

OFFICIAL STATEMENT DATED OCTOBER 26, 2020

THE DELIVERY OF THE BONDS IS SUBJECT TO THE OPINION OF BOND COUNSEL AS TO THE VALIDITY OF THE BONDS AND TO THE EFFECT THAT INTEREST ON THE BONDS IS EXCLUDABLE FROM THE GROSS INCOME OF THE OWNERS OF THE BONDS FOR PURPOSES OF FEDERAL INCOME TAXATION UNDER EXISTING STATUTES, REGULATIONS, PUBLISHED RULINGS, AND COURT DECISIONS, AND THAT THE BONDS ARE NOT SPECIFIED PRIVATE ACTIVITY BONDS. . SEE “LEGAL MATTERS” AND “TAX MATTERS” HEREIN FOR A DISCUSSION OF BOND COUNSEL'S OPINION.

THE BONDS HAVE BEEN DESIGNATED “QUALIFIED TAX-EXEMPT OBLIGATIONS” FOR FINANCIAL INSTITUTIONS.

BOOK-ENTRY-ONLY

Insured Rating (AGM): S&P “AA” (stable outlook)
Underlying Rating: S&P “A+”
See “MUNICIPAL BOND RATING” and “MUNICIPAL BOND INSURANCE” herein.

\$3,680,000

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 18

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

UNLIMITED TAX REFUNDING BONDS

SERIES 2020

Interest Accrues: December 1, 2020

Due: March 1, as shown on inside cover

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

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



The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by ASSURED GUARANTY MUNICIPAL CORP. See “MUNICIPAL BOND INSURANCE” herein.

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

The Bonds, when issued, will constitute valid and legally binding obligations of Montgomery County Municipal Utility District No. 18 (the “District”) and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District, as further described herein. The Bonds are obligations solely of the District and are not obligations of the State of Texas, Montgomery County, the City of Conroe or any entity other than the District. Investment in the Bonds is subject to special investment considerations described herein. See “INVESTMENT CONSIDERATIONS.”

The Bonds are offered when, as and if issued by the District, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Young & Brooks, Houston, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriter by McCall, Parkhurst & Horton L.L.P., as Underwriter’s Counsel. Delivery of the Bonds in book-entry form through DTC is expected on or about December 3, 2020.

SAMCO CAPITAL

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS

Due (<u>March 1</u>)	Principal <u>Amount</u>	Interest <u>Rate</u>	Initial Reoffering <u>Yield (a)</u>	CUSIP <u>Number (b)</u>	Due (<u>March 1</u>)	Principal <u>Amount</u>	Interest <u>Rate</u>	Initial Reoffering <u>Yield (a)</u>	CUSIP <u>Number (b)</u>
2022	\$ 370,000	3.00 %	0.45 %	613922 QL0	2026	\$ 485,000	3.00 %	1.03 %	613922 QQ9
2023	450,000	3.00	0.59	613922 QM8	2027	475,000 (c)	2.00	1.23	613922 QR7
2024	450,000	3.00	0.69	613922 QN6	2028	460,000 (c)	2.00	1.37	613922 QS5
2025	540,000	3.00	0.88	613922 QP1	2029	450,000 (c)	2.00	1.51	613922 QT3

- (a) Initial reoffering yield represents the initial offering yield to the public which has been established by the Underwriter (as herein defined) for offers to the public and which may be subsequently changed by the Underwriter and is the sole responsibility of the Underwriter. The initial reoffering yields indicated above represent the lower of the yields resulting when priced at maturity or to the first call date.
- (b) CUSIP Numbers have been assigned to the Bonds by the CUSIP Service Bureau and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Underwriter shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.
- (c) The Bonds maturing on and after March 1, 2027, are subject to redemption prior to maturity at the option of the District, in whole or from time to time in part, on March 1, 2026, or on any date thereafter, at a price equal to the principal amount thereof plus accrued interest to the date fixed for redemption. See "THE BONDS—Redemption Provisions."

TABLE OF CONTENTS

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS.....	2
USE OF INFORMATION IN OFFICIAL STATEMENT	3
OFFICIAL STATEMENT SUMMARY	4
SELECTED FINANCIAL INFORMATION	8
PLAN OF FINANCING	9
DEBT SERVICE REQUIREMENTS	11
THE BONDS	11
BOOK-ENTRY-ONLY SYSTEM	15
THE DISTRICT	16
MANAGEMENT	17
THE SYSTEM	18
UNLIMITED TAX BONDS AUTHORIZED BUT UNISSUED	20
FINANCIAL STATEMENT	21
ESTIMATED OVERLAPPING DEBT STATEMENT	22
TAX DATA	23
TAX PROCEDURES	25
WATER AND SEWER OPERATIONS.....	29
INVESTMENT CONSIDERATIONS	30
LEGAL MATTERS	36
TAX MATTERS.....	37
MUNICIPAL BOND RATING.....	39
MUNICIPAL BOND INSURANCE.....	39
SALE AND DISTRIBUTION OF THE BONDS	41
VERIFICATION OF MATHEMATICAL CALCULATIONS	42
PREPARATION OF OFFICIAL STATEMENT	42
CONTINUING DISCLOSURE OF INFORMATION	43
MISCELLANEOUS	45
DISTRICT AUDITED FINANCIAL STATEMENTS FOR	
THE FISCAL YEAR ENDED SEPTEMBER 30, 2019	APPENDIX A
SPECIMEN MUNICIPAL BOND INSURANCE POLICY	APPENDIX B

USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

All of the summaries of the statutes, orders, 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 Young & Brooks, 10000 Memorial Drive, Suite 260, Houston, Texas, 77024 upon payment of the costs of duplication.

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

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

OFFICIAL STATEMENT SUMMARY

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

THE FINANCING

The IssuerMontgomery County Municipal Utility District No. 18 (the “District”), a political subdivision of the State of Texas, is located in Montgomery County, Texas. See “THE DISTRICT.”

The Issue.....\$3,680,000 Unlimited Tax Refunding Bonds, Series 2020 (the “Bonds”) dated December 1, 2020, are issued pursuant to an order (the “Bond Order”) of the District’s Board of Directors. The Bonds will be issued as fully registered bonds maturing in each of the years and in the principal amounts and accruing interest at the rates shown on the inside cover hereof. Interest on the Bonds will accrue from December 1, 2020 and will be payable March 1 and September 1 of each year commencing March 1, 2021 (three months interest) until maturity or prior redemption and will be calculated on the basis of 360-day year consisting of twelve 30-day months.

The Bonds maturing on and after March 1, 2027 are subject to optional redemption, in whole or, from time to time, in part, on March 1, 2026, or on any date thereafter, at a price equal to the principal amount of the Bonds to be redeemed plus accrued interest thereon to the date fixed for redemption. If fewer than all the Bonds are redeemed, the particular maturity or maturities and the amounts thereof to be redeemed shall be selected by the District in integral multiples of \$5,000 in any one maturity. If fewer than all the Bonds within a maturity are redeemed, the Bonds to be redeemed shall be selected by DTC in accordance with its procedures. See “BOOK-ENTRY-ONLY SYSTEM.” The Bonds will be issued in fully registered form only, in denominations of \$5,000 or any integral multiple thereof. See “THE BONDS.”

Book-Entry-OnlyThe Bonds will be registered in the name of, and delivered only to, Cede & Co., the nominee of DTC, pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the Beneficial Owners. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC, which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the Beneficial Owners of the Bonds. See “BOOK-ENTRY- ONLY SYSTEM.”

Source of Payment.....The Bonds are payable from an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District. The Bonds are obligations solely of the District and are not obligations of the State of Texas, Montgomery County, the City of Conroe or any entity other than the District. See “THE BONDS—Source and Security for Payment.”

Use of Proceeds.....Proceeds from the sale of the Bonds, together with other lawfully available debt service funds, will be used to pay certain costs incurred in connection with the issuance of the Bonds and to currently refund and defease \$3,700,000 of the District’s Outstanding Bonds (hereafter defined) in order to achieve annual and net present value savings in the District’s annual debt service expense. The bonds to be refunded and discharged with Bond proceeds are referred to herein as the “Refunded Bonds.” After the issuance of the Bonds, \$7,015,000 principal amount of the Outstanding Bonds will remain outstanding (the “Remaining Outstanding Bonds”). See “PLAN OF FINANCING—Refunded Bonds” and “—Sources and Uses of Funds.”

Payment RecordThe District has previously issued eleven series of unlimited tax bonds, seven series of unlimited tax refunding bonds, and one series of unlimited tax and refunding bonds, of which an aggregate principal amount of \$10,715,000 is currently outstanding (the “Outstanding Bonds”). The District has never defaulted on the payment and principal and interest on the previously issued bonds. See “FINANCIAL STATEMENT.”

<i>Qualified Tax-Exempt Obligations</i>	In the Bond Order, 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. See “TAX MATTERS—Qualified Tax-Exempt Obligations.”
<i>Bond Counsel</i>	Young & Brooks, Bond Counsel, Houston, Texas.
<i>Underwriter’s Counsel</i>	McCall, Parkhurst & Horton L.L.P, Houston, Texas.
<i>Financial Advisor</i>	Masterson Advisors LLC, Houston, Texas.
<i>Paying Agent/Registrar</i>	The Bank of New York Mellon Trust Company, National Association, Dallas, Texas.
<i>Verification Agent</i>	Public Finance Partners LLC, Rockford, Minnesota. See “VERIFICATION OF MATHEMATICAL CALCULATIONS.”
<i>Municipal Bond Insurance and Rating</i>	S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC, (“S&P”) has assigned a municipal bond rating of “AA” (stable outlook) to this issue of Bonds with the understanding that, upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by ASSURED GUARANTY MUNICIPAL CORP. (“AGM” or the “Insurer”). S&P has also assigned an underlying rating of “A+” to the Bonds. An explanation of the ratings may be obtained from S&P. See “INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance,” “MUNICIPAL BOND RATING,” “MUNICIPAL BOND INSURANCE” and “APPENDIX B.”

THE DISTRICT

<i>Description</i>	The District is a political subdivision of the State of Texas, organized as a conservation and reclamation district pursuant to Chapters 49 and 54 of the Texas Water Code, as amended and Article 16, Section 59 of the Texas Constitution. The District was created by Order of the Texas Water Rights Commission, now known as the Texas Commission on Environmental Quality (the “Commission”), on September 12, 1973. The District consists of approximately 1,479 acres of land, all of which is located in the extraterritorial jurisdiction of the City of Conroe, Texas. See “THE DISTRICT.”
<i>Location</i>	The District is located in northwest Montgomery County, southwest of the F.M. Highway No. 1097 bridge over Lake Conroe, and contains approximately 9 miles of bulkheaded shoreline on the western shore of Lake Conroe. The main entrance to the Bentwater subdivision is on the south side of F.M. Highway 1097, approximately 7 miles west of Willis, Texas and Interstate Highway 45. See “THE DISTRICT.”
<i>Infectious Disease Outlook (COVID-19)</i>	The World Health Organization has declared a pandemic following the outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus (the “Pandemic”), which is currently affecting many parts of the world, including the United States and Texas. As described herein under “INVESTMENT CONSIDERATIONS—Infectious Disease Outlook (COVID-19)”, federal, state and local governments have all taken actions to respond to the Pandemic, including disaster declarations by both the President of the United States and the Governor of Texas. Such actions are focused on limiting instances where the public can congregate or interact with each other, which affects economic growth within Texas.

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

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

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

Recent Extreme Weather

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

The greater Houston area has experienced four storms exceeding a 0.2% probability (i.e. "500-year flood" events) since 2015. The most recent event was Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 26, 2017 and brought historic levels of rainfall during the successive four days. However, according to the District's Operator and Engineer, the District's System did not sustain any material damage and there was no interruption of water and sewer service. According to the District's Operator and Engineer, after investigation, it appeared that approximately 250 out of approximately 2,073 homes (at the time of the storm) within the District experienced structural flooding, water incursions or other significant damage including damage to boat slips, decks, and bulkheads on the lake as a result of Hurricane Harvey. In addition, to the knowledge of the District, no commercial improvements within the District experienced structural flooding or other damage as a result of Hurricane Harvey.

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

Status of Development.....

The land within the District is being developed as Bentwater, a yachting and country club community on Lake Conroe. Bentwater is a gated community with twenty-four hour manned access gates. Water, sanitary sewer and drainage facilities have been constructed to serve approximately 1,281 acres of single-family residential development (collectively containing approximately 2,962 single family residential lots and 16 patio home lots). The 2020 average homestead value in the District is approximately \$474,761. As of October 1, 2020, the District contained approximately 2,111 active single-family connections, 21 inactive single-family connections, 64 builder connections and 782 vacant developed lots.

A majority of the vacant developed lots are built upon on an as needed basis as spec homes by builders, or by individual owners as second homes or as primary residences upon retirement. The District can give no assurance that building on these lots will commence in the near future, if ever.

Amenities located in the District include an 11,600 square foot yacht club containing two dining rooms, a large meeting room, locker rooms and a swimming pool; a marina with approximately 228 boat slips and a boat ramp; a 33,600 square foot country club containing two dining rooms, a conference room, a golf pro shop, locker rooms and office space; a 10,000 square foot sports club with indoor fitness facilities, a day spa, a restaurant, pro shops, and multipurpose activity rooms. Other facilities include a tennis center with nine lighted courts, a swim complex with a 25-meter Junior Olympic pool, and a 36-hole golf course. The golf course consists of a driving range, two putting greens and 36 holes located within the District. Other facilities in the District include a golf maintenance barn, a Property Owners Association office building, a maintenance barn and a remote office. The Grand Pines Golf Club includes a third 18-hole golf course,

driving range, putting green, club house and related amenities. None of the Grand Pines Golf Club is located within the District boundaries, but Bentwater property owners make up the membership of the club.

In addition to the single-family residential development, the District has 154 acres of drainage and utility easements, street right-of-way, parks, recreational open spaces (including the golf course) and plant sites, 30 acres of platted commercial property and approximately 7 acres of developable but currently unplatted land. See “THE DISTRICT—Status of Development.”

