prepaid Costs	3,818	
Land		
Construction in Progress		
Capital Assets (Net of Accumulated Depreciation)		
TOTAL ASSETS	$ 2,430,951	$ 1,430,784
DEFERRED OUTLOWS OF RESOURCES		
Deferred Charges on Refunding Bonds	$ -0-	$ -0-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 2,430,951	$ 1,430,784

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

Capital Projects Fund	Total	Adjustments	Statement of Net Position
$ 27,923	$ 1,741,829	$	$ 1,741,829
402,540	1,683,734		1,683,734
	39,258		39,258
	605,618		605,618
		6,957	6,957
	27,393		27,393
	805		805
	189,743	(189,743)	
	3,818	9,999	13,817
		393,993	393,993
		362,770	362,770
		6,435,762	6,435,762
$ 430,463	$ 4,292,198	$ 7,019,738	$ 11,311,936
$ -0-	$ -0-	$ 2,798	$ 2,798
$ 430,463	$ 4,292,198	$ 7,022,536	$ 11,314,734

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

FAR HILLS UTILITY DISTRICT
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
DECEMBER 31, 2018

	General Fund	Debt Service Fund
LIABILITIES		
Accounts Payable	$ 38,594	$
Accrued Interest Payable		
Due to Other Funds		184,292
Security Deposits	76,643	
Other Deposits	250,377	
Long-Term Liabilities:		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
Capital Lease Payable, Due Within One Year		
Capital Lease Payable, Due After One Year		
TOTAL LIABILITIES	$ 365,614	$ 184,292
DEFERRED INFLOWS OF RESOURCES		
Property Taxes	$ 593,518	$ 669,454
FUND BALANCES		
Nonspendable: Prepaid Costs	$ 3,818	$
Restricted for Authorized Construction:		
Bond Proceeds		
Net Investment Revenues		
Restricted for Debt Service		577,038
Unassigned	1,468,001	
TOTAL FUND BALANCES	$ 1,471,819	$ 577,038
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 2,430,951	$ 1,430,784
NET POSITION		
Net Investment in Capital Assets		
Restricted for:		
Debt Service		
Capital Projects		
Unrestricted		
TOTAL NET POSITION		

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

Capital Projects Fund	Total	Adjustments	Statement of Net Position
$ 30,347	$ 68,941	$	$ 68,941
		96,027	96,027
5,451	189,743	(189,743)	
	76,643		76,643
	250,377		250,377
		280,000	280,000
		9,824,685	9,824,685
		11,001	11,001
		89,030	89,030
$ 35,798	$ 585,704	$ 10,111,000	$ 10,696,704
$ - 0 -	$ 1,262,972	$ (23,578)	$ 1,239,394
$	$ 3,818	$ (3,818)	$
282,164	282,164	(282,164)	
112,501	112,501	(112,501)	
	577,038	(577,038)	
	1,468,001	(1,468,001)	
$ 394,665	$ 2,443,522	$ (2,443,522)	$ - 0 -
$ 430,463	$ 4,292,198		
		$ (2,627,198)	$ (2,627,198)
		500,948	500,948
		112,501	112,501
		1,392,385	1,392,385
		$ (621,364)	$ (621,364)

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

FAR HILLS UTILITY DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2018

Total Fund Balances - Governmental Funds		$ 2,443,522
Amounts reported for governmental activities in the Statement of Net Position are different because:		
The difference between the net carrying amount of refunded bonds and the reacquisition price is recorded as a deferred outflow of resources 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.		2,798
Bond insurance premiums paid at closing are amortized over the term of the bonds.		9,999
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.		7,192,525
Deferred inflows of resources related to property tax revenues and deferred penalty and interest revenues on delinquent taxes for the 2017 and prior tax levies became part of recognized revenues in the governmental activities of the District.		30,535
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:		
Accrued Interest Payable	$ (96,027)	
Capital Lease Payable Within One Year	(11,001)	
Capital Lease Payable After One Year	(89,030)	
Bonds Payable Within One Year	(280,000)	
Bonds Payable After One Year	(9,824,685)	(10,300,743)
Total Net Position - Governmental Activities		$ (621,364)

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

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FAR HILLS UTILITY DISTRICT
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2018

	General Fund	Debt Service Fund
REVENUES		
Property Taxes	$ 537,563	$ 654,295
Water Service	182,120	
Wastewater Service	196,388	
San Jacinto River Authority Fees	48,223	
Penalty and Interest	4,447	9,176
Tap Connection and Inspection Fees	30,075	
Investment Revenues	19,636	6,549
Sale of Capacity	75,291	
Capital Contributions	83,689	
Miscellaneous Revenues	8,706	
TOTAL REVENUES	$ 1,186,138	$ 670,020
EXPENDITURES/EXPENSES		
Service Operations:		
Professional Fees	$ 82,252	$ 2,271
Contracted Services	102,480	13,149
Utilities	52,791	
Repairs and Maintenance	202,555	
San Jacinto River Authority Assessments	15,618	
Depreciation		
Other	98,897	1,780
Conveyance of Assets		
Capital Outlay	113,435	
Debt Service:		
Bond Principal		240,000
Capital Lease Principal	10,615	
Bond Interest		348,770
Capital Lease Interest	4,015	
Bond Issuance Costs		
TOTAL EXPENDITURES/EXPENSES	$ 682,658	$ 605,970
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	$ 503,480	$ 64,050
OTHER FINANCING SOURCES (USES)		
Transfers In(Out)	$ 24,244	$
Long-Term Debt Issued		
TOTAL OTHER FINANCING SOURCES (USES)	$ 24,244	$ -0-
NET CHANGE IN FUND BALANCES	$ 527,724	$ 64,050
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION - JANUARY 1, 2018	944,095	512,988
FUND BALANCES/NET POSITION - DECEMBER 31, 2018	$ 1,471,819	$ 577,038