INVESTMENT CONSIDERATIONS

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

SELECTED FINANCIAL INFORMATION

2020 Taxable Assessed Valuation.....	\$1,098,965,206	(a)
Gross Direct Debt Outstanding	\$10,695,000	(b)
Estimated Overlapping Debt	<u>58,598,776</u>	
Gross Direct Debt and Estimated Overlapping Debt.....	\$69,293,776	
Ratio of Gross Direct Debt to:		
2020 Taxable Assessed Valuation.....	0.97%	
Ratio of Gross Direct and Estimated Overlapping Debt to:		
2020 Taxable Assessed Valuation.....	6.31%	
2020 Debt Service Tax Rate	\$0.16	
2020 Maintenance Tax Rate.....	<u>0.16</u>	
Total	\$0.32	
Average percentage of total tax collections (2015-2019).....	99.62%	
Average Annual Debt Service Requirement (2021-2031).....	\$1,115,013	(c)
Tax Rate Required to Pay Average Annual Debt Service (2021-2031) at a 95% Collection Rate Based upon 2020 Taxable Assessed Valuation	\$0.11	
Maximum Annual Debt Service Requirement (2021).....	\$1,733,131	(c)
Tax Rate Required to Pay Maximum Annual Debt Service (2021) at a 95% Collection Rate Based upon 2020 Taxable Assessed Valuation	\$0.17	
Connections as of October 1, 2020:		
Single family residential - active.....	2,111	
Single family residential - inactive.....	21	
Builder connections.....	64	
Estimated 2020 Population	7,388	(d)

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- (a) The Montgomery Central Appraisal District (the "Appraisal District") has certified \$1,061,404,597 as of January 1, 2020. According to the Appraisal District, there are properties remaining uncertified totaling \$41,734,010. The total assessed value listed above and used for calculation purposes throughout the OFFICIAL STATEMENT includes 90% of the uncertified value for an estimated uncertified value adjusted for arbitration action of \$37,560,609. See "TAX PROCEDURES."
- (b) Includes the Bonds and the Remaining Outstanding Bonds. See "PLAN OF FINANCING—Outstanding Bonds."
- (c) See "DEBT SERVICE REQUIREMENTS."
- (d) Based upon 3.5 persons per occupied home.

OFFICIAL STATEMENT

\$3,680,000

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 18

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

UNLIMITED TAX REFUNDING BONDS

SERIES 2020

This Official Statement provides certain information in connection with the issuance by Montgomery County Municipal Utility District No. 18 (the "District") of its \$3,680,000 Unlimited Tax Refunding Bonds, Series 2020 (the "Bonds").

The Bonds are issued pursuant to the Texas Constitution, the general laws of the State of Texas, an order authorizing the issuance of the Bonds (the "Bond Order") adopted by the Board of Directors of the District (the "Board"), and City of Conroe Ordinance No. 1381-97

This Official Statement includes descriptions of, among others, 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 document. Copies of documents may be obtained from Young & Brooks, Bond Counsel, 10000 Memorial Drive, Suite 260, Houston, Texas, 77024, upon the payment of the costs of duplication.

PLAN OF FINANCING

Purpose

The Bonds are being issued to currently refund and defease a portion of the District's Unlimited Tax Refunding Bonds, Series 2013 totaling \$3,700,000 (the "Refunded Bonds") in order to achieve a net savings in the District's debt service expense. The proceeds will also be used to pay the costs of issuance of the Bonds. See "Sources and Uses of Funds." A total of \$7,015,000 in principal amount of the Outstanding Bonds (hereafter defined) will remain outstanding after the issuance of the Bonds (the "Remaining Outstanding Bonds").

Outstanding Bonds

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

Series		Original Principal Amount	Principal Amount Currently Outstanding	Refunded Bonds	Remaining Outstanding Bonds
2010	(a)	\$ 5,345,000	\$ 115,000	\$ -	\$ 115,000
2011		4,580,000	-	-	-
2012	(a)	3,165,000	945,000	-	945,000
2013	(a)	5,410,000	3,980,000	3,700,000	280,000
2016	(a)	3,270,000	1,870,000	-	1,870,000
2019	(a)	3,840,000	3,805,000	-	3,805,000
Total		\$ 25,610,000	\$ 10,715,000	\$ 3,700,000	\$ 7,015,000
The Bonds					3,680,000
The Bonds and Remaining Outstanding Bonds					\$ 10,695,000

(a) Unlimited tax refunding bonds.

Refunded Bonds

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

Maturity Date	Series
March 1	2013
2022	\$ 360,000
2023	445,000
2024	445,000
2025	540,000
2026	485,000
2027	480,000
2028	475,000
2029	470,000
	\$ 3,700,000

Redemption Date: March 1, 2021

Sources and Uses of Funds

The proceeds derived from the sale of the Bonds, exclusive of accrued interest, will be applied as follows:

Sources of Funds:	
Principal Amount of the Bonds	\$3,680,000.00
Plus: Premium on the Bonds.....	209,555.75
Plus: Transfer from Debt Service Fund	35,000.00
Total Sources of Funds.....	\$3,924,555.75
Uses of Funds:	
Deposit to Escrow Agent	\$3,763,933.28
Issuance Expenses and Underwriters' Discount (a).....	160,622.47
Total Uses of Funds	\$3,924,555.75

(a) Includes municipal bond insurance premium.

Escrow Agreement

The District will enter into an escrow agreement (the “Escrow Agreement”) with The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the “Escrow Agent”), pursuant to which a portion of the proceeds of the Bonds, and other available funds of the District, will be deposited in cash or invested in certain securities of the United States of America (the “Escrowed Securities”) and held in an escrow fund (the “Escrow Fund”) to provide for scheduled payments of principal of and interest on the Refunded Bonds until their maturity or redemption dates. At the time of delivery of the Bonds, Public Finance Partners LLC will verify to the District, the Escrow Agent, Bond Counsel, and the Underwriter that the Escrow Fund is sufficient in principal amount to pay, when due, the principal of and interest on the Refunded Bonds. See “VERIFICATION OF MATHEMATICAL CALCULATIONS.”

By the deposit of cash and any Escrowed Securities with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of the Refunded Bonds pursuant to the terms of the resolution and/or 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 pursuant to the Escrow Agreement, and such Refunded Bonds will be deemed under Texas law to be fully paid and no longer outstanding, except for the purpose of being paid from the funds provided therefor in such Escrow Agreement.

DEBT SERVICE REQUIREMENTS

The following sets forth the debt service requirements for the Outstanding Bonds, less the debt service on the Refunded Bonds (\$3,700,000 principal amount), plus the Bonds.

Year	Outstanding Bonds Debt Service Requirements	Less: Debt Service on the Refunded Bonds	Plus: Debt Service on the Bonds			Total Debt Service Requirements
			Principal	Interest	Total	
2021	\$ 1,790,219	\$ 129,500	\$ -	\$ 72,413	\$ 72,413	\$ 1,733,131
2022	1,562,494	483,200	370,000	91,000	461,000	1,540,294
2023	1,404,063	554,113	450,000	78,700	528,700	1,378,650
2024	1,362,775	538,538	450,000	65,200	515,200	1,339,438
2025	1,266,500	616,300	540,000	50,350	590,350	1,240,550
2026	1,175,613	543,363	485,000	34,975	519,975	1,152,225
2027	1,121,075	521,475	475,000	22,950	497,950	1,097,550
2028	1,073,663	499,763	460,000	13,600	473,600	1,047,500
2029	1,031,525	478,225	450,000	4,500	454,500	1,007,800
2030	371,000	-	-	-	-	371,000
2031	357,000	-	-	-	-	357,000
Total	\$ 12,515,925	\$ 4,364,475	\$ 3,680,000	\$ 433,688	\$ 4,113,688	\$ 12,265,138

Maximum Annual Debt Service Requirement (2021).....\$1,733,131
 Average Annual Debt Service Requirements (2021-2031)\$1,115,013

THE BONDS

General

The Bonds are dated December 1, 2020, and mature on March 1 in each of the years and in the principal amounts shown on the inside cover page hereof. Interest will accrue from December 1, 2020, at the rates per annum shown on the inside cover hereof, will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on March 1 and September 1 of each year, commencing March 1, 2021 (three months of interest) until the earlier of maturity or redemption. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company (“DTC”) pursuant to the Book-Entry-Only System described herein. No physical delivery of the Bonds will be made to the owners thereof. Initially, principal of and interest on the Bonds will be payable by The Bank of New York Mellon Trust Company, National Association in Dallas, Texas (the “the Paying Agent/Registrar,” “Paying Agent,” or “Registrar”) to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See “BOOK-ENTRY-ONLY SYSTEM”.

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

Authority for Issuance

At an election held within the District, voters of the District authorized a total of \$60,000,000 in unlimited tax bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities. The District has previously issued eleven series of unlimited tax bonds, seven series of unlimited tax refunding bonds, and one series of unlimited tax and refunding bonds, of which a total of \$10,715,000, in principal amount is outstanding as of October 1, 2020 (the “Outstanding Bonds”). The District currently has \$21,310,000 unlimited tax bonds authorized but unissued for purposes of construction and acquisition of facilities and improvements. See “THE BONDS— Issuance of Additional Debt.”

The Bonds are issued by the District pursuant to the terms and provisions of the Bond Order; Article XVI, Section 59 of the Texas Constitution; Chapters 49 and 54 of the Texas Water Code, as amended; Chapter 1207 of the Texas Government Code, as amended; and the City of Conroe Ordinance No. 1381-97.

Source and Security for Payment

The Bonds (together with the Remaining Outstanding Bonds and such additional tax bonds as may hereafter be issued by the District) are payable from and secured by a pledge of the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District (see "TAX PROCEDURES"). The Bonds involve certain elements of risk, and all prospective purchasers are urged to examine carefully this Official Statement with respect to the investment security of the Bonds.

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

Funds

In the Bond Order, the Debt Service Fund is confirmed, and the proceeds from all taxes levied, assessed and collected for and on account of the Bonds authorized by the Bond Order shall be deposited, as collected, in such fund. Accrued interest on the Bonds shall be deposited into the Debt Service Fund upon receipt.

Redemption Provisions

The District reserves the right, at its option, to redeem the Bonds maturing on or after March 1, 2027 prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000, on March 1, 2026, or any date thereafter, at a price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption. If fewer than all of the Bonds are to be redeemed, the particular maturity or maturities and the amounts thereof to be redeemed shall be determined by the District. If fewer than all of the Bonds of the same maturity are to be redeemed, the particular Bonds shall be selected by DTC in accordance with its procedures. See "BOOK-ENTRY-ONLY SYSTEM." Notice of each exercise of the reserved right of optional redemption shall be given by the Paying Agent/Registrar at least thirty (30) calendar days prior to the redemption date, in the manner specified in the Bond Order.

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

No Arbitrage

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

Method of Payment of Principal and Interest

In the Bond Order, the Board has appointed The Bank of New York Mellon Trust Company, National Association as Paying Agent/Registrar for the Bonds. The principal of the Bonds shall be payable, without exchange or collection charges, in any coin or currency of the United States of America which, on the date of payment, is legal tender for the payment of debts due the United States of America, upon their presentation and surrender as they respectively become due and payable, at the principal payment office of the Paying Agent/Registrar in Dallas, Texas. Interest on each Bond shall be payable by check or draft payable on each Interest Payment Date, mailed by the Paying Agent/Registrar on or before each Interest Payment Date to the registered owners as shown on the Bond register kept by the Paying Agent/Registrar ("Registered Owners") on the fifteenth (15th) day (whether or not a business day) of the month prior to each Interest Payment Date (defined herein as the "Record Date"), to the address of such Registered Owner as shown on the Paying Agent/Registrar's records (the "Register") or by such other customary banking arrangements as may be agreed to by the Paying Agent/Registrar and the Registered Owners at the risk and expense of the Registered Owners.

If the date for payment of the principal of or interest on any Bond is not a business day, then the date for such payment shall be the next succeeding business day, as defined in the Bond Order

Registration

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

Replacement of Paying Agent/Registrar

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

Issuance of Additional Debt

The District may issue additional bonds, with the approval of the Texas Commission on Environmental Quality (the "Commission") necessary to provide and maintain improvements and facilities consistent with the purposes for which the District was created. See "THE DISTRICT—General." The District's voters have authorized the issuance of a total of \$60,000,000 unlimited tax bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities and improvements and could authorize additional amounts. The District currently has \$21,310,000 of unlimited tax bonds authorized but unissued for improvements and facilities.

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

Annexation

The District is located within the extraterritorial jurisdiction of the City of Conroe, Texas (the "City"). Texas law provides that under certain circumstances, land within the District may be annexed by the City without the consent of the District, which annexation could modify the sources of and security for payment of the Bonds. If the entire District is so annexed, the City must assume the District's assets and obligations (including the Bonds) and abolish the District. No representation is made that the City will ever annex all or part of the territory within the District and assume payment of the Bonds. Moreover, no representation is made concerning the ability of the City to make debt service payments should assumption of the Bonds occur.

Strategic Partnership

The District is authorized to enter into a strategic partnership agreement with the City of Conroe (the "City") to provide the terms and conditions under which services would be provided and funded by the parties and under which the District would continue to exist for an extended period if the land within the District were to be annexed for full or limited purposes by the City. The terms of any such agreement would be determined by the City and the District, and could provide for the continuance of the District as a limited district following general purpose annexation by the City, the conversion of a limited purpose annexation to a general purpose annexation within ten years, or the payment of a fee in lieu of annexation to be derived from residential property within the District based on the costs of providing municipal services to the District. Although the City has negotiated and entered into such an agreement with several other districts in its extraterritorial jurisdiction, none is currently contemplated with respect to the District. No representation can be made regarding the future likelihood of a strategic partnership agreement or the terms thereof.

Consolidation

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

Remedies in Event of Default

Other than a writ of mandamus, the Bond Order does not provide a specific remedy for a default. Even if a Registered Owner could obtain a judgment against the District for a default in the payment of principal or interest, such judgment could not be satisfied by execution against any property of the District. If the District defaults, a Registered Owner could petition for a writ of mandamus issued by a court of competent jurisdiction compelling and requiring the District and the District's officials to observe and perform the covenants, obligations or conditions prescribed in the Bond Order. Such remedy might need to be enforced on a periodic basis. The enforcement of a claim for payment on the Bonds would be subject to the applicable provisions of the federal bankruptcy laws, any other similar laws affecting the rights of creditors of political subdivisions, and general principals of equity. Further, certain traditional legal remedies also may not be available. See "INVESTMENT CONSIDERATIONS—Registered Owners' Remedies and Bankruptcy Limitations."

Legal Investment and Eligibility to Secure Public Funds in Texas

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

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

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

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

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

Defeasance

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

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

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

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Bonds is to be transferred and how the principal of and interest on the Bonds are to be paid to and credited by The Depository Trust Company, New York, New York, (“DTC”) while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District and the Financial Advisor believe the source of such information to be reliable, but neither of the District nor the Financial Advisor takes any responsibility for the accuracy or completeness thereof.

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

General

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

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

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

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

among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

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

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

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

THE DISTRICT

General

The District is a conservation and reclamation district created by Order of the Texas Water Rights Commission, now known as the Texas Commission on Environmental Quality (the "Commission" or "TCEQ"), on September 12, 1973, in accordance with the pertinent provisions of Article XVI, Section 59 of the Texas Constitution, and Chapters 49 and 54 of the Texas Water Code. The District operates pursuant to the provisions of Chapters 49 and 54, Texas Water Code and the Rules of the Commission.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary to provide water, sanitary sewer service, storm sewer drainage, irrigation, solid waste collection and disposal, including recycling, and 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, after approval by the Commission and the voters of the District. The Commission exercises continuing supervisory jurisdiction over the District. The District is also required to observe certain requirements of the City of Conroe which presently limit the purposes for which the District may sell bonds to the acquisition, construction, repair, extension and improvement of waterworks, wastewater and drainage facilities and the refunding of outstanding debt obligations, limit the net effective interest rate on such bonds and other terms of such bonds. Construction and operation of the System is subject to the regulatory jurisdiction of additional State of Texas agencies. See "THE SYSTEM—Regulation."

Description and Location

The District consists of approximately 1,479 acres of land, all of which is located in the extraterritorial jurisdiction of the City of Conroe. The District is located in northwest Montgomery County, southwest of the F.M. Highway No. 1097 bridge over Lake Conroe, and contains approximately 9 miles of bulkheaded shoreline on the western shore of Lake Conroe. The main entrance to the Bentwater subdivision is on the south side of F.M. Highway 1097, approximately 7 miles west of Willis, Texas and Interstate Highway 45.

Status of Development

The land within the District is being developed as Bentwater, a yachting and country club community on Lake Conroe. Bentwater is a gated community with twenty-four hour manned access gates. Water, sanitary sewer and drainage facilities have been constructed to serve approximately 1,281 acres of single-family residential development (collectively containing approximately 2,962 single family residential lots and 16 patio home lots). The 2020 average homestead value in the District is approximately \$474,761. As of October 1, 2020, the District contained approximately 2,111 active single-family connections, 21 inactive single-family connections, 64 builder connections and 782 vacant developed lots.

A majority of the vacant developed lots are built upon on an as needed basis as spec homes by builders, or by individual owners as second homes or as primary residences upon retirement. The District can give no assurance that building on these lots will commence in the near future, if ever.

Amenities located in the District include an 11,600 square foot yacht club containing two dining rooms, a large meeting room, locker rooms and a swimming pool; a marina with approximately 228 boat slips and a boat ramp; a 33,600 square foot country club containing two dining rooms, a conference room, a golf pro shop, locker rooms and office space; a 10,000 square foot sports club with indoor fitness facilities, a day spa, a restaurant, pro shops, and multipurpose activity rooms. Other facilities include a tennis center with nine lighted courts, a swim complex with a 25-meter Junior Olympic pool, and a 36-hole golf course. The golf course consists of a driving range, two putting greens and 36 holes located within the District. Other facilities in the District include a golf maintenance barn, a Property Owners Association office building, a maintenance barn and a remote office. The Grand Pines Golf Club includes a third 18-hole golf course, driving range, putting green, club house and related amenities. None of the Grand Pines Golf Club is located within the District boundaries, but Bentwater property owners make up the membership of the club.

In addition to the single-family residential development, the District has 154 acres of drainage and utility easements, street right-of-way, parks, recreational open spaces (including the golf course) and plant sites, 30 acres of platted commercial property and approximately 7 acres of developable but currently unplatted land.

Community Facilities

Community facilities are available in the general vicinity of the District. Neighborhood shopping facilities including supermarkets, pharmacies, cleaners, restaurants, banking facilities and other retail and service establishments are located within seven miles of the District in Montgomery and Willis, Texas, within 15 miles in Conroe, Texas and within 30 miles in the Woodlands. Fire protection is provided by the Montgomery Fire District No. 2, Willis Fire Department and Conroe Fire Department. Children residing within the District attend schools within the Montgomery Independent School District. The nearest medical facility to the District is the Columbia Conroe Regional Medical Center in Conroe, Texas, which is located approximately fifteen miles southeast of the District. Physicians and dentists are located within seven miles of the District in Willis, Texas and within fifteen miles in Conroe, Texas. Additional hospitals, medical facilities and doctors are located within 30 miles in the Woodlands.

MANAGEMENT

Board of Directors

The District is governed by the Board of Directors of the District, consisting of five directors. The Directors and Officers of the District, together with their terms, are listed below:

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Rex Cambern	President	May 2022
Louis J. Tichacek	Vice President	May 2024
Gary Montgomery	Secretary	May 2022
Nancy Busen	Assistant Secretary	May 2024
Susan McFarland	Treasurer	May 2022

All of the Directors reside within the District. Directors are elected by the voters within the District for four-year staggered terms. Director elections are held only in even numbered years.

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

Tax Assessor/Collector

Land and improvements within the District are appraised for ad valorem taxation purposes by the Montgomery Central Appraisal District. The District's Tax Assessor/Collector is appointed by the Board of Directors of the District to collect the District's taxes. Equi-Tax Inc. is currently serving in this capacity for the District.

System Operator

The District contracts with Hays Utility Services Corporation for maintenance and operation of the District's system.

Bookkeeper

The District contracts with District Data Services, Inc. for bookkeeping services.

Engineer

The consulting engineer for the District is Bleyl & Associates.

Auditor

The District's audited financial statements for the year ended September 30, 2019 were prepared by Mark C. Eyring, CPA, PLLC. See "APPENDIX A" for a copy of the District's September 30, 2019 financial statements. The District has engaged Mark C. Eyring, CPA, PLLC to audit its financial statements for the period ended September 30, 2020.

Bond Counsel and General Counsel

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

Financial Advisor

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

THE SYSTEM

Regulation

According to the Engineer, the District's improvements have been financed from proceeds of the District's previously issued bonds and certain developer contributions as required by the rules of the Commission. The improvements have been designed, prepared and approved in accordance with the rules and regulations of the Montgomery County Engineer and the Commission.

Water Supply

The District owns and operates two water plants, which consists of four water wells with 6,600 gpm capacity, 110,000 gallons of pressure tank capacity, 2,300,000 gallons of ground storage tank capacity and 12,000 gpm booster pump capacity. According to the District Engineer, the District has adequate capacity to serve 3,000 equivalent single-family connections, which is sufficient to serve the current development in the District and the projected future build out.

Lone Star Groundwater Conservation District

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

The Conservation District requires persons and entities, including the District, that pump groundwater from wells to apply for and obtain permits for the withdrawal of groundwater under terms and conditions provided in the Conservation District's rules.

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

The Engineer for the District prepared and submitted a Groundwater Reduction Plan (“GRP”) to the Conservation District, as required, by the April 1, 2011 deadline. The GRP provided the technical data required to support the District’s planned 30% reduction in groundwater use. The District’s Water Well No. 3 and No. 4 have been constructed from bond proceeds and other funds to meet the Conservation District’s requirements at that time. These wells are in a deeper aquifer, which allowed the District to reduce pumping from their existing wells in the upper aquifer by 30%.

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

In August of 2015, dissatisfied with the production limits the Conservation District created through the rulemaking authority delegated to it by the Texas Legislature, a group of large water producers filed suit claiming that the rules the Conservation District created imposing per-producer yearly production limits on their production of groundwater were invalid because they purported to regulate the production limits on their production of groundwater in ways the Texas Legislature never authorized. On October 2, 2018, in City of Conroe, Texas et al vs. Richard J. Tram, et al, the 284th District Court of Montgomery County, Texas ruled that, as a matter of law, the core groundwater reduction regulation, which the Conservation District had imposed on large groundwater producers, was outside of the Conservation District’s authority under the Texas Water Code and was not valid. The Conservation District appealed to the Beaumont Court of Appeals for review of the decision. However, at the Conservation District board meeting held on January 23, 2019, the newly elected board announced that they unanimously agreed on a settlement offer with the large water producers, and the appeal was withdrawn. On May 17, 2019, as a result of the settlement, a Final Judgment was signed in the underlying suit, which held the key Conservation District regulations are “unlawful, void, and unenforceable.”

On February 5, 2019, the Conservation District issued its notice of impending regulatory changes to comply with the impending judgment. In addition, in March of 2019, the Conservation District adopted an amended Groundwater Management Plan and submitted the plan to the Texas Water Development Board for review and approval in accordance with the requirements of Chapter 36 of the Texas Water Code. In May of 2019, the Texas Water Development Board rejected the amended Groundwater Management Plan. The Conservation District filed notice with the Texas Water Development Board of its appeal of the rejection of the amended Groundwater Management Plan. The Conservation District’s appeal was rejected by the Texas Water Development Board on October 3, 2019. The full impact of these matters on the District is not known at this time. Regulatory changes by the Conservation District may impact the District’s production of groundwater from its wells.

The Conservation District adopted new rules for their regulatory plan on September 8, 2020. No mandatory reduction in pumping is required under the new rules.

The Conservation District currently bills permit holders, including the District, two different pumping rates depending upon the aquifer being pumped. The Jasper Aquifer pumping (the shallower aquifer) is billed at \$0.085 per 1,000 gallons pumped. The Catahoula Aquifer pumping (the deeper aquifer) is billed at \$0.06 per 1,000 gallons pumped. These fees are used to finance the Conservation District’s operations, and are subject to change. This amount is subject to future increases.

Wastewater Treatment

The District is provided wastewater treatment from its 900,000 gallon per day (“gpd”) Permanent Wastewater Treatment Plant. According to the District’s Engineer, the District’s wastewater treatment facilities have adequate capacity to serve 3,000 equivalent single-family connections.

Water Distribution, Wastewater Collection and Storm Drainage

Water distribution, wastewater collection and storm drainage facilities have been constructed to serve 1,281 acres (collectively 2,962 single family lots plus 16 patio home lots). Storm water drainage is provided by an underground collection network which outfalls directly into adjacent Lake Conroe.

100-Year Flood Plain

“Flood Insurance Rate Map” or “FIRM” means an official map of a community on which the Federal Emergency Management Agency (FEMA) has delineated the appropriate areas of flood hazards. The 1% chance of probable inundation, also known as the 100-year flood plain, is depicted on these maps. The “100-year flood plain” (or 1% chance of probable inundation) as shown on the FIRM is the estimated geographical area that would be flooded by a rain storm of such intensity to statistically have a one percent chance of occurring in any given year. Generally speaking, homes must be built above the 100-year flood plain in order to meet local regulatory requirements and to be eligible for federal flood insurance. An engineering or regulatory determination that an area is above the 100-year flood plain is not an assurance that homes built in such area will not be flooded, and a number of neighborhoods in the greater Houston area that are above the 100-year flood plain have flooded multiple times in the last several years. According to the Engineer, none of the land located within the District is located within the Federal Emergency Management Agency’s (“FEMA”) designated 100 year flood plain. A bulkhead has been constructed along the entire Lake Conroe perimeter of the District boundaries. As a result of construction of this bulkhead, land adjacent to Lake Conroe was removed from the 100 year flood plain. See “INVESTMENT CONSIDERATIONS—Recent Tropical Weather Events; Hurricane Harvey.”

Montgomery County has joined the National Flood Insurance Program and administers this program for the entire County.

Ten Year Capital Improvement Plan

The District has a Ten Year Capital Improvement Plan (“CIP”), which is prepared and updated monthly by the District’s Engineer. The CIP includes regular maintenance and improvements to the District’s water distribution, wastewater collection and storm drainage system. The CIP is included in the District’s annual operating fund budget.

UNLIMITED TAX BONDS AUTHORIZED BUT UNISSUED

<u>Date of Authorization</u>	<u>Purpose</u>	<u>Amount Authorized</u>	<u>Issued to Date</u>	<u>Amount Unissued</u>
03/18/1989	Water, Sanitary Sewer and Drainage	\$60,000,000	\$38,690,000	\$21,310,000

FINANCIAL STATEMENT

2020 Taxable Assessed Valuation.....	\$1,098,965,206 (a)
Gross Debt Outstanding (after the issuance of the Bonds).....	\$10,695,000 (b)
Estimated Overlapping Debt	<u>58,598,776</u>
Gross Direct Debt and Estimated Overlapping Debt.....	\$69,293,776
Ratio of Gross Direct Debt to:	
2020 Taxable Assessed Valuation.....	0.97%
Ratio of Gross Direct and Estimated Overlapping Debt to:	
2020 Taxable Assessed Valuation.....	6.31%

Area of District—1,479 acres
Estimated 2020 Population – 7,388 (c)

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- (a) The Montgomery Central Appraisal District (the “Appraisal District”) has certified \$1,061,404,597 as of January 1, 2020. According to the Appraisal District, there are properties remaining uncertified totaling \$41,734,010. The total assessed value listed above and used for calculation purposes throughout the OFFICIAL STATEMENT includes 90% of the uncertified value for an estimated uncertified value adjusted for arbitration action of \$37,560,609. See “TAX PROCEDURES.
- (b) Includes the Bonds and the Remaining Outstanding Bonds. See “PLAN OF FINANCING—Outstanding Bonds.”
- (c) Estimate based upon 3.5 persons per occupied home.