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
$	$ 1,191,858	$ 9,119	$ 1,200,977
	182,120		182,120
	196,388		196,388
	48,223		48,223
	13,623	3,353	16,976
	30,075		30,075
9,052	35,237		35,237
	75,291		75,291
	83,689		83,689
	8,706		8,706
$ 9,052	$ 1,865,210	$ 12,472	$ 1,877,682
$	$ 84,523	$	$ 84,523
	115,629		115,629
	52,791		52,791
	202,555	(27,111)	175,444
	15,618		15,618
		296,373	296,373
156	100,833		100,833
		125,360	125,360
1,603,506	1,716,941	(1,716,941)	
	240,000	(240,000)	
	10,615	(10,615)	
	348,770	31,930	380,700
	4,015	(307)	3,708
159,206	159,206		159,206
$ 1,762,868	$ 3,051,496	$ (1,541,311)	$ 1,510,185
$ (1,753,816)	$ (1,186,286)	$ 1,186,286	$ -0-
$ (24,244)	$	$	$
1,660,000	1,660,000	(1,660,000)	
$ 1,635,756	$ 1,660,000	$ (1,660,000)	$ -0-
$ (118,060)	$ 473,714	$ (473,714)	$
		367,497	367,497
512,725	1,969,808	(2,958,669)	(988,861)
$ 394,665	$ 2,443,522	$ (3,064,886)	$ (621,364)

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

FAR HILLS UTILITY DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

Net Change in Fund Balances - Governmental Funds	$ 473,714
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report tax revenues when collected. However, in the government-wide financial statements, revenues are recorded in the accounting period for which the taxes are levied.	9,119
Governmental funds report penalty and interest revenues on property taxes when collected. However, in the government-wide financial statements, revenues are recorded when the penalty and interest are assessed.	3,353
Governmental funds do not account for depreciation. However, in the government-wide financial statements, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.	(296,373)
Governmental funds report capital costs as expenditures in the period purchased. However, in the government-wide financial statements, capital assets are increased by new purchases that meet the District's threshold for capitalization, and are owned and maintained by the District. All other capital assets purchases are expensed in the Statement of Activities.	1,744,052
Assets conveyed to other governmental entities are recorded as expenses in the Statement of Activities.	(125,360)
Governmental funds report principal payments on long-term debt as expenditures. However, in the government-wide financial statements, principal payments decrease long-term liabilities and the Statement of Activities is not affected.	250,615
Governmental funds report interest payments on long-term debt as expenditures in the year paid. However, in the government-wide financial statements, interest is accrued on the long-term debt through fiscal year-end.	(31,623)
Governmental funds report bond proceeds as other financing sources. Issued bonds increase long-term liabilities in the government-wide financial statements.	(1,660,000)
Change in Net Position - Governmental Activities	$ 367,497

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

NOTE 1. CREATION OF DISTRICT

Far Hills Utility District, located in Montgomery County, Texas (the "District"), was created by an Order of the Texas Water Rights Commission, presently known as the Texas Commission on Environmental Quality (the "Commission"), effective January 4, 1972. Pursuant to the provisions of Chapters 49 and 51 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, wastewater service, storm sewer drainage, irrigation, solid waste collection and disposal, including recycling, and to construct and maintain parks and recreational facilities for the residents of the District. The District is also empowered to contract for or employ its own peace officers with powers to make arrests and to establish, operate and maintain a fire department to perform all fire-fighting activities within the District. The Board of Directors held its first meeting on February 2, 1972 and the first bonds were sold on November 15, 1972.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

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

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

Financial Statement Presentation

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

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:

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

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

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

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

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

Government-Wide Financial Statements

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

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

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

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

Governmental Funds

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

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

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

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

Basis of Accounting

The District uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both "measurable and available." Measurable means the amount can be determined. Available means collectable within the current period or soon enough thereafter to pay current liabilities. The District considers revenues 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.

Property taxes considered available by the District and included in revenues include the 2017 tax levy collections during the period October 1, 2017, to December 31, 2018, taxes collected from January 1, 2018, to December 31, 2018, for all prior tax levies. The 2018 tax levy has been fully deferred to meet the District's planned expenditures in the 2019 fiscal year.

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis. As of December 31, 2018, the Debt Service Fund (Tax Account) owed the General Fund $184,292 for maintenance tax collections and the Capital Projects Fund owed the General Fund $5,451 for repairs paid by the Developer. The District transferred $24,244 from the Capital Projects Fund to the General Fund to reimburse for bond issuance costs paid in the prior year.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 an expenditure 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. Developer interest, engineering fees and certain other costs are capitalized as part of the asset.

Assets are capitalized, including infrastructure assets, if they have an original cost of $5,000 or more and a useful life of at least two years. Depreciation is calculated on each class of depreciable property using no salvage value and the straight-line method of depreciation. Estimated useful lives are as follows:

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

Budgeting

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

Pensions

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 wages subject to federal income tax withholding for payroll tax purposes only.

Measurement Focus

Measurement focus is a term used to describe which transactions are recognized within the various financial statements. In the government-wide Statement of Net Position and Statement of Activities, the governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

of operating income, changes in net position, financial position, and cash flows. All assets, liabilities, and deferred inflows and outflows of resources 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 Government Funds Balance Sheet, and the reported fund balances provide an indication of available spendable or appropriable resources. Operating statements of governmental fund types report increases and decreases in available spendable resources. Fund balances in governmental funds are classified using the following hierarchy:

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

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

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

Assigned: amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. The District has not adopted a formal policy regarding the assignment of fund balances. The District 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 2012	Series 2013	Series 2015 Refunding
Amount Outstanding - December 31, 2018	$ 2,060,000	$ 1,010,000	$ 2,125,000
Interest Rates	2.15% - 3.75%	3.50% - 5.00%	2.00% - 3.375%
Maturity Dates – Serially Beginning/Ending	April 1 2019/2023, 2027, 2031, 2034, 2037	April 1 2019/2022, 2024, 2027, 2037	April 1 2019/2025, 2027, 2029, 2031
Interest Payment Dates	April 1/October 1	April 1/October 1	April 1/October 1
Callable Dates	April 1, 2020*	April 1, 2021*	April 1, 2023*

	Series 2015	Series 2018
Amount Outstanding - December 31, 2018	$ 3,385,000	$ 1,660,000
Interest Rates	3.00% - 4.00%	3.00% - 4.00%
Maturity Dates – Serially Beginning/Ending	April 1 2019/2035, 2038, 2041	April 1 2019/2034, 2038, 2039/2042
Interest Payment Dates	April 1/October 1	April 1/October 1
Callable Dates	April 1, 2023*	April 1, 2025*

* Or any date therefore, in whole or in part, at par plus unpaid accrued interest. Series 2012 term bonds maturing April 1, 2027, 2031, 2034 and 2037, are subject to mandatory redemption beginning on April 1, 2024, 2028, 2032 and 2035, respectively. Series 2013 term bonds maturing April 1, 2024, 2027 and 2037 are subject to mandatory redemption beginning on April 1, 2023, 2025 and 2028, respectively. The Series 2015 Refunding term bonds maturing on April 1, 2027, 2029 and 2031 are subject to mandatory redemption beginning on April 1, 2026, 2028 and 2030 respectively. The Series 2015 term bonds maturing on April 1, 2038 and 2041 are subject to mandatory redemption beginning on April 1, 2036 and 2039, respectively. The Series 2018 term bonds maturing on April 1, 2038 are subject to mandatory redemption beginning on April 1, 2035.