Cash and Investment Balances (unaudited as of October 20, 2020)

Debt Service Fund	Cash and Investments	\$750,708 (a)
Operating Fund	Cash and Investments	\$4,630,360

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- (a) The District will apply \$35,000 to the refunding of the Refunded Bonds. Neither the Bond Order nor Texas law requires the District to maintain any particular balance in such fund.

Investments of the District

The District has adopted an Investment Policy as required by the Public Funds Investment Act, Chapter 2256, Texas Government Code. The District's goal is to preserve principal and maintain liquidity while securing a competitive yield on its portfolio. Funds of the District are invested in short-term obligations of the U.S. Treasury and federal agencies, certificates of deposit insured by the Federal Deposit Insurance Corporation (“FDIC”) or secured by collateral evidenced by perfected safekeeping receipts held by a third-party bank, and public funds investment pools rated in the highest rating category by a nationally recognized rating service. The District does not currently own or intend to purchase long-term securities or derivative products.

ESTIMATED OVERLAPPING DEBT STATEMENT

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

Taxing Jurisdiction	Outstanding Bonds	As of	Overlapping	
			Percent	Amount
Montgomery County.....	\$ 509,380,000	8/31/2020	1.72%	\$ 8,761,336
Montgomery ISD.....	328,960,000	8/31/2020	15.15%	49,837,440
Total Estimated Overlapping Debt.....				\$ 58,598,776
The District.....	10,695,000 (a)	Current	100.00%	10,695,000
Total Direct and Estimated Overlapping Debt.....				\$ 69,293,776
Ratio of Estimated Direct and Overlapping Debt to 2020 Taxable Assessed Valuation.....				6.31%

(a) Includes the Bonds and the Remaining Outstanding Bonds.

Overlapping Taxes for 2020

	2020 Tax Rate per \$100 of Taxable <u>Assessed Valuation</u>
Montgomery County.....	\$ 0.45900
Montgomery Independent School District.....	1.30750
Montgomery County Hospital District.....	0.05880
Montgomery County ESD No. 2.....	0.10000
Total Overlapping Tax Rate.....	\$ 1.92530
The District.....	0.32000
Total Tax Rate.....	\$ 2.24530

TAX DATA

Tax Collections

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

Tax Year	Certified Taxable Assessed Valuation	Tax Rate	Total Tax Levy	Total Collections as of September 30, 2020 (a)	
				Amount	Percent
2015	\$ 958,007,678	\$ 0.34	\$ 3,257,253	\$ 3,255,857	99.96%
2016	1,035,020,664	0.33	3,415,584	3,413,863	99.95%
2017	1,063,543,002	0.33	3,509,696	3,501,979	99.78%
2018	1,066,355,006	0.33	3,518,973	3,503,217	99.55%
2019	1,060,897,238	0.33	3,500,961	3,469,346	99.10%

(a) Unaudited.

Tax Rate Distribution

	2020	2019	2018	2017	2016
Debt Service	\$ 0.16	\$ 0.17	\$ 0.19	\$ 0.20	\$ 0.20
Maintenance and Operations	0.16	0.16	0.14	0.13	0.13
Total	\$ 0.32	\$ 0.33	\$ 0.33	\$ 0.33	\$ 0.33

Tax Rate Limitations

Debt Service: Unlimited (no legal limit as to rate or amount).
 Maintenance: \$0.25 per \$100 Assessed Valuation

Debt Service Tax

The Board covenants in the Bond Order to levy and assess, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax adequate to provide funds to pay the principal of and interest on the Bonds. The District levied a debt service tax in 2020 at the rate of \$0.16 per \$100 assessed valuation.

Maintenance Tax

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for maintenance of the District's improvements, if such maintenance tax is authorized by vote of the District's electors. On March 18, 1989, the Board was authorized to levy such a maintenance tax in an amount not to exceed \$0.25 per \$100 of assessed valuation. The District levied a maintenance tax for 2020 at the rate of \$0.16 per \$100 assessed valuation. Such tax is in addition to taxes which the District is authorized to levy for paying principal and interest on the District's bonds

Tax Exemptions

As discussed in the section titled "TAX PROCEDURES" herein, certain property in the District may be exempt from taxation by the District. For 2020, the District has not adopted any exemptions from taxation.

Principal Taxpayers

The following table represents the principal taxpayers, the type of property, the taxable assessed value of such property and such property's certified assessed value as a percentage of the 2020 Taxable Assessed Valuation of \$1,061,404,597, which represents certified ownership as of January 1, 2020. Differences in totals may vary slightly from other information herein due to differences in dates of data. A top taxpayer list related to the uncertified portion (\$37,560,609) of the 2020 Taxable Assessed Valuation is not available.

<u>Taxpayer</u>	<u>Type of Property</u>	<u>2020 Certified Taxable Assessed Valuation</u>	<u>% of 2020 Certified Taxable Assessed Valuation</u>
Bentwater on the North Shore Ltd.	Land, Improvements & Personal	\$ 9,156,894	0.86%
Individual	Land and Improvements	3,963,200	0.37%
Individual	Land and Improvements	3,927,010	0.37%
Individual	Land and Improvements	3,223,800	0.30%
Individual	Land and Improvements	3,084,840	0.29%
Individual	Land and Improvements	2,940,000	0.28%
Individual	Land and Improvements	2,918,670	0.27%
Individual	Land and Improvements	2,828,550	0.27%
Individual	Land and Improvements	2,810,040	0.26%
Individual	Land and Improvements	2,765,850	0.26%
Total		\$ 37,618,854	3.54%

Summary of Assessed Valuation

The District's assessed value as of January 1 of each year is used by the District in establishing its tax rate (see "TAX PROCEDURES—Valuation of Property for Taxation"). The following represents the composition of certified property comprising the 2018 through 2020 Taxable Assessed Valuations. Differences in totals may vary slightly from other information herein due to differences in dates of data. A breakdown of the uncertified portion (\$37,560,609) of the 2020 Taxable Assessed Valuation is not available.

	<u>2020 Taxable Assessed Valuation</u>	<u>2019 Taxable Assessed Valuation</u>	<u>2018 Taxable Assessed Valuation</u>
Land	\$ 272,787,140	\$ 280,406,180	\$ 260,873,300
Improvements	796,840,036	785,281,223	809,825,326
Personal Property	9,146,903	13,253,228	12,805,848
Exemptions	(17,369,482)	(18,043,393)	(17,149,468)
Total Certified	\$ 1,061,404,597	\$ 1,060,897,238	\$ 1,066,355,006
Uncertified Value	37,560,609	-	-
Total	\$ 1,098,965,206	\$ 1,060,897,238	\$ 1,066,355,006

Tax Adequacy for Debt Service

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 assessed valuation which would be required to meet average annual and maximum debt service requirements if no growth in the District's tax base occurred beyond the 2020 Taxable Assessed Valuation of \$1,098,965,206 (\$1,061,404,597 certified plus \$37,560,609 uncertified). The calculations contained in the following table merely represent the tax rates required to pay principal and interest on the Bonds and the Remaining Outstanding Bonds when due, assuming no further increase or any decrease in taxable values in the District, collection of ninety-five percent (95%) of taxes levied, the sale of no additional bonds, and no other funds available for the payment of debt service. See "INVESTMENT CONSIDERATIONS—Factors Affecting Taxable Values and Tax Payments."

Average Annual Debt Service Requirement (2021-2031)	\$1,115,013
\$0.11 Tax Rate on 2020 Taxable Assessed Valuation at 95% collections.....	\$1,148,419
Maximum Annual Debt Service Requirement (2021).....	\$1,733,131
\$0.17 Tax Rate on 2020 Taxable Assessed Valuation at 95% collections.....	\$1,774,829

TAX PROCEDURES

Property Tax Code and County-Wide Appraisal District

The Texas Property Tax Code (the "Property Tax Code") requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas a single appraisal district with the responsibility for recording and appraising property for all taxing units within a county and a single appraisal review board with the responsibility for reviewing and equalizing the values established by the appraisal district. The Montgomery Central Appraisal District (the "Appraisal District") has the responsibility for appraising property for all taxing units wholly within Montgomery County, including the District. Such appraisal values are subject to review and change by the Montgomery County Appraisal Review Board (the "Appraisal Review Board"). Under certain circumstances, taxpayers and taxing units (such as the District) may appeal the orders of the Appraisal Review Board by filing a petition for review in State district court. In such event, the value of the property in question will be determined by the court or by a jury if requested by any party. Absent any such appeal, the appraisal roll, as prepared by the Appraisal District and approved by the Appraisal Review Board, must be used by each taxing jurisdiction in establishing its tax roll and tax rate. The District is eligible, along with all other conservation and reclamation districts within Montgomery County, to participate in the nomination of and vote for a member of the Board of Directors of the Appraisal District.

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property and tangible personal property in the District is subject to taxation by the District; however, it is expected that no effort will be made by the District to collect taxes on personal property other than on personal property rendered for taxation, business inventories and the property of privately owned utilities. Principal categories of exempt property include: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; farm products owned by the producer; all oil, gas and mineral interests owned by an institution of higher education; certain property owned by exclusively charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; solar and wind-powered energy devices; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years or older or under a disability for purposes of payment of disability insurance benefits under the Federal Old-Age Survivors and Disability Insurance Act to the extent deemed advisable by the Board. The District would be required to call an election on such residential homestead exemption upon petition by at least twenty percent (20%) of the number of qualified voters who voted in the District's preceding election and would be required to offer such an exemption if a majority of voters approve it at such election. For the 2020 tax year, the District has not granted an exemption of assessed valuation for persons 65 years of age and older or to individuals who are under a disability for purposes of payment of disability insurance benefits under the Federal Old-Age Survivors and Disability Insurance Act. The District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between \$5,000 and \$12,000 of assessed valuation depending upon the disability rating of the veteran, if such rating is less than 100%. A veteran who receives a disability rating of 100% is entitled to an exemption for the full value of the veteran's residence homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if (i) the residence homestead was donated by a charitable organization at no cost to the disabled veteran or, (ii) the residence was donated by a charitable organization at some cost to the disabled veteran if such cost is less than or equal to fifty percent (50%) of the total good faith estimate of the market value of the residence as of the date the donation is made. Also, the surviving spouse of (i) a member of the armed forces or, (ii) a first responder as defined under Texas law, who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

A "Freeport Exemption" applies to goods, wares, merchandise, other tangible personal property and ores, other than oil, natural gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining oil or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A "Goods-in-Transit" Exemption is applicable to certain tangible personal property, as defined by the Property Tax Code, acquired in or imported into Texas for storage purposes and which is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. The exemption excludes oil, natural gas, petroleum products, aircraft and certain special inventory including dealer's motor vehicles, dealer's vessel and outboard motor vehicle, dealer's heavy equipment and retail manufactured housing inventory. The exemption applies to covered property if it is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official

action and after public hearing, tax goods-in-transit personal property. A taxing unit must exercise its option to tax goods-in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law. However, taxing units who took official action as allowed by prior law before October 1, 2011, to tax goods-in-transit property, and who pledged such taxes for the payment of debt, may continue to impose taxes against the goods-in-transit property until the debt is discharged without further action, if cessation of the imposition would impair the obligations of the contract by which the debt was created. The District has taken official action to allow taxation of all such goods-in-transit personal property but may choose to exempt same in the future by further official action.

General Residential Homestead Exemption

Texas law authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) of the appraised value of residential homesteads, but not less than \$5,000 if any exemption is granted, from ad valorem taxation. The law provides, however, that where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. For the 2020 tax year, the District has not granted a general residential homestead exemption.

Valuation of Property for Taxation

Generally, all taxable property in the District (other than any qualifying agricultural or timber land) must be appraised by the Montgomery Central Appraisal District at one hundred percent (100%) of market value as of January 1 of each year, subject to review and approval by the Appraisal Review Board. Nevertheless, certain land may be appraised at less than market value under the Property Tax Code. Increases in the appraised value of residence homesteads are limited to 10 percent annually regardless of the market value of the property. Houses or lots held for sale by a developer or builder which remain unoccupied, are not leased or rented and produce no income are required to be assessed at the price for which they would sell as a unit to a purchaser who would continue the owner's business. Valuation of lots or houses at inventory level in future years could reduce the assessed value of such property within the District. The Property Tax Code also requires the Chief Appraiser to reduce the market value of any property by the estimated cost of any remedial action by a property owner to correct, mitigate or prevent pollution.

Certain land may be appraised at less than market value under the Property Tax Code. Upon application of a landowner, land which qualifies as "open-space land" is appraised based on the category of land, using accepted income capitalization methods applied to the average net income derived from the use of the land for agriculture and hunting or recreational leases. Upon application of a landowner, land which qualifies as "timber land" is appraised based on the category of land, using accepted income capitalization methods applied to the average net income derived from the use of the land for production of timber. In either case, if the use of land changes, an additional tax is imposed on the land equal to the difference between the taxes imposed on the land for each of the five (5) years preceding the year in which the change of use occurs and the tax that would have been imposed had the land been taxed on the basis of market value in each of those years, plus interest at an annual rate of seven percent (7%) calculated from the dates on which the differences would have become due. There are also special appraisal methods for agricultural land owned by individuals whose primary occupation and income are farming and for recreational, park, and scenic land.

Once an appraisal roll is prepared and approved by the Appraisal Review Board, it is used by the District in establishing its tax rate. The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraised values. The plan must provide for appraisal of all real property in the Appraisal District at least once every three (3) years. It is not known what frequency of reappraisal will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone or county-wide basis.