NOTE 3. LONG-TERM DEBT (Continued)

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

	January 1, 2018	Additions	Retirements	December 31, 2018
Bonds Payable	$ 8,820,000	$ 1,660,000	$ 240,000	$ 10,240,000
Unamortized Discounts	(142,141)		(6,826)	(135,315)
Bonds Payable, Net	$ 8,677,859	$ 1,660,000	$ 233,174	$ 10,104,685

Amount Due Within One Year	$ 280,000
Amount Due After One Year	9,824,685
Bonds Payable, Net	$ 10,104,685

As of December 31, 2018, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2019	$ 280,000	$ 368,438	$ 648,438
2020	285,000	360,248	645,248
2021	295,000	351,048	646,048
2022	305,000	341,354	646,354
2023	315,000	331,148	646,148
2024-2028	1,735,000	1,487,479	3,222,479
2029-2033	2,080,000	1,152,774	3,232,774
2034-2038	2,525,000	715,137	3,240,137
2039-2042	2,420,000	186,387	2,606,387
	$ 10,240,000	$ 5,294,013	$ 15,534,013

As of December 31, 2018, the District had authorized but unissued bonds in the amount of $23,075,000 for waterworks, sanitary sewer and drainage facilities and $38,450,000 for refunding purposes.

The bonds are payable from the proceeds of an ad valorem tax and benefits tax levied upon all property subject to taxation within the District, without limitation as to rate or amount, and are further payable from and secured by a lien on and pledge of the net revenues to be received from the operation of the District's waterworks and wastewater system.

Each year the Commissioners of Appraisement define benefit sites, which are to be assessed in an amount so that the total benefit tax levy will be sufficient to pay up to 50% of the following years' debt service. The remainder of the required funds is levied in the form of an ad valorem debt service tax.

During the year ended December 31, 2018, the District levied an ad valorem debt service tax at the rate of $0.357 per $100 of assessed valuation, which resulted in a tax levy of $656,474 on the

NOTE 3. LONG-TERM DEBT (Continued)

adjusted taxable valuation of $183,886,305 for the 2018 tax year. The District did not levy a benefit tax for the 2018 tax year. The bond orders require that the District levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. See Note 7 for the maintenance tax levy.

The District's tax calendar is as follows:

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

NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS

A. The bond orders state that the District is required to provide to the Municipal Securities Rulemaking Board via the Electronic Municipal Market Access system continuing disclosure of annual financial information and operating data with respect to the District. The information is of the general type included in the annual audit report and must be filed within six months after the end of each fiscal year of the District.

B. 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 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 each 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 $1,741,829 and the bank balance was $1,578,042.

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Deposits (Continued)

Of the bank balance, $500,000 was covered by federal depository insurance and the balance was covered by collateral pledged in the name of the District held in a third-party depository.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at December 31, 2018, as listed below:

	Cash
GENERAL FUND	$ 951,480
DEBT SERVICE FUND	762,426
CAPITAL PROJECTS FUND	27,923
TOTAL DEPOSITS	$ 1,741,829

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.

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 contract with the Comptroller. TexPool measures all its portfolio assets at amortized cost for financial reporting purposes. There are no limitations or restrictions on withdrawals from the TexPool.

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

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Fund and Investment Type	Fair Value	Maturities of Less Than 1 Year
GENERAL FUND		
TexPool	$ 973,365	$ 973,365
DEBT SERVICE FUND		
TexPool	307,829	307,829
CAPITAL PROJECTS FUND		
TexPool	402,540	402,540
TOTAL INVESTMENTS	$ 1,683,734	$ 1,683,734

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At December 31, 2018, the District's investment in TexPool was rated "AAAm" by Standard and Poor's.

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

Restrictions

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

FAR HILLS UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE 6. CAPITAL ASSETS

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

	January 1, 2018	Increases	Decreases	December 31, 2018
Capital Assets Not Being Depreciated				
Land and Land Improvements	$ 393,993	$	$	$ 393,993
Construction in Progress		519,478	156,708	362,770
Total Capital Assets Not Being Depreciated	$ 393,993	$ 519,478	$ 156,708	$ 756,763
Capital Assets Cost Subject to Depreciation				
Buildings	$ 538,994	$	$	$ 538,994
Water System	4,504,856	56,559		4,561,415
Wastewater System	4,075,614	100,149		4,175,763
Drainage System	370,984			370,984
Total Capital Assets Cost Subject to Depreciation	$ 9,490,448	$ 156,708	$ - 0 -	$ 9,647,156
Less Accumulated Depreciation				
Buildings	$ 251,888	$ 15,536	$	$ 267,424
Water System	1,234,991	159,948		1,394,939
Wastewater System	1,354,894	112,645		1,467,539
Drainage System	73,248	8,244		81,492
Total Accumulated Depreciation	$ 2,915,021	$ 296,373	$ - 0 -	$ 3,211,394
Total Depreciable Capital Assets, Net of Accumulated Depreciation	$ 6,575,427	$ (139,665)	$ - 0 -	$ 6,435,762
Total Capital Assets, Net of Accumulated Depreciation	$ 6,969,420	$ 379,813	$ 156,708	$ 7,192,525

NOTE 7. MAINTENANCE TAX

On May 4, 1972, 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 fiscal year ended December 31, 2018, the District levied an ad valorem maintenance tax at the rate of $0.317 per $100 of assessed valuation, which resulted in a tax levy of $582,920 on the adjusted taxable valuation of $183,886,305 for the 2018 tax year.

NOTE 8. CAPITAL LEASE

On March 17, 2016, the District entered into an equipment lease-purchase agreement with Government Capital Corporation to finance the acquisition and installation of electronic water meters. The meters were expensed in repairs and maintenance. The financed amount was $120,854 with an incremental borrowing rate of 3.629%. Ten annual payments of $14,631 are due beginning March 15, 2017 and ending March 15, 2026.

NOTE 8. CAPITAL LEASE (Continued)

The following in is s schedule of future minimum lease payments under this capital lease as of December 31, 2018:

Fiscal Year	Principal	Interest	Total
2019	$ 11,001	$ 3,630	$ 14,631
2020	11,400	3,231	14,631
2021	11,813	2,817	14,630
2022	12,242	2,389	14,631
2023	12,686	1,944	14,630
2024-2026	40,889	3,003	43,892
	$ 100,031	$ 17,014	$ 117,045

The following is a summary of transitions regarding capital lease payable for the year ended December 31, 2018:

Capital Lease Payable, January 1, 2018	$ 110,646
Less: Capital Lease Principal Paid	10,615
Capital Lease Payable, December 31, 2018	$ 100,031
Capital Lease Payable:	
Due Within One Year	$ 11,001
Due After One Year	89,030
Capital Lease Payable, December 31, 2018	$ 100,031

NOTE 9. UNREIMBURSED COSTS

The District has entered into agreements with a developer within the District to fund the costs related to the construction of water, wastewater and drainage facilities to serve The French Quarter on Lake Conroe, Sections 2 and 3 and Lake Breeze, Section 2. The estimated cost basis of projects funded by a developer and the related liability are recorded in the Statement of Net Assets when the project is completed and ready for use and the District operates or maintains the facility. The District reimbursed the developer in full during the current fiscal year and removed the liability.

NOTE 10. LONE STAR GROUND WATER CONSERVATION DISTRICT

The District is located within the boundaries of the Lone Star Ground Water Conservation District (the "Conservation District"). The Conservation District was created under Article 16, Section 59 of the Texas Constitution by House Bill 1842 (the "Act"), as passed by the 77th Texas Legislature, in 2001. The Act empowers the Conservation District for purposes including the acquisition and provision of surface water and groundwater for residential, commercial,

NOTE 10. LONE STAR GROUND WATER CONSERVATION DISTRICT (Continued)

industrial, agricultural, and other uses, the reduction of groundwater withdrawals, the conservation, preservation, protection, recharge, and prevention of waste of groundwater, and of groundwater reservoirs or their subdivisions, and the control of subsidence caused by withdrawal of water from those groundwater reservoirs or their subdivisions. The Conservation District is overseeing that its participants comply with subsidence district pumpage requirements.

The Conservation District charges a fee based on the amount of water pumped from a well to the owner of wells located within the boundaries of the Conservation District, unless exempted. The fee enables the Conservation District to fulfill its purpose and regulatory functions. The fee for 2018 was $0.06 per 1,000 gallons of water pumped from each well. During the current fiscal year, the District recorded an expenditure of $3,840 to the Conservation District.

NOTE 11. 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 for which the District carries commercial insurance. The District has not significantly reduced insurance coverage or had settlements which exceeded coverage amount for the past three fiscal years.

NOTE 12. SAN JACINTO RIVER AUTHORITY

On June 1, 2010, the District entered into the Contract for Groundwater Reduction Planning, Alternative Water Supply, and Related Goods and Services with the San Jacinto River Authority (the "Authority"). The District and the Authority operate within the boundaries of Lone Star Groundwater Conservation District (the "Conservation District"). See also Note 9. The Authority has developed supplies of surface water that, when taken together with groundwater withdrawals to be permitted by the Conservation District, are reasonably believed to be adequate to satisfy the total water demands of Montgomery County. A surface water treatment and transmission system (the "Project") is proposed to be designed, constructed, operated, and maintained by the Authority in order to provide phased treatment, transmission, and delivery of the Authority's surface water to regulated users for blending with groundwater supplies, so that regulated users may continue to pump groundwater. The Authority will develop a Groundwater Reduction Plan (the "GRP") for all participants. The Authority charges a fee, currently $2.64 per 1,000 gallons, based on the amount of groundwater pumped from each well. This fee enables the Authority to achieve, maintain and implement the GRP. The term of this contract expires on December 31, 2045. During the current fiscal year, the District was assessed $15,618 in relation to this contract.

NOTE 13. USE OF SURPLUS FUNDS

On May 10, 2018, the District approved the use of surplus funds in the amount of $156,758 from the Series 2018 Bonds to provide for the installation of the Water Plant generator and the construction of Lift Station improvements. This approval was in accordance with 293.83 (c) (3) (B) of the Commission rules.

NOTE 14. BOND SALE

On March 15, 2018, the District closed on the sale of its $1,660,000 Series 2018 Unlimited Tax and Revenue Bonds. Proceeds were used to reimburse the developer for water, wastewater and drainage facilities previously constructed within French Quarter Sections 2 and 3 and in Lake Breeze, Section 2; and pay issuance costs of the bonds.

FAR HILLS UTILITY DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2018

FAR HILLS UTILITY DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Property Taxes	$ 531,477	$ 537,563	$ 6,086
Water Service	185,000	182,120	(2,880)
Wastewater Service	185,000	196,388	11,388
San Jacinto River Authority Fees	70,000	48,223	(21,777)
Penalty and Interest	5,000	4,447	(553)
Tap Connection and Inspection Fees	18,000	30,075	12,075
Investment Revenues	5,000	19,636	14,636
Sale of Capacity		75,291	75,291
Developer Contributions		83,689	83,689
Miscellaneous Revenues	8,500	8,706	206
TOTAL REVENUES	$ 1,007,977	$ 1,186,138	$ 178,161
EXPENDITURES			
Services Operations:			
Professional Fees	$ 118,000	$ 82,252	$ 35,748
Contracted Services	122,000	102,480	19,520
Utilities	59,500	52,791	6,709
Repairs and Maintenance	327,700	202,555	125,145
San Jacinto River Authority Assessments	70,000	15,618	54,382
Other	174,500	98,897	75,603
Capital Outlay		113,435	(113,435)
Debt Service:			
Capital Lease Principal	10,615	10,615	
Capital Lease Interest	4,015	4,015	
TOTAL EXPENDITURES	$ 886,330	$ 682,658	$ 203,672
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	$ 121,647	$ 503,480	$ 381,833
OTHER FINANCING SOURCES(USES)			
Transfers In (Out)	$	$ 24,244	$ 24,244
NET CHANGE IN FUND BALANCE	$ 121,647	$ 527,724	$ 406,077
FUND BALANCE - JANUARY 1, 2018	944,095	944,095	
FUND BALANCE - DECEMBER 31, 2018	$ 1,065,742	$ 1,471,819	$ 406,077

See accompanying independent auditor's report.