District and Taxpayer Remedies

The chief appraiser must give written notice before the Appraisal Review Board meeting to each owner if a reappraisal has resulted in an increase in value over the prior year or the value rendered by the owner, or if property not previously included on the appraisal roll has been appraised. Any owner who has timely filed notice with the Appraisal Review Board may appeal the final determination by the Appraisal Review Board of the owner's protest by filing suit in Texas district court. Prior to such appeal, however, the owner must pay the tax due on the amount of value of the property involved that is not in dispute or the amount of tax paid in the prior year, whichever is greater or the amount of tax due under the order from which the appeal is taken. In the event of such suit, the value of the property is determined by the court, or a jury if requested by any party. The District is entitled to challenge certain matters before the Appraisal Review Board, including the level of appraisal of a certain category of property, the exclusion of property from the appraisal records, the grant in whole or in part of a partial exemption, or a determination that land qualifies for special-use appraisal (agricultural or timber classification, for example). The District may not, however, protest a valuation of individual property.

Levy and Collection of Taxes

The District is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. The District adopts its tax rate each year after it receives a tax roll certified by the Appraisal District. Taxes are due upon receipt of a bill therefor, and become delinquent after January 31 of the following year or 30 days after the date billed, whichever is later, or, if billed after January 10, they are delinquent on the first day of the month next following the 21st day after such taxes are billed. A delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid beginning the first calendar month it is delinquent. A delinquent tax also incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent plus a one percent (1%) penalty for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. However, a tax delinquent on July 1 incurs a total penalty of twelve percent (12%) of the amount of the delinquent tax without regard to the number of months the tax has been delinquent, which penalty remains at such rate without further increase. If the tax is not paid by July 1, an additional penalty of up to the amount of the compensation specified in the District's contract with its delinquent tax collection attorney, but not to exceed twenty percent (20%) of the total tax, penalty and interest, may, under certain circumstances, be imposed by the District. With respect to personal property taxes that become delinquent on or after February 1 of a year and that remain delinquent sixty (60) days after the date on which they become delinquent, as an alternative to the penalty described in the foregoing sentence, an additional penalty on personal property of up to the amount specified in the District's contract with its delinquent tax attorney, but not to exceed twenty percent (20%) of the total tax, penalty and interest, may, under certain circumstances, be imposed by the District prior to July 1. The District's contract with its delinquent tax collection attorney currently specifies a twenty percent (20%) additional penalty. The District may waive penalties and interest on delinquent taxes only if (i) an error or omission of a representative of the District, including the Appraisal District, caused the failure of the taxpayer to pay taxes, (ii) the delinquent taxes are paid on or before the one-hundred and eightieth (180th) day after the taxpayer received proper notice of such delinquency and the delinquent taxes relate to a property for which the appraisal roll lists one or more certain specified inaccuracies, or (iii) the taxpayer submits evidence sufficient to show that the tax payment was delivered before the delinquency, date to the United States Postal Service or other delivery service, but an act or omission of the postal or delivery service resulted in the tax payment being considered delinquent. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency of taxes under certain circumstances. The owner of a residential homestead property who is (i) a person sixty-five (65) years of age or older, (ii) under a disability for purpose of payment of disability insurance benefits under the Federal Old Age Survivors and Disability Insurance Act, or (iii) qualifies as a disabled veteran under Texas law, is also entitled by law to pay current taxes on a residential homestead in installments or to defer the payment of taxes without penalty during the time of ownership. Additionally, a person who is delinquent on taxes for a residential homestead is entitled to an agreement with the District to pay such taxes in installments over a period of between 12 and 36 months (as determined by the District) when such person has not entered into another installment agreement with respect to delinquent taxes with the District in the preceding 24 months.

Rollback of Operation and Maintenance Tax Rate

Chapter 49 of the Texas Water Code, as amended, 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 "Low Tax Rate Districts." 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 are classified herein as "Developing Districts." Debt service and contract tax rates cannot be reduced by a rollback election held within any of the districts described below. The impact each classification has on the ability of a district to increase its maintenance and operations tax rate is described for each classification below.

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

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

Developing Districts: Districts that do not meet the classification of a Low Tax Rate District or a Developed District are 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 a rollback election is called and passes, the total tax rate for Developing Districts is the current year's debt service and contract tax rate plus the operation and maintenance tax rate that would impose 1.08 times the amount of operation and maintenance tax imposed by the district in the preceding tax year on a residence homestead appraised at the average appraised value of a resident homestead in the district in that year, subject to certain homestead exemptions.

The District: A determination as to a district's status as a Low Tax Rate District, Developed District or Developing District will be made on an annual basis, at the time a district sets its tax rate, beginning with the 2020 tax rate. For the 2020 tax year, the Board of Directors of the District has determined the District's status to be that of a Developed District. 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 rollback election calculation.

District's Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property against which the tax is levied. In addition, on January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of each taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of other such taxing units. See "ESTIMATED OVERLAPPING DEBT STATEMENT." A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien. Further, personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalties, and interest.

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

WATER AND SEWER OPERATIONS

General

The Bonds and the Remaining Outstanding Bonds are payable from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District. Although not pledged to the payment of the Bonds, net revenue from operations of the District's system, if any, are available for any legal purpose, including, upon Board action, the payment of debt service on the Bonds. It is anticipated that no significant revenues from water and sewer operations will be available for debt service on the Bonds in the foreseeable future.

Waterworks and Sewer System Operating Statement

The following statement sets forth in condensed form the historical results of operation of the District's water and sewer system. Accounting principles customarily employed in the determination of net revenues for coverage of debt service have been observed and in all instances exclude depreciation. This summary has been prepared for inclusion herein based upon information obtained from the District's audited financial statements in the case of September 30, 2016 through 2019, and an unaudited summary provided by the District's bookkeeper for the period ending August 31, 2020. Reference is made to these statements for further and complete information.

	10/1/2019 to 8/31/2020(a)	Fiscal Year Ended September 30			
		2019	2018	2017	2016
Revenues					
Property Taxes	\$ 1,658,705	\$ 1,489,249	\$ 1,385,139	\$ 1,343,155	\$ 1,145,675
Water Service	719,785	749,321	945,847	891,290	872,930
Sewer Service	1,079,226	902,015	752,598	742,634	721,125
Standby Charges	43,000	39,561	41,634	45,757	51,349
Penalty, Interest and Other	9,741	20,861	26,085	18,835	18,378
Tap Connection and Inspection Fees	78,960	92,925	64,950	91,208	106,380
Conservation Credit Sales		-	-	-	172,725
Interest Income	40,632	109,109	76,015	31,737	14,527
Other Revenues	55,783	5,195	4,856	5,321	4,916
Total Revenues	\$ 3,685,832	\$ 3,408,236	\$ 3,297,124	\$ 3,169,937	\$ 3,108,005
Expenditures					
Professional Fees	\$ 136,329	\$ 163,558	\$ 191,418	\$ 209,651	\$ 202,996
Contracted Services	156,571	168,332	167,648	165,901	164,951
Utilities	197,601	186,601	225,882	203,808	177,621
Ground Water Pumpage Fees	41,225	44,821	40,874	39,472	33,110
Repairs, Maintenance & Other					
Operating Expenditures	771,381	1,138,694	907,681	1,325,251	1,071,593
Garbage Disposal	510,517	520,918	480,810	460,933	438,981
Administrative Expenditures	85,535	100,026	112,109	118,058	124,333
Capital Outlay	651,299	(b) 1,737,152	(c) 780,510	(d) 2,077,779	(e) 1,650,356
Total Expenditures	\$ 2,550,458	\$ 4,060,102	\$ 2,906,932	\$ 4,600,853	\$ 3,863,941
Revenues Over (Under) Expenditures	\$ 1,135,374	\$ (651,866)	\$ 390,192	\$(1,430,916)	\$ (755,936)
Other Financing Sources	\$ -	\$ -	\$ -	\$ -	\$ -
Fund Balance (Beginning of Year)	\$ 3,980,392	\$ 4,632,258	\$ 4,242,066	\$ 5,672,982	\$ 6,428,918
Fund Balance (End of Year)	\$ 5,115,766	\$ 3,980,392	\$ 4,632,258	\$ 4,242,066	\$ 5,672,982

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

(b) Includes expenditures for water plant and wastewater treatment plant improvements, and aeration basin improvements in the approximate amount of \$186,000.

(c) Includes expenditures for water plant cooling tower replacement, water tank rehabilitation and aeration basin improvements.

(d) Includes expenditures for water plant and wastewater treatment plant improvements, and various maintenance plan projects.

(e) Includes expenditures for water plant improvements in the approximate amount of \$1,285,000 and a water plant generator in the approximate amount of \$460,000 and various maintenance plan projects.

(f) Includes expenditures in the approximate amount of \$1,135,000 for Catahoula Well No. 2 and various water system, lift station and drainage system improvements.

INVESTMENT CONSIDERATIONS

General

The Bonds, which are obligations of the District and not of the State of Texas, Montgomery County, the City of Conroe or any other entity, will be secured along with the Remaining Outstanding Bonds by an annual ad valorem tax levied 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.

Infectious Disease Outlook (COVID-19)

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

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

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

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

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

Potential Effects of Oil Price Declines on the Houston Area

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

Recent Tropical Weather Events; Hurricane Harvey

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

The greater Houston area has experienced three storms exceeding a 0.2% probability (i.e. “500-year flood” events) since 2015. The most recent event was Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 26, 2017 and brought historic levels of rainfall during the successive four days. However, according to the District’s Operator and Engineer, the District’s System did not sustain any material damage and there was no interruption of water and sewer service. According to the District’s Operator and Engineer, after investigation, it appeared that approximately 250 out of approximately 2,073 homes (at the time of the storm) within the District experienced structural flooding, water incursions or other significant damage including damage to boat slips, decks, and bulkheads on the lake as a result of Hurricane Harvey. In addition, to the knowledge of the District, no commercial improvements within the District experienced structural flooding or other damage as a result of Hurricane Harvey.

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

Specific Flood Type Risks

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

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

Economic Factors and Interest Rates

A substantial percentage of the taxable value of the District results from the current market value of single-family homes utilized as second homes and retirement homes. The market value of such properties is related to general economic conditions in Houston, the State of Texas and the nation and those conditions can affect the demand for such properties. Demand for properties of this type and the construction thereon can be significantly affected by factors such as interest rates, credit availability (see “Credit Market and Liquidity in the Financial Markets” below), construction costs and the prosperity and demographic characteristics of the urban center toward which the marketing of such properties is directed. Further declines in the price of oil could adversely affect the demand for housing and the values of existing homes.

Credit Markets and Liquidity in the Financial Markets

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

Impact on District Tax Rates

Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of District property owners to pay their ad valorem taxes. The 2020 Taxable Assessed Valuation of the District is \$1,098,965,206 (\$1,061,404,597 certified plus \$37,560,609 uncertified). See “FINANCIAL STATEMENT.” After issuance of the Bonds, the maximum annual debt service requirement will be \$1,733,131 (2021) and the average annual debt service requirement will be \$1,115,013 (2021-2031). Assuming no increase or decrease from the 2020 Taxable Assessed Valuation and no use of funds other than tax collections, a tax rate of \$0.17 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the maximum annual debt service requirement of \$1,733,131 and a tax rate of \$0.11 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the average annual debt service requirement of \$1,115,013. See “DEBT SERVICE REQUIREMENTS.” Although calculations have been made regarding average and maximum tax rates necessary to pay the debt service on the Bonds and the Remaining Outstanding Bonds based upon the 2020 Taxable Assessed Valuation, the District can make no representations regarding the future level of assessed valuation within the District. Increases in the tax rate may be required in the event major taxpayers do not pay their District taxes timely. See “TAX PROCEDURES” and “TAX DATA—Tax Adequacy for Debt Service.”

Future Debt

The District currently has \$21,310,000 principal amount of authorized but unissued unlimited tax bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities. See “THE BONDS—Issuance of Additional Debt” and “THE SYSTEM—Future Debt.” The issuance of such future obligations may adversely affect the investment security of the Bonds. The District does not employ any formula with regard to assessed valuations or tax collections or otherwise to limit the amount of bonds which may be issued. Any bonds issued by the District, however, must be approved by the Attorney General of Texas and the Board of the District and any bonds issued to acquire or construct water, sanitary sewer and drainage facilities must be approved by the Commission.

Environmental and Air Quality Regulations

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

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

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

Air Quality/Greenhouse Gas Issues: Air quality control measures required by the United States Environmental Protection Agency (the “EPA”) and the Commission 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—was designated by the EPA in 2007 as a severe ozone nonattainment area. Such areas are required to demonstrate progress in reducing ozone concentrations each year until the EPA “8-hour” ozone standards are met. The EPA granted the governor’s request to voluntarily reclassify the HGB ozone nonattainment area from a moderate to a severe nonattainment area for the 1997 eight-hour ozone standard, effective October 31, 2008. The HGB area’s new attainment deadline for the 1997 eight-hour ozone standard must be attained as expeditiously as practicable, but no later than June 15, 2019. If the HGB area fails to demonstrate progress in reducing ozone concentration or fails to meet the EPA’s standards, the EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects, as well as severe emissions offset requirements on new major sources of air emissions for which construction has not already commenced.

On October 1, 2015, the EPA lowered the ozone standard from 75 parts per billion (“ppb”) to 70 ppb. This could make it more difficult for the HGB Area to demonstrate progress in reducing ozone concentration.

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

Pursuant to the Safe Drinking Water Act (“SDWA”), potable (drinking) water provided by a district to more than twenty-five (25) people or fifteen (15) service connections will be subject to extensive federal and state regulation as a public water supply system, which include, among other requirements, frequent sampling and analyses. Additional or more stringent regulations or requirements pertaining to these and other drinking water contaminants in the future could require installation of more costly treatment facilities.

Operations of the District’s sewer facilities will be subject to regulation under the Federal Clean Water Act and the Texas Water Code. All discharges of pollutants into the nation’s navigable waters must comply with the Clean Water Act. The Clean Water Act allows municipal wastewater treatment plants to discharge treated effluent to the extent allowed under permits issued pursuant to the National Pollutant Discharge Elimination System (“NPDES”) program, a national program established by the Clean Water Act for issuing, revoking, monitoring and enforcing wastewater discharge permits. On September 14, 1998, EPA authorized Texas to implement the NPDES program, which is called the Texas Pollutant Discharge Elimination System (“TPDES”) program.

TPDES permits set limits on the type and quantity of discharge, in accordance with state and federal laws and regulations. Any discharges to water bodies designated as impaired streams in accordance with the Clean Water Act may be precluded from obtaining a TPDES permit if pollutants for which the stream is designated as impaired are among those pollutants being released by a Utility District. Moreover, the Clean Water Act and Texas Water Code require municipal wastewater treatment plants to meet secondary treatment effluent limitations. In addition, under the Clean Water Act, states must identify any bodies of water for which more stringent effluent standards are needed to achieve water quality standards and must establish the maximum allowable daily load of certain pollutants into the water bodies. Total maximum daily loads rules can have a significant impact on Utility Districts’ ability to obtain and maintain TPDES permits. Utility Districts may be required to expend substantial funds to meet any of these regulatory requirements. If the District fails to achieve compliance with its discharge permits, a private plaintiff or the EPA could institute a civil action for injunctive relief and civil penalties.

Operations of utility districts, including the District, are also potentially subject to stormwater discharge permitting requirements under the Clean Water Act and EPA and TCEQ regulations. The TCEQ issued a general permit for stormwater discharges associated with industrial activities (which was amended and reissued on August 14, 2006) and a general permit for stormwater discharges associated with small municipal separate storm sewer systems (which was issued on August 13, 2007). Utility districts are also required to develop and implement stormwater pollution prevention plans and stormwater management plans. The District could incur substantial costs to develop and implement such plans as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff. Failure to comply with these requirements may result in the imposition of administrative, civil, and criminal penalties as well as injunctive relief under the Clean Water Act or the Texas Water Code.

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

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

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

On September 12, 2019, the EPA and USACE finalized a rule repealing the CWR, thus reinstating the regulatory text that existed prior to the adoption of the CWR. This repeal officially became final on December 23, 2019, but the repeal has itself become the subject of litigation in multiple jurisdictions.

On January 23, 2020, the EPA and USACE released the Navigable Waters Protection Rule (“NWPR”), which contains a new definition of “waters of the United States.” The stated purpose of the NWPR is to restore and maintain the integrity of the nation’s waters by maintaining federal authority over the waters Congress has determined should be regulated by the federal government, while preserving the states’ primary authority over land and water resources. The new definition outlines four categories of waters that are considered “waters of the United States,” and thus federally regulated under the CWA: (i) territorial seas and traditional navigable waters; (ii) perennial and intermittent tributaries to territorial seas and traditional navigable waters; (iii) certain lakes, ponds, and impoundments of jurisdictional waters; and (iv) wetlands adjacent to

jurisdictional waters. The new rule also identifies certain specific categories that are not “waters of the United States,” and therefore not federally regulated under the CWA: (a) groundwater; (b) ephemeral features that flow only in direct response to precipitation; (c) diffuse stormwater runoff and directional sheet flow over upland; (d) certain ditches; (e) prior converted cropland; (f) certain artificially irrigated areas; (g) certain artificial lakes and ponds; (h) certain water-filled depressions and certain pits; (i) certain stormwater control features; (j) certain groundwater recharge, water reuse, and wastewater recycling structures; and (k) waste treatment systems. The NWPR will become effective June 22, 2020, and is currently the subject of ongoing litigation.

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

Tax Collection Limitations

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

Registered Owners Remedies and Bankruptcy Limitations

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

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

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

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

The District may not be placed into bankruptcy involuntarily.

Continuing Compliance with Certain Covenants

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

Marketability

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

Changes in Tax Legislation

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

Risk Factors Related to the Purchase of Municipal Bond Insurance

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

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

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

LEGAL MATTERS

Legal Opinions

The District will furnish the Underwriter a transcript of certain certified proceedings had incident to the authorization and issuance of the Bonds including a certified copy of the unqualified approving opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Bonds are valid and binding obligations of the District under the Constitution and laws of the State of Texas. The District also will furnish the approving legal opinion of Young & Brooks, Bond Counsel, to the effect that based upon an examination of such transcript, the Bonds are valid and binding obligations of the District under the Constitution and laws of the State of Texas. The legal opinion of Bond Counsel will further state that the Bonds are payable, both as to principal and interest, from the levy of ad valorem taxes, without legal limitation as to rate or amount, against all taxable property within the District. See "TAX MATTERS" below for a discussion of Bond Counsel's opinion regarding the tax-exempt status of the Bonds. Such opinions express no opinion with respect to the sufficiency of the security for or the marketability of the Bonds.

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

Legal Review

In their capacity as Bond Counsel, Young & Brooks has reviewed the information in this Official Statement under the captioned sections "PLAN OF FINANCING—Refunded Bonds" and "—Escrow Agreement," "THE BONDS," "THE DISTRICT—General," "MANAGEMENT—Attorney," "TAX PROCEDURES," "LEGAL MATTERS—Legal Opinions," "TAX MATTERS," and "CONTINUING DISCLOSURE OF INFORMATION" (except for the subsection "Compliance With Prior Undertakings"), solely to determine whether such information, insofar as it relates to matters of law, fairly summarizes the laws and documents referred to therein. Such firm has not independently verified factual information contained in this Official Statement, nor has such firm conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon such firm's limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to the accuracy or completeness of any of the other information contained herein.

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

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 of the financial condition of the District subsequent to the date of sale from that set forth or contemplated in the Preliminary Official Statement, as it may have been supplemented or amend through the date of sale.

No-Litigation Certificate

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

TAX MATTERS

Opinion

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

In rendering its opinion, Bond Counsel will rely upon (a) certain information and representations of the District, including information and representations contained in the District's federal tax certificate, (b) covenants of the District contained in the Bond documents relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the property financed or refinanced therewith, and (c) the verification report prepared by Public Finance Partners LLC. Failure by the District to comply with the aforementioned representations or covenants could cause the interest on the Bonds to become includable in gross income retroactively to the date of issuance.

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

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

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

Federal Income Tax Accounting Treatment of Original Issue Discount

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

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

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

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

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

Collateral Federal Income Tax Consequences

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

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

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

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

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

State, Local and Foreign Taxes

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

Information Reporting and Backup Withholding

Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Bonds will be sent to each registered holder and to the Internal Revenue Service. Payments of interest and principal may be subject to backup withholding under section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates, and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

Qualified Tax-Exempt Obligations for Financial Institutions

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

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

MUNICIPAL BOND RATING

S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC, (“S&P”) has assigned a municipal bond rating of “AA” (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Assured Guaranty Municipal Corp. S&P has also assigned an underlying rating of “A+” to the Bonds. An explanation of the ratings may be obtained from S&P. See “INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance” and “MUNICIPAL BOND INSURANCE.”

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

MUNICIPAL BOND INSURANCE

Bond Insurance Policy

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

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

Assured Guaranty Municipal Corp.

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. (“AGL”), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol “AGO”. AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and international public finance (including infrastructure) and structured finance markets and, as of October 1, 2019, asset management services. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM's financial strength is rated "AA" (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), "AA+" (stable outlook) by Kroll Bond Rating Agency, Inc. ("KBRA") and "A2" (stable outlook) by Moody's Investors Service, Inc. ("Moody's"). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings

On July 16, 2020, S&P announced it had affirmed AGM's financial strength rating of "AA" (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

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

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2019.

Capitalization of AGM

At June 30, 2020:

- The policyholders' surplus of AGM was approximately \$2,667 million.
- The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. ("MAC") (as described below) were approximately \$1,018 million. Such amount includes 100% of AGM's contingency reserve and 60.7% of MAC's contingency reserve.
- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately \$2,048 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 subsidiaries Assured Guaranty (Europe) plc ("AGE UK") and Assured Guaranty (Europe) SA ("AGE SA"), and (iii) 60.7% of the net unearned premium reserve of MAC.

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

Incorporation of Certain Documents by Reference

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

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2019 (filed by AGL with the SEC on February 28, 2020);
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2020 (filed by AGL with the SEC on May 8, 2020); and

- (iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2020 (filed by AGL with the SEC on August 7, 2020).

All information relating to AGM included in, or as exhibits relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof “furnished” under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC’s website at <http://www.sec.gov>, at AGL’s website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 1633 Broadway, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL’s website shall be deemed to be part of or incorporated in this Official Statement.

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

Miscellaneous Matters

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

SALE AND DISTRIBUTION OF THE BONDS

The 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 \$3,855,019.75 (representing the principal amount of the Bonds of \$3,680,000.00, plus a premium on the Bonds of \$209,555.75, less an Underwriter’s discount of \$34,536.00) plus accrued interest. The Underwriter’s obligation is to purchase all of the Bonds, if any are purchased. See “PLAN OF FINANCING—Sources and Uses of Funds.”

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

Prices and Marketability

The prices and other terms with respect to the offering and sale of the Bonds may be changed 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 the Bonds may be greater than the difference between the bid and asked price of bonds of comparable maturity and quality issued by more traditional municipal entities, as bonds of such entities are more generally bought, sold or traded in the secondary market.

Securities Laws

No registration statement relating to the offer and sale of the Bonds has been filed with the Securities and Exchange Commission (the “SEC”) under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein and the Bonds have not been registered or qualified under the securities laws of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any other jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdiction.

VERIFICATION OF MATHEMATICAL CALCULATIONS

Public Finance Partners LLC will deliver to the District, on or before the settlement date of the Bonds, its verification report indicating that it has verified the mathematical accuracy of (a) the mathematical computations of the adequacy of the funds and escrowed securities deposited with the Escrow Agent, to pay, when due, the maturing principal of, interest on and related call premium requirements, if any, of the Refunded Bonds, (b) the mathematical computations of yield used by Bond Counsel to support its opinion that interest on the Bonds will be excluded from gross income for federal income tax purposes and (c) compliance with the City of Conroe Ordinance No. 1381-97.

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

PREPARATION OF OFFICIAL STATEMENT

Sources and Compilation of Information

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

Financial Advisor

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

“THE DISTRICT” and “THE SYSTEM“ (as related to District facilities)—Engineer; “FINANCIAL STATEMENT“ and “TAX DATA”—Montgomery Central Appraisal District and Equi-Tax Inc.; “ESTIMATED OVERLAPPING DEBT STATEMENT”—the Municipal Advisory Council of Texas.

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

Consultants

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

Engineer: Certain information related to the District's System and certain other information included in the sections entitled "THE DISTRICT," and "THE SYSTEM" have been provided by Bleyl & Associates, the District's consulting engineer, and have been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

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

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

Auditor: The District's audited financial statements for the year ended September 30, 2019 and the independent auditor's report of Mark C. Eyring, CPA, PLLC, have been included herein as "APPENDIX A."

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

Updating of Official Statement

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

Certification of Official Statement

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

CONTINUING DISCLOSURE OF INFORMATION

In the Bond Order, the District has made the following agreement for the benefit of the holders and Beneficial Owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (the "MSRB") or any successor to its functions as a repository through its Electronic Municipal Market Access ("EMMA") system.

Annual Reports

The District will provide certain financial information and operating data annually to the MSRB. 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 “FINANCIAL STATEMENT,” “TAX DATA,” “WATER AND SEWER OPERATIONS,” “DEBT SERVICE REQUIREMENTS,” and the District’s audited financial statements and supplemental schedules as found in “APPENDIX A—District Audited Financial Statements.” The District will update and provide this information within six months after the end of each of its fiscal years ending in or after 2020. 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 information for the 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 September 30. Accordingly, it must provide updated information by March 31 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

Event Notices

The District will provide timely notices of certain events to the MRSB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other material events affecting the tax-exempt status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of CFR § 240.15c2-12 (the “Rule”); (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District or other obligated person within the meaning of the Rule, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District or other obligated person within the meaning of the Rule, any of which affect Beneficial Owners of the Bonds, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the financial obligation of the District or other obligated person within the meaning of the Rule, any of which reflect financial difficulties. The term “material” when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Order makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under “Annual Reports.”

Availability of Information from the MSRB

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

Limitations and Amendments

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

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

also amend or repeal the agreement if the SEC amends or repeals the applicable provisions of SEC Rule 15c2-12 or a court of final jurisdiction determines that such provisions are invalid but in either case, only to the extent that its right to do so would not prevent the Underwriter from lawfully purchasing the Bonds in the offering described herein. If the District so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reason for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance With Prior Undertakings

During the last five years, the District has complied in all material respects with all continuing disclosure agreements made by it in accordance with SEC Rule 15c2-12, except that prior updates of the section "Financial Information" omitted certain overlapping debt information. The District believes that such prior information is no longer material, and has included current overlapping debt information in its most recent annual filing.

MISCELLANEOUS

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

This Official Statement was approved by the Board of Directors of Montgomery County Municipal Utility District No. 18, as of the date shown on the cover page.