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FAR HILLS UTILITY DISTRICT

SUPPLEMENTARY INFORMATION REQUIRED BY THE

WATER DISTRICT FINANCIAL MANAGEMENT GUIDE

DECEMBER 31, 2018

FAR HILLS UTILITY DISTRICT
SERVICES AND RATES
FOR THE YEAR ENDED DECEMBER 31, 2018

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

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

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

_______ Other (specify): __________________________________

2. RETAIL SERVICE PROVIDERS

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

Based on the rate order approved September 14, 2017, effective October 2, 2017.

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate per 1,000 Gallons over Minimum Use	Usage Levels
WATER:	$ 18.00	2,000	N	$ 1.37	2,001 to 5,000
				1.50	5,001 to 10,000
				2.12	10,001 to 15,000
				2.62	15,001 to 20,000
				2.87	20,001 to 30,000
				3.37	30,001 to 35,000
				3.50	35,001 to 50,000
				4.00	50,001 and up
WASTEWATER:	$ 33.00	5,000	N	0.17	5,001 and up
SURCHARGE:					
San Jacinto River Authority Assessments			N	$ 1.00	All
TCEQ Regulatory Assessments			N	0.5 % of water and wastewater charges	

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

Total monthly charges per 10,000 gallons usage: Water: $29.61 Wastewater: $33.85 Surcharge: 10.32 Total: $ 73.78

See accompanying independent auditor's report.

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFCs
Unmetered			x 1.0	
≤¾"	493	479	x 1.0	479
1"	30	29	x 2.5	73
1½"	1		x 5.0	
2"	3	2	x 8.0	16
3"	2		x 15.0	
4"	1	4	x 25.0	100
6"			x 50.0	
8"			x 80.0	
10"			x 115.0	
Total Water Connections	530	514		668
Total Wastewater Connections	509	493	x 1.0	493

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

Gallons pumped into system:	53,577,000	Water Accountability Ratio: 94.4% (Gallons billed and used/Gallons pumped and purchased)
Gallons billed to customers:	50,599,000	

FAR HILLS UTILITY DISTRICT
SERVICES AND RATES
FOR THE YEAR ENDED DECEMBER 31, 2018

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

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

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

5. **LOCATION OF DISTRICT:**

Is the District located entirely within one county?

Yes _X_ No ______

County or Counties in which District is located:

Montgomery County, Texas

Is the District located within a city?

Entirely _____ Partly _______ Not at all _X_

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

Entirely _X_ Partly _______ Not at all _____

ETJ's in which District is located:

City of Conroe, Texas

Are Board Members appointed by an office outside the District?

Yes _____ No _X_

See accompanying independent auditor's report.

FAR HILLS UTILITY DISTRICT
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2018

PROFESSIONAL FEES:		
Auditing	$	19,850
Engineering		16,847
Legal		45,555
TOTAL PROFESSIONAL FEES	$	82,252
CONTRACTED SERVICES:		
Bookkeeping and Billings	$	25,330
Operations		77,150
TOTAL CONTRACTED SERVICES	$	102,480
UTILITIES:		
Electricity	$	52,791
REPAIRS AND MAINTENANCE	$	202,555
ADMINISTRATIVE EXPENDITURES:		
Director Fees	$	11,500
Dues		650
Election Costs		1,325
Insurance		13,584
Office Supplies and Postage		4,472
Payroll Taxes		879
Travel and Meetings		4,600
Other		3,546
TOTAL ADMINISTRATIVE EXPENDITURES	$	40,556
CAPITAL OUTLAY	$	113,435

See accompanying independent auditor's report.

FAR HILLS UTILITY DISTRICT
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2018

TAP CONNECTIONS	$	9,040
OTHER EXPENDITURES:		
Chemicals	$	12,764
Inspection Fees		854
Laboratory Fees		16,254
Permit Fees		10,783
Commission Regulatory Assessment		1,860
San Jacinto River Authority Assessments		15,618
Sludge Hauling		6,786
TOTAL OTHER EXPENDITURES	$	64,919
DEBT SERVICE:		
Capital Lease Principal	$	10,615
Capital Lease Interest		4,015
TOTAL DEBT SERVICE	$	14,630
TOTAL EXPENDITURES	$	682,658

See accompanying independent auditor's report.

FAR HILLS UTILITY DISTRICT
INVESTMENTS
DECEMBER 31, 2018

Fund	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Accrued Interest Receivable at End of Year
GENERAL FUND					
TexPool	XXXX0002	2.5304%	Daily	$ 973,365	$ - 0 -
DEBT SERVICE FUND					
TexPool	XXXX0001	2.5304%	Daily	$ 307,829	$ - 0 -
CAPITAL PROJECTS FUND					
TexPool	XXXX0003	2.5304%	Daily	$ 402,540	$ - 0 -
TOTAL - ALL FUNDS				$ 1,683,734	$ - 0 -

See accompanying independent auditor's report.

FAR HILLS UTILITY DISTRICT
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED DECEMBER 31, 2018

	Maintenance Taxes		Debt Service Taxes	
TAXES RECEIVABLE - JANUARY 1, 2018	$ 242,804		$ 295,615	
Adjustments to Beginning Balance	172	$ 242,976	218	$ 295,833
Original 2018 Tax Levy	$ 583,494		$ 657,121	
Adjustment to 2018 Tax Levy	(574)	582,920	(647)	656,474
TOTAL TO BE ACCOUNTED FOR		$ 825,896		$ 952,307
TAX COLLECTIONS:				
Prior Years	$ 232,378		$ 282,853	
Current Year	309,171	541,549	348,183	631,036
TAXES RECEIVABLE - DECEMBER 31, 2018		$ 284,347		$ 321,271
TAXES RECEIVABLE BY YEAR:				
2018		$ 273,749		$ 308,291
2017		5,914		7,199
2016		4,002		4,906
2015		563		739
2013		41		44
2012		39		46
2011		39		46
TOTAL		$ 284,347		$ 321,271

See accompanying independent auditor's report.