/s/ Rex Cambern
President, Board of Directors

ATTEST:

/s/ Gary Montgomery
Secretary, Board of Directors

APPENDIX A

District Audited Financial Statements for the fiscal year ended September 30, 2019

MONTGOMERY COUNTY
MUNICIPAL UTILITY DISTRICT NO. 18
MONTGOMERY COUNTY, TEXAS
ANNUAL AUDIT REPORT
SEPTEMBER 30, 2019

C O N T E N T S

INDEPENDENT AUDITOR'S REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-9
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET	10
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES	11
NOTES TO THE FINANCIAL STATEMENTS	12-21
SUPPLEMENTARY INFORMATION	
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE, BUDGET AND ACTUAL, GENERAL FUND	22
SCHEDULE OF TEXAS SUPPLEMENTARY INFORMATION REQUIRED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY	23
SCHEDULE OF SERVICES AND RATES	24-26
EXPENDITURES FOR THE YEAR ENDED SEPTEMBER 30, 2019	27-28
ANALYSIS OF CHANGES IN DEPOSITS AND TEMPORARY INVESTMENTS, ALL GOVERNMENTAL FUND TYPES	29
SCHEDULE OF TEMPORARY INVESTMENTS	30
TAXES LEVIED AND RECEIVABLE	31-32
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS	32-35
ANALYSIS OF CHANGES IN LONG-TERM BONDED DEBT	36-37
COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES, GENERAL FUND	38
COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES, DEBT SERVICE FUND	39
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS	40-41

Mark C. Eyring, CPA, PLLC

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January 21, 2020

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Montgomery County Municipal
Utility District No. 18
Montgomery County, Texas

I have audited the accompanying financial statements of the governmental activities and each fund of Montgomery County Municipal Utility District No. 18, as of and for the year ended September 30, 2019, which collectively comprise the District's basic financial statements, as listed in the table of contents, and the related notes to the financial statements.

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 of material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including assessment of the risk 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 I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each fund of Montgomery County Municipal Utility District No. 18 as of September 30, 2019, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (Continued)**Other Matters**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on Pages 3 to 9 and Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual, General Fund, on Page 22 be presented to supplement the basic financial statements. Such information, although not 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on Pages 23 to 41 is presented for purposes of additional analysis and is not a required part of the 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 financial statements. Except for the portion marked "unaudited," the information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The supplementary information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it. The accompanying supplementary information includes financial data excerpted from prior year financial statements which were audited by my firm.

A handwritten signature in dark ink, appearing to read "M. A. J.", is located in the lower right quadrant of the page.

Management's Discussion and Analysis

Using this Annual Report

Within this section of the Montgomery County Municipal Utility District No. 18 (the "District") annual report, the District's Board of Directors provides narrative discussion and analysis of the financial activities of the District for the fiscal year ended September 30, 2019.

The annual report consists of a series of financial statements plus additional supplemental information to the financial statements as required by its state oversight agency, the Texas Commission on Environmental Quality. In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program. In the District's case, the single governmental program is provision of water, sewer and drainage services. Other activities, such as garbage collection, are minor activities and are not budgeted or accounted for as separate programs. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented on the left side of the statements, a column for adjustments is to the right of the fund financial statements, and the government-wide financial statements are presented to the right side of the adjustments column. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

Government-Wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the District. The District's government-wide financial statements include the statement of net position and statement of activities, which are prepared using accounting principles that are similar to commercial enterprises. The purpose of the statement of net position is to attempt to report all of the assets and liabilities owned by the District. The District reports all of its assets when it acquires or begins to maintain the assets and reports all of its liabilities when they are incurred.

The difference between the District's total assets and total liabilities is labeled as *net position* and this difference is similar to the total owners' equity presented by a commercial enterprise.

The purpose of the statement of activities is to present the revenues and expenses of the District. Again, the items presented on the statement of activities are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied and expenses are reported when incurred by the District. Thus, revenues are reported even when they may not be collected for several months or years after the end of the accounting period and expenses are recorded even though they may not have used cash during the current period.

Although the statement of activities looks different from a commercial enterprise's income statement, the financial statement is different only in format, not substance. Whereas the bottom line in a commercial enterprise is its net income, the District reports an amount described as *change in net position*, essentially the same thing.

Fund Financial Statements

Unlike government-wide financial statements, the focus of fund financial statements is directed to specific activities of the District rather than the District as a whole. Except for the General Fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties or governmental statutes or regulations.

Governmental fund financial statements consist of a balance sheet and statement of revenues, expenditures and change in fund balances and are prepared on an accounting basis that is significantly different from that used to prepare the government-wide financial statements.

In general, these financial statements have a short-term emphasis and, for the most part, measure and account for cash and other assets that can easily be converted into cash. For example, amounts reported on the balance sheet include items such as cash and receivables collectible within a very short period of time, but do not include capital assets such as land and water and sewer systems. Fund liabilities include amounts that are to be paid within a very short period after the end of the fiscal year. The difference between a fund's total assets and total liabilities is labeled the fund balance, and generally indicates the amount that can be used to finance the next fiscal year's activities. Likewise, the operating statement for governmental funds reports only those revenues and expenditures that were collected in cash or paid with cash, respectively, during the current period or very shortly after the end of the fiscal year.

Because the focus of the government-wide and fund financial statements are different, there are significant differences between the totals presented in these financial statements. For this reason, there is an analysis in Note 3 of the notes to the financial statements that reconciles the total fund balances to the amount of net position presented in the governmental activities column on the statement of net position. Also, there is an analysis in Note 3 of the notes to the financial statements that reconciles the total change in fund balances for all governmental funds to the change in net position as reported in the governmental activities column in the statement of activities.

Financial Analysis of the District as a Whole

Financial Analysis of the District as a Whole begins with an understanding of how financial resources flow through the District's funds. Resources in the Capital Projects Fund are derived principally from proceeds of the sale of bonds, and expenditures from this fund are subject to the Rules of the Texas Commission on Environmental Quality. Resources in the Debt Service Fund are derived principally from the collection of property taxes and are used for the payment of tax collection costs and bond principal and interest. Resources in the General Fund are derived principally from property taxes and billings for water and sewer services and are used to operate and maintain the system and to pay costs of administration of the District.

Management has financial objectives for each of the District's funds. The financial objective for the Capital Projects Fund is to spend the funds as necessary in accordance with the Rules of the Texas Commission on Environmental Quality. The financial objective for the Debt Service Fund is to levy the taxes necessary to pay the fiscal year debt service requirements plus the cost of levying and collecting taxes, leaving the appropriate fund balance as recommended by the District's financial advisor. The financial objective for the General Fund is to keep the fund's expenditures as low as possible while ensuring that revenues are adequate to cover expenditures and maintaining the fund balance that Management believes is prudent. Management believes that these financial objectives were met during the fiscal year.

In the government-wide financial statements, capital assets and depreciation expense have been required to be recorded at historical cost. Depreciation expense is used to allocate the cost of an asset over its useful life. District funds have been spent exclusively to provide services to District taxpayers and residents. District funds have never been spent to expand capital assets for the purpose of providing services to parties outside the District. The depreciation of capital assets could be useful to assess profitability if funds were invested for such outside purposes but this is not the case for the District. Depreciation may also be used to represent decline in the health of assets. Management believes that asset condition should be assessed by the daily attention of the District's operator and by the overview of assigned engineering personnel. These personnel are on-site daily or as needed and their observations are used as input to the prioritization of preventive maintenance and facilities upgrading in the District's Five Year Plan. Within this plan management's policy is to pro-actively maintain the District's capital assets in a condition greater than or equal to the condition required by regulatory authorities and good business practices.

In the government-wide financial statements, certain non-cash costs of long-term debt are capitalized and amortized over the life of the related debt. While management acknowledges that this required method of accounting is useful, it prefers to consider the required cash flows of the debt as reported in the fund statements and the notes to the financial statements for the financial analysis of the District.

In the government-wide financial statements, property tax revenues are required to be recorded in the fiscal year for which the taxes are levied, regardless of the year of collection. Management believes that the cash basis method of accounting for property taxes in the funds provides more useful financial information.

Thus, in the District's case, management believes that the required method of accounting for certain elements of the government-wide financial statements makes the government-wide financial statements as a whole not useful for financial analysis nor for management of assets.

The following required summaries of the District's overall financial position and operations for the past two years are based on the information included in the government-wide financial statements. For the reasons described in the preceding paragraphs, a separate analysis of the summaries is not presented.

Summary of Net Position

	<u>2019</u>	<u>2018</u>	<u>Change</u>
Current and other assets	\$ 5,641,324	\$ 6,489,349	\$ (848,025)
Capital assets	25,980,104	25,960,134	19,970
Total assets	<u>31,621,428</u>	<u>32,449,483</u>	<u>(828,055)</u>
Long-term liabilities	11,380,793	12,916,943	(1,536,150)
Other liabilities	2,143,665	2,245,183	(101,518)
Total liabilities	<u>13,524,458</u>	<u>15,162,126</u>	<u>(1,637,668)</u>
Net position:			
Invested in capital assets, net of related debt	12,900,642	11,247,550	1,653,092
Restricted	1,145,442	1,341,198	(195,756)
Unrestricted	4,050,886	4,698,609	(647,723)
Total net position	<u>\$ 18,096,970</u>	<u>\$ 17,287,357</u>	<u>\$ 809,613</u>

Summary of Changes in Net Position

	<u>2019</u>	<u>2018</u>	<u>Change</u>
Revenues:			
Property taxes, including related penalty and interest	\$ 3,556,861	\$ 3,548,551	\$ 8,310
Charges for services	1,770,317	1,794,336	(24,019)
Other revenues	179,790	141,981	37,809
Total revenues	<u>5,506,968</u>	<u>5,484,868</u>	<u>22,100</u>
Expenses:			
Service operations	4,108,895	3,805,847	303,048
Debt service	588,460	531,267	57,193
Total expenses	<u>4,697,355</u>	<u>4,337,114</u>	<u>360,241</u>
Change in net position	809,613	1,147,754	(338,141)
Net position, beginning of year	<u>17,287,357</u>	<u>16,139,603</u>	<u>1,147,754</u>
Net position, end of year	<u>\$ 18,096,970</u>	<u>\$ 17,287,357</u>	<u>\$ 809,613</u>

Financial Analysis of the District's Funds

The District's combined fund balances as of the end of the fiscal year ended September 30, 2019, were \$5,059,751, a decrease of \$867,523 from the prior year.

The General Fund decreased by \$651,866 in accordance with the District's financial plan and policy statements which were adopted in September of 2006. The plan involved increases in service rates and the maintenance tax rate to build the General Fund balance as a reserve for unusual maintenance, to initiate a program of preventive maintenance and scheduled upgrades of facilities, to anticipate forthcoming mandates for conservation of aquifer resources and to position the District to take advantage of cost saving opportunities. The District has used these funds to drill two new water wells and to improve the water, sewer and drainage facilities within the District as planned. The current year fund balance decrease was due to necessary maintenance and improvements to District facilities.

The Debt Service Fund balance decreased by \$215,657, in accordance with the District's financial plan.

General Fund Budgetary Highlights

The Board of Directors did not amend the budget during the fiscal year. The District's budget is primarily a planning tool. Accordingly, actual results varied from the budgeted amounts. A comparison of actual to budgeted amounts is presented on Page 22 of this report. The budgetary fund balance as of September 30, 2019, was expected to be \$4,442,512 and the actual end of year fund balance was \$3,980,392. This difference is due to expenditures for maintenance and improvements being higher than budgeted.

Capital Asset and Debt Administration

Capital Assets

Capital assets held by the District at the end of the current and previous fiscal years are summarized as follows:

	<u>Capital Assets (Net of Accumulated Depreciation)</u>		
	<u>2019</u>	<u>2018</u>	<u>Change</u>
Land	\$ 38,670	\$ 38,670	\$ 0
Construction in progress	3,701	35,893	(32,192)
Water facilities	11,437,292	11,057,871	379,421
Sewer facilities	9,694,747	9,870,381	(175,634)
Drainage facilities	4,805,694	4,957,319	(151,625)
Totals	<u>\$ 25,980,104</u>	<u>\$ 25,960,134</u>	<u>\$ 19,970</u>

Changes to capital assets during the fiscal year ended September 30, 2019, are summarized as follows:

Additions:

Water system improvements	\$ 984,642
Sewer system improvements	273,881
Drainage system improvements	<u>41,631</u>
Total additions to capital assets	1,300,154

Decreases:

Depreciation	<u>(1,280,184)</u>
Net change to capital assets	<u>\$ 19,970</u>

Management's policy is to proactively maintain the District's capital assets in a condition greater than or equal to the condition required by regulatory authorities – i.e. to use good business practices. For actual assessment of the condition of assets, management relies on the District's Operator and the District's Engineer for assessment of the condition of physical assets. This has been effective because of the ongoing involvement of the Operator and Engineer in the daily operation of these facilities.

In 2007 management instituted a practice of producing a 5-Year Plan for proactive maintenance and upgrading of facilities before failure. The continuous involvement of operating and engineering personnel in monthly assessments of progress and monthly updating of long-term needs within the 5-Year Plan has led to continuous improvement in the condition of the facilities. The budget for this activity has grown to approximately one million dollars per year and funding has not involved issuance of new bonds. Almost all of the projects within this plan can be postponed if an unexpected need for cash arises.

It is an ongoing practice in many governmental bodies to issue bonds of 20-year duration in order to make facilities modifications which will not last 20 years without the need for new money. The District abandoned that practice in 2007 and thereafter instituted a plan to deal with expensive maintenance requirements without recourse to bond issuance. The result has been the 5-Year Plan with its proactive approach.

In 2008, the District adopted an integrated set of Financial Management Policies (described later) which incorporates the 5-Year Plan. The District has conformed to these policies.

Debt

Changes in the bonded debt position of the District during the fiscal year ended September 30, 2019, are summarized as follows:

Bonded debt payable, beginning of year	\$ 14,220,000
Refunding bonds sold	3,840,000
Bonds refunded	(3,900,000)
Bonds paid	<u>(1,780,000)</u>
Bonded debt payable, end of year	<u>\$ 12,380,000</u>

At September 30, 2019, the District had \$21,310,000 of bonds authorized but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage system within the District. Within the District there is limited land left for development; thus, future bond issues for this purpose are expected to be less than in the past. However, beyond that, potential government mandates (such as for aquifer conservation or enhanced treatment of effluent water) may require occasional bond issues.