FAR HILLS UTILITY DISTRICT
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED DECEMBER 31, 2018

	2018	2017	2016	2015
PROPERTY VALUATIONS:				
Land	$ 58,914,960	$ 60,231,310	$ 54,732,740	$ 49,350,440
Improvements	133,152,900	128,093,920	120,127,780	115,277,090
Personal Property	1,073,276	1,052,129	979,575	836,495
Exemptions	(9,254,831)	(11,278,991)	(10,549,820)	(10,837,902)
TOTAL PROPERTY VALUATIONS	$ 183,886,305	$ 178,098,368	$ 165,290,275	$ 154,626,123
TAX RATES PER $100 VALUATION:				
Debt Service	$ 0.357	$ 0.370	$ 0.358	$ 0.369
Maintenance**	0.317	0.304	0.292	0.281
TOTAL TAX RATES PER $100 VALUATION	$ 0.674	$ 0.674	$ 0.650	$ 0.650
BENEFIT TAX-PER LOT	$ - 0 -	$ - 0 -	$ - 0 -	$ - 0 -
Tax Rolls	$ 1,239,394	$ 1,200,587	$ 1,074,388	$ 1,005,071
Benefit Tax				
ADJUSTED TAX LEVY*	$ 1,239,394	$ 1,200,587	$ 1,074,388	$ 1,005,071
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	53.04 %	98.91 %	99.87 %	99.99 %

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

** Maintenance Tax – An unlimited tax rate was approved by voters on May 4, 1972.

See accompanying independent auditor's report.

FAR HILLS UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2018

	S E R I E S - 2 0 1 2		
Due During Fiscal Years Ending December 31	Principal Due April 1	Interest Due April 1/ October 1	Total
2019	$ 20,000	$ 74,700	$ 94,700
2020	25,000	74,185	99,185
2021	25,000	73,554	98,554
2022	25,000	72,879	97,879
2023	25,000	72,160	97,160
2024	25,000	71,348	96,348
2025	30,000	70,385	100,385
2026	25,000	69,422	94,422
2027	30,000	68,460	98,460
2028	30,000	67,410	97,410
2029	30,000	66,360	96,360
2030	30,000	65,310	95,310
2031	30,000	64,260	94,260
2032	245,000	59,203	304,203
2033	260,000	49,860	309,860
2034	275,000	39,962	314,962
2035	290,000	29,438	319,438
2036	310,000	18,187	328,187
2037	330,000	6,187	336,187
2038			
2039			
2040			
2041			
2042			
	$ 2,060,000	$ 1,113,270	$ 3,173,270

See accompanying independent auditor's report.

FAR HILLS UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2018

	S E R I E S - 2 0 1 3		
Due During Fiscal Years Ending December 31	Principal Due April 1	Interest Due April 1/ October 1	Total
2019	$ 40,000	$ 46,100	$ 86,100
2020	40,000	44,700	84,700
2021	45,000	43,156	88,156
2022	45,000	41,412	86,412
2023	50,000	39,450	89,450
2024	45,000	37,431	82,431
2025	45,000	35,463	80,463
2026	55,000	33,213	88,213
2027	55,000	30,737	85,737
2028	55,000	28,125	83,125
2029	60,000	25,250	85,250
2030	60,000	22,250	82,250
2031	65,000	19,125	84,125
2032	65,000	15,875	80,875
2033	60,000	12,750	72,750
2034	60,000	9,750	69,750
2035	60,000	6,750	66,750
2036	55,000	3,875	58,875
2037	50,000	1,250	51,250
2038			
2039			
2040			
2041			
2042			
	$ 1,010,000	$ 496,662	$ 1,506,662

See accompanying independent auditor's report.

FAR HILLS UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2018

	SERIES-2015 REFUNDING		
Due During Fiscal Years Ending December 31	Principal Due April 1	Interest Due April 1/ October 1	Total
2019	$ 135,000	$ 62,988	$ 197,988
2020	135,000	59,613	194,613
2021	140,000	55,488	195,488
2022	145,000	51,213	196,213
2023	150,000	46,788	196,788
2024	160,000	42,138	202,138
2025	165,000	37,263	202,263
2026	165,000	32,313	197,313
2027	170,000	27,288	197,288
2028	180,000	21,925	201,925
2029	185,000	16,222	201,222
2030	195,000	10,041	205,041
2031	200,000	3,375	203,375
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
2041			
2042			
	$ 2,125,000	$ 466,655	$ 2,591,655

See accompanying independent auditor's report.

FAR HILLS UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2018

	SERIES-2015		
Due During Fiscal Years Ending December 31	Principal Due April 1	Interest Due April 1/ October 1	Total
2019	$ 50,000	$ 127,706	$ 177,706
2020	50,000	126,206	176,206
2021	50,000	124,706	174,706
2022	50,000	123,206	173,206
2023	50,000	121,706	171,706
2024	55,000	120,131	175,131
2025	55,000	118,413	173,413
2026	60,000	116,506	176,506
2027	60,000	114,444	174,444
2028	60,000	112,344	172,344
2029	65,000	110,156	175,156
2030	70,000	107,750	177,750
2031	75,000	105,122	180,122
2032	75,000	102,356	177,356
2033	80,000	99,450	179,450
2034	80,000	96,450	176,450
2035	85,000	93,356	178,356
2036	85,000	90,116	175,116
2037	90,000	86,725	176,725
2038	495,000	75,391	570,391
2039	520,000	55,400	575,400
2040	550,000	34,000	584,000
2041	575,000	11,500	586,500
2042			
	$ 3,385,000	$ 2,273,140	$ 5,658,140

See accompanying independent auditor's report.

FAR HILLS UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2018

	SERIES-2018		
Due During Fiscal Years Ending December 31	Principal Due April 1	Interest Due April 1/ October 1	Total
2019	$ 35,000	$ 56,944	$ 91,944
2020	35,000	55,544	90,544
2021	35,000	54,144	89,144
2022	40,000	52,644	92,644
2023	40,000	51,044	91,044
2024	40,000	49,444	89,444
2025	40,000	47,844	87,844
2026	40,000	46,444	86,444
2027	45,000	45,169	90,169
2028	45,000	43,819	88,819
2029	45,000	42,469	87,469
2030	45,000	41,090	86,090
2031	45,000	39,656	84,656
2032	45,000	38,194	83,194
2033	50,000	36,650	86,650
2034	50,000	35,025	85,025
2035	50,000	33,369	83,369
2036	55,000	31,597	86,597
2037	55,000	29,740	84,740
2038	50,000	27,969	77,969
2039	50,000	26,250	76,250
2040	40,000	24,675	64,675
2041	40,000	23,275	63,275
2042	645,000	11,287	656,287
	$ 1,660,000	$ 944,286	$ 2,604,286

See accompanying independent auditor's report.

FAR HILLS UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2018

Due During Fiscal Years Ending December 31	ANNUAL REQUIREMENTS FOR ALL SERIES Total Principal Due	Total Interest Due	Total Principal and Interest Due
2019	$ 280,000	$ 368,438	$ 648,438
2020	285,000	360,248	645,248
2021	295,000	351,048	646,048
2022	305,000	341,354	646,354
2023	315,000	331,148	646,148
2024	325,000	320,492	645,492
2025	335,000	309,368	644,368
2026	345,000	297,898	642,898
2027	360,000	286,098	646,098
2028	370,000	273,623	643,623
2029	385,000	260,457	645,457
2030	400,000	246,441	646,441
2031	415,000	231,538	646,538
2032	430,000	215,628	645,628
2033	450,000	198,710	648,710
2034	465,000	181,187	646,187
2035	485,000	162,913	647,913
2036	505,000	143,775	648,775
2037	525,000	123,902	648,902
2038	545,000	103,360	648,360
2039	570,000	81,650	651,650
2040	590,000	58,675	648,675
2041	615,000	34,775	649,775
2042	645,000	11,287	656,287
	$ 10,240,000	$ 5,294,013	$ 15,534,013

See accompanying independent auditor's report.

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FAR HILLS UTILITY DISTRICT
CHANGES IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED DECEMBER 31, 2018

Description	Original Bonds Issued*	Bonds Outstanding January 1, 2018
Far Hills Utility District Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds - Series 2012	$ 2,160,000	$ 2,080,000
Far Hills Utility District Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds - Series 2013	1,185,000	1,045,000
Far Hills Utility District Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds - Series 2015	2,535,000	2,265,000
Far Hills Utility District Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds - Series 2015	3,470,000	3,430,000
Far Hills Utility District Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds - Series 2018	1,660,000	
TOTAL	$ 11,010,000	$ 8,820,000

Bond Authority:	Tax Bonds	Refunding Bonds
Amount Authorized by Voters	$ 35,200,000	$ 39,000,000
Amount Issued	12,125,000	550,000
Remaining to be Issued	$ 23,075,000	$ 38,450,000

See accompanying independent auditor’s report.

Current Year Transactions				
	Retirements		Bonds Outstanding	
Bonds Sold	Principal	Interest	December 31, 2018	Paying Agent
$	$ 20,000	$ 75,105	$ 2,060,000	Wells Fargo Bank N.A. Houston, TX
	35,000	47,413	1,010,000	Bank of Texas Austin, TX
	140,000	65,738	2,125,000	Bank of Texas Austin, TX
	45,000	129,131	3,385,000	Bank of Texas Austin, TX
1,660,000		31,383	1,660,000	UMB Bank, N.A. Houston, TX
$ 1,660,000	$ 240,000	$ 348,770	$ 10,240,000	

Debt Service Fund cash and investment balances as of December 31, 2018:	$ 1,109,513
Average annual debt service payment (principal and interest) for remaining term of all debt:	$ 647,251

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

FAR HILLS UTILITY DISTRICT
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS

	Amounts		
	2018	2017	2016
REVENUES			
Property Taxes	$ 537,563	$ 478,453	$ 432,649
Water Service	182,120	177,735	176,024
Wastewater Service	196,388	192,167	191,544
San Jacinto River Authority Fees	48,223	104,275	122,378
Penalty and Interest	4,447	4,509	5,958
Tap Connection and Inspection Fees	30,075	22,650	19,300
Investment Revenues	19,636	7,411	1,189
Sale of Capacity	75,291		
Developer Contributions	83,689		
Miscellaneous Revenues	8,706	7,990	99,685
TOTAL REVENUES	$ 1,186,138	$ 995,190	$ 1,048,727
EXPENDITURES			
Professional Fees	$ 82,252	$ 105,396	$ 140,364
Contracted Services	102,480	82,990	101,614
Utilities	52,791	63,519	48,815
Repairs and Maintenance	202,555	242,234	417,365
San Jacinto River Authority Assessments	15,618	82,446	122,126
Other	98,897	107,014	105,893
Capital Outlay	113,435	83,714	
Debt Service:			
Bond Issuance Costs		19,651	4,593
Capital Lease Principal	10,615	10,208	
Capital Lease Interest	4,015	4,423	
Revenue Note Interest			
TOTAL EXPENDITURES	$ 682,658	$ 801,595	$ 940,770
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	$ 503,480	$ 193,595	$ 107,957
OTHER FINANCING SOURCES (USES)			
Transfers In (Out)	$ 24,244	$	$ 288,603
Capital Lease Proceeds			120,854
Refunding Bonds			
TOTAL OTHER FINANCING SOURCES (USES)	$ 24,244	$ - 0 -	$ 409,457
NET CHANGE IN FUND BALANCE	$ 527,724	$ 193,595	$ 517,414
BEGINNING FUND BALANCE	944,095	750,500	233,086
ENDING FUND BALANCE	$ 1,471,819	$ 944,095	$ 750,500

See accompanying independent auditor's report.

			Percentage of Total Revenues				
	2015	2014	2018	2017	2016	2015	2014
	$ 377,382	$ 346,651	45.2 %	48.0 %	41.2 %	36.6 %	40.3 %
	185,494	163,387	15.4	17.9	16.8	18.1	18.9
	184,673	167,473	16.6	19.3	18.3	18.0	19.4
	111,551	85,174	4.1	10.5	11.7	10.9	9.9
	5,451	4,220	0.4	0.5	0.6	0.5	0.5
	83,316	84,520	2.5	2.3	1.8	8.1	9.8
	859	981	1.7	0.7	0.1	0.1	0.1
			6.3				
			7.1				
	78,701	9,874	0.7	0.8	9.5	7.7	1.1
	$ 1,027,427	$ 862,280	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %
	$ 108,080	$ 90,130	6.9 %	10.6 %	13.4 %	10.5 %	10.5 %
	109,351	120,662	8.6	8.3	9.7	10.6	14.0
	77,524	60,548	4.5	6.4	4.7	7.5	7.0
	402,737	96,986	17.1	24.3	39.8	39.2	11.2
	115,889	87,311	1.3	8.3	11.6	11.3	10.1
	125,236	203,725	8.3	10.8	10.1	12.2	23.6
		60,528	9.6	8.4			7.0
				2.0	0.4		
			0.9	1.0			
			0.3	0.4			
	9,654	27,505				0.9	3.2
	$ 948,471	$ 747,395	57.5 %	80.5 %	89.7 %	92.2 %	86.6 %
	$ 78,956	$ 114,885	42.5 %	19.5 %	10.3 %	7.8 %	13.4 %
	$ 236,723	$					
	388,988						
	$ 625,711	$ - 0 -					
	$ 704,667	$ 114,885					
	(471,581)	(586,466)					
	$ 233,086	$ (471,581)					

See accompanying independent auditor's report.

FAR HILLS UTILITY DISTRICT
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FIVE YEARS

	Amounts		
	2018	2017	2016
REVENUES			
Property Taxes	$ 654,295	$ 586,603	$ 567,562
Penalty and Interest	9,176	7,050	8,617
Investment Revenues	6,549	3,048	858
Miscellaneous Revenues			
TOTAL REVENUES	$ 670,020	$ 596,701	$ 577,037
EXPENDITURES			
Tax Collection Expenditures	$ 15,200	$ 11,689	$ 15,619
Debt Service Principal	240,000	230,000	185,000
Debt Service Interest and Fees	350,770	324,991	332,455
Bond Issuance Costs			
TOTAL EXPENDITURES	$ 605,970	$ 566,680	$ 533,074
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	$ 64,050	$ 30,021	$ 43,963
OTHER FINANCING SOURCES (USES)			
Refunding Bonds	$	$	$
Payment to Refunded Bond Escrow Agent			
Bond Discount			
TOTAL OTHER FINANCING SOURCES (USES)	$ - 0 -	$ - 0 -	$ - 0 -
NET CHANGE IN FUND BALANCE	$ 64,050	$ 30,021	$ 43,963
BEGINNING FUND BALANCE	512,988	482,967	439,004
ENDING FUND BALANCE	$ 577,038	$ 512,988	$ 482,967
TOTAL ACTIVE RETAIL WATER CONNECTIONS	514	502	494
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	493	494	472

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2015	2014	2018	2017	2016	2015	2014
$ 362,311	$ 368,895	97.6 %	98.3 %	98.4 %	97.4 %	97.9 %
8,551	6,691	1.4	1.2	1.5	2.3	1.8
748	1,088	1.0	0.5	0.1	0.2	0.3
549					0.1	
$ 372,159	$ 376,674	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %
$ 18,942	$ 22,581	2.3 %	2.0 %	2.7 %	5.1 %	6.0 %
135,000	355,000	35.8	38.5	32.1	36.3	94.2
209,706	241,100	52.4	54.5	57.6	56.3	64.0
144,624					38.9	
$ 508,272	$ 618,681	90.5 %	95.0 %	92.4 %	136.6 %	164.2 %
$ (136,113)	$ (242,007)	9.5 %	5.0 %	7.6 %	(36.6) %	(64.2) %
$ 2,146,012	$					
(1,993,449)						
(9,604)						
$ 142,959	$ - 0 -					
$ 6,846	$ (242,007)					
432,158	674,165					
$ 439,004	$ 432,158					
494	454					
493	438					

See accompanying independent auditor's report.

FAR HILLS UTILITY DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
DECEMBER 31, 2018

District Mailing Address	-	Far Hills Utility District 10320 Cude Cemetery Road Willis, TX 77318
District Telephone Number	-	(936) 856-0770

Board Members	Term of Office (Elected or Appointed)	Fees of Office for the year ended December 31, 2018	Expense Reimbursements for the year ended December 31, 2018	Title
Jim Haymon	11/18 11/22 (Elected)	$ 3,750	$ -0-	President
Christopher Kuhl	11/18 11/22 (Elected)	$ 2,000	$ 1,359	Vice President
Melinda M. Shelly	11/16 11/20 (Elected)	$ 3,150	$ 2,237	Secretary
H. Douglas Hall	11/18 11/22 (Elected)	$ 1,100	$ -0-	Assistant Secretary
Rich Cutler	11/16 11/20 (Elected)	$ 1,500	$ -0-	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 (TWC Sections 36.054 and 49.054): December 9, 2016

The limit on Fees of Office that a Director may receive during a fiscal year is $7,200 as set by Board Resolution (TWC Section 49.060) on July 9, 2003. Fees of Office are the amounts paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report.

FAR HILLS UTILITY DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
DECEMBER 31, 2018

	Date Hired	Fees for the year ended December 31, 2018	Title
Consultants:			
Radcliffe Bobbitt Adams Polley PLLC	09/14/94	$ 56,697	General Counsel
		$ 34,550	Bond Counsel
McCall Gibson Swedlund Barfoot PLLC	12/14/94	$ 26,800	Auditor
Myrtle Cruz, Inc.	05/01/11	$ 32,050	Bookkeeper
Perdue, Brandon, Fielder, Collins & Mott, LLP	06/09/99	$ 1,671	Delinquent Tax Attorney
Langford Engineering, Inc.	10/10/01	$ 171,157	Engineer
Blitch Associates, Inc.	11/12/09	$ 31,395	Financial Advisor
M. Marlon Ivy & Associates, Inc.	08/15/15	$ 159,618	Operator
Montgomery County Tax Assessor/Collector	10/01/15	$ 187	Tax Assessor/ Collector
Terry Holland	01/12/12	$ -0-	Investment Officer

See accompanying independent auditor's report.

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