On May 15, 2019, the District issued \$3,840,000 in unlimited tax refunding bonds to refund \$3,900,000 of outstanding Series 2011 bonds. The net proceeds of \$3,936,758 (after payment of \$158,973 in issuance costs) were deposited in an irrevocable trust with an escrow agent for the refunded bonds to call and retire the refunded bonds on May 16, 2019. As a result, the refunded bonds are considered defeased and the liability for these bonds will be removed from the financial statements.

The District refunded the bonds to reduce total debt service payments over future years by approximately \$347,000 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$286,000.

The District's bonds have an underlying rating of A+ by Standard & Poor's. The Series 2008, 2011 and 2012 bonds are insured by Assured Guaranty Municipal Corp. (formerly Financial Security Assurance, Inc.). The Series 2016 bonds are insured by Municipal Assurance Corp. The Series 2013 and 2019 bonds are insured by Build America Mutual Assurance Company. The Series 2010 bonds are not insured. Because of the insurance, the Series 2008, 2011, 2012, 2013, 2016 and 2019 bonds are rated AA by Standard & Poor's. There was no change in the bond ratings during the fiscal year ended September 30, 2019.

RELEVANT FACTORS AND WATER SUPPLY ISSUES

Property Tax Base

The District's tax base was essentially unchanged from the 2017 to 2018 tax year.

Relationship to the City of Conroe

Under existing Texas law, since the District lies totally within the extraterritorial jurisdiction of the City of Conroe, the District must conform to a City of Conroe ordinance consenting to the creation of the District. In addition, the District may be annexed by the City of Conroe if approved by the voters within the District. If the District is annexed, the City will assume the District's assets and obligations (including the bonded indebtedness) and dissolve the District within ninety (90) days.

The District is authorized to enter into a strategic partnership agreement with the City of Conroe to provide the terms and conditions under which services would be provided and funded by the parties and under which the District would continue to exist for an extended period if the land within the District would be annexed for limited purposes by the City. The terms of any such agreement would be determined by the City and the District, and could provide for the conversion of a limited purpose annexation to a general purpose annexation within ten years, or the payment of a fee in lieu of annexation.

The District is not aware of any plans regarding annexation or a strategic partnership with the City of Conroe.

Water Supply Issues

The District is within the boundaries of the Lone Star Groundwater Conservation District ("LSGCD"). The LSGCD was created by the Legislature of the State of Texas in Acts 2001, 77th Legislature, Regular Session. The LSGCD is a political subdivision of the State of Texas, governed by an elected seven member board of directors. The purpose of the LSGCD is to provide for the conservation, preservation, protection, recharging, and prevention of waste and excessive depletion of groundwater, and of groundwater reservoirs or their subdivisions, and the control of subsidence which may be caused by the withdrawal of water from those groundwater reservoirs or their subdivisions, consistent with the objectives of Section 59, Article XVI, Texas Constitution. Rule 8.1 of the rules of the LSGCD authorizes the board of directors of the LSGCD to establish by resolution a regulatory water use fee to accomplish the purposes of the LSGCD. In accordance with this rule, as of September 30, 2019, the LSGCD had established a regulatory water use fee of \$0.105 per 1,000 gallons of water pumped from each regulated well.

As of September 30, 2019, the Groundwater District's Board and Consultants were working on replacement regulations to accomplish their objectives found in their Groundwater Management Plan.

Previous regulations included reductions in groundwater pumping within the Gulf Coast Aquifer system, and they have been declared invalid by a Montgomery County Court. This was due to a lawsuit against the Lone Star Groundwater Conservation District by several Large Volume Groundwater Users (LVGUs) in Montgomery County. The ruling was confirmed and signed by the Judge on May 15, 2019, ending the lawsuit.

The District was not a party to this lawsuit, and was in compliance with the previous regulations requiring reduced groundwater pumping. By investing in two deeper water wells in the Catahoula Aquifer (not part of the Gulf Coast Aquifer System), the District has successfully accessed another water supply for the future.

Currently the District has plentiful water supplies and exceeds the current Texas Commission on Environmental Quality (TCEQ) regulations for public water supplies. Future Lone Star Groundwater Conservation District regulations on pumping are anticipated to be less stringent and should have no affect on the District.

Financial Management Policy Statements

The District has adopted and complied with comprehensive Financial Management Policy Statements which address Revenues, Expenditures, Fund Balance/Working Capital/Net Position, Capital Improvements, Debt, Investments, Fiscal Monitoring and Operating Budget. Copies of this document and other financial information is available from the District's attorneys, Young & Brooks, 10000 Memorial Drive, Suite 260, Houston, Texas 77024.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 18

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET

SEPTEMBER 30, 2019

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments (Note 3)</u>	<u>Statement of Net Position</u>
ASSETS						
Cash, including interest-bearing accounts, Note 7	\$ 123,894	\$ 127,394	\$	\$ 251,288	\$	\$ 251,288
Temporary investments, at cost, Note 7	4,030,976	974,822		5,005,798		5,005,798
Receivables:						
Property taxes	29,527	58,953		88,480		88,480
Accrued penalty and interest on property taxes				0	43,106	43,106
Service accounts	199,043			199,043		199,043
Standby charges, Note 9	40,967			40,967		40,967
Other	12,642			12,642		12,642
Due from other fund		5,547		5,547	(5,547)	0
Maintenance taxes collected not yet transferred from other fund	14,617			14,617	(14,617)	0
Capital assets, net of accumulated depreciation, Note 4:						
Capital assets not being depreciated				0	42,371	42,371
Depreciable capital assets				0	25,937,733	25,937,733
Total assets	<u>\$4,451,666</u>	<u>\$1,166,716</u>	<u>\$ 0</u>	<u>\$ 5,618,382</u>	<u>26,003,046</u>	<u>31,621,428</u>
LIABILITIES						
Accounts payable	\$ 226,031	\$ 13,787	\$	\$ 239,818		239,818
Accrued interest payable				0	35,976	35,976
Customer and builder deposits	169,202			169,202		169,202
Due to other fund	5,547			5,547	(5,547)	0
Maintenance taxes collected not yet transferred to other fund		14,617		14,617	(14,617)	0
Long-term liabilities, Note 5:						
Due within one year				0	1,698,669	1,698,669
Due in more than one year				0	11,380,793	11,380,793
Total liabilities	<u>400,780</u>	<u>28,404</u>	<u>0</u>	<u>429,184</u>	<u>13,095,274</u>	<u>13,524,458</u>
DEFERRED INFLOWS OF RESOURCES						
Property tax revenues	29,527	58,953		88,480	(88,480)	0
Standby charges	40,967			40,967	(40,967)	0
Total deferred inflows of resources	<u>70,494</u>	<u>58,953</u>	<u>0</u>	<u>129,447</u>	<u>(129,447)</u>	<u>0</u>
FUND BALANCES / NET POSITION						
Fund balances:						
Assigned to:						
Debt service		1,079,359		1,079,359	(1,079,359)	0
Reserve for future repairs and maintenance	600,000			600,000	(600,000)	0
Unassigned	3,380,392			3,380,392	(3,380,392)	0
Total fund balances	<u>3,980,392</u>	<u>1,079,359</u>	<u>0</u>	<u>5,059,751</u>	<u>(5,059,751)</u>	<u>0</u>
Total liabilities, deferred inflows, and fund balances	<u>\$4,451,666</u>	<u>\$1,166,716</u>	<u>\$ 0</u>	<u>\$ 5,618,382</u>		
Net position:						
Invested in capital assets, net of related debt					12,900,642	12,900,642
Restricted for debt service					1,145,442	1,145,442
Unrestricted					4,050,886	4,050,886
Total net position					<u>\$ 18,096,970</u>	<u>\$ 18,096,970</u>

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 18

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES

FOR THE YEAR ENDED SEPTEMBER 30, 2019

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments (Note 3)	Statement of Activities
REVENUES						
Property taxes	\$ 1,489,249	\$ 2,022,827	\$	\$ 3,512,076	\$ 9,032	\$ 3,521,108
Water service	749,321			749,321		749,321
Sewer service	902,015			902,015		902,015
Standby charges, Note 9	39,561			39,561	(411)	39,150
Penalty, interest and other	20,861	28,024		48,885	7,729	56,614
Tap connection and inspection fees	92,925			92,925		92,925
Interest on deposits and investments	109,109	31,531		140,640		140,640
Accrued interest on bonds received at date of sale		5,411		5,411	(5,411)	0
Other revenues	<u>5,195</u>			<u>5,195</u>		<u>5,195</u>
Total revenues	<u>3,408,236</u>	<u>2,087,793</u>	<u>0</u>	<u>5,496,029</u>	<u>10,939</u>	<u>5,506,968</u>
EXPENDITURES / EXPENSES						
Service operations:						
Professional fees	163,558	10,122		173,680		173,680
Contracted services	168,332	48,658		216,990		216,990
Utilities	186,601			186,601		186,601
Ground water pumpage fees, Note 10	44,821			44,821		44,821
Repairs, maintenance and other operating expenditures	1,138,694			1,138,694		1,138,694
Garbage disposal	520,918			520,918		520,918
Administrative expenditures	100,026	9,983		110,009		110,009
Depreciation				0	1,280,184	1,280,184
Capital outlay / non-capital outlay	1,737,152			1,737,152	(1,300,154)	436,998
Debt service:						
Principal retirement		1,780,000		1,780,000	(1,780,000)	0
Bond issuance expenditures				0	158,973	158,973
Interest and fees		458,233		458,233	(28,746)	429,487
Total expenditures / expenses	<u>4,060,102</u>	<u>2,306,996</u>	<u>0</u>	<u>6,367,098</u>	<u>(1,669,743)</u>	<u>4,697,355</u>
Excess (deficiency) of revenues over expenditures	<u>(651,866)</u>	<u>(219,203)</u>	<u>0</u>	<u>(871,069)</u>	<u>1,680,682</u>	<u>809,613</u>
OTHER FINANCING SOURCES (USES)						
Bonds issued, Note 5		3,840,000		3,840,000	(3,840,000)	0
Bond issuance premiums, Note 5		259,277		259,277	(259,277)	0
Refunding bond issuance expenditures, Note 5		(158,973)		(158,973)	158,973	0
Payment to refunding escrow agent, Note 5		<u>(3,936,758)</u>		<u>(3,936,758)</u>	<u>3,936,758</u>	<u>0</u>
Total other financing sources (uses)	<u>0</u>	<u>3,546</u>	<u>0</u>	<u>3,546</u>	<u>(3,546)</u>	<u>0</u>
Net change in fund balances / net position	(651,866)	(215,657)	0	(867,523)	1,677,136	809,613
Beginning of year	<u>4,632,258</u>	<u>1,295,016</u>	<u>0</u>	<u>5,927,274</u>	<u>11,360,083</u>	<u>17,287,357</u>
End of year	<u>\$ 3,980,392</u>	<u>\$ 1,079,359</u>	<u>\$ 0</u>	<u>\$ 5,059,751</u>	<u>\$ 13,037,219</u>	<u>\$ 18,096,970</u>

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 18NOTES TO THE FINANCIAL STATEMENTSSEPTEMBER 30, 2019

NOTE 1: REPORTING ENTITY

Montgomery County Municipal Utility District No. 18 (the "District") was created by an order of the Texas Water Rights Commission (now the Texas Commission on Environmental Quality) effective September 12, 1973, and operates in accordance with Texas Water Code Chapters 49 and 54. The District is a political subdivision of the State of Texas, governed by an elected five member Board of Directors. The Board of Directors held its first meeting on January 28, 1989 and the first bonds were sold on October 29, 1992. The District is subject to the continuing supervision of the Texas Commission on Environmental Quality.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary to provide water, sanitary sewer service, storm sewer drainage, irrigation, solid waste collection and disposal, including recycling, and 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 firefighting activities within the District.

In evaluating how to define the District for financial reporting purposes, the Board of Directors of the District has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, there were no other entities which were included as a component unit in the District's financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

The District's financial statements are prepared in accordance with generally accepted accounting principles ("GAAP"). The Governmental Accounting Standards Board (the "GASB") is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989 (when applicable), that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the District are discussed below.

Basic Financial Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and governmental fund financial statements (reporting the District's funds). Because the District is a single-program government as defined by the GASB, the District has combined the government-wide statements and the fund financial statements using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column on the face of the financial statements. An additional reconciliation between the fund and the government-wide financial data is presented in Note 3.

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. The effect of interfund activity has been removed from these statements. The District's net position is reported in three parts – invested in capital assets, net of related debt; restricted net position; and unrestricted net position. The government-wide statement of activities reports the components of the changes in net position during the reporting period.

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for in a separate set of self-balancing accounts that comprises its assets, liabilities, fund balances, revenues and expenditures and changes in fund balances. The District's fund balances are reported as nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balances are either not in spendable form or are contractually required to remain intact. Restricted fund balances include amounts that can only be used for the specific purposes stipulated by constitutional provisions, external resource providers or enabling legislation. Committed fund balances include amounts that can only be used for the specific purposes determined by formal action of the District's Board of Directors. Assigned fund balances are intended for a specific purpose but do not meet the criteria to be classified as restricted or committed. Unassigned fund balance is the residual classification for the District's General Fund and includes all spendable amounts not contained in the other classifications. The transactions of the District are accounted for in the following funds:

General Fund -- To account for all revenues and expenditures not required to be accounted for in other funds.

Debt Service Fund -- To account for the accumulation of financial resources for, and the payment of, bond principal and interest, paid principally from property taxes levied by the District.

Capital Projects Fund -- To account for financial resources designated to construct or acquire capital assets. Such resources are derived principally from proceeds of the sale of bonds.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Basis of Accounting

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting which recognizes all long-term assets and receivables as well as long-term debt and obligations. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Ad valorem property taxes are recognized as revenues in the fiscal year for which they have been levied and related penalties and interest are recognized in the fiscal year in which they are imposed. An allowance for uncollectibles is estimated for delinquent property taxes and reported separately in the financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred except for principal and interest on bonds payable which are recorded only when payment is due.

Interfund Activity

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is reported as interfund receivables or payables, as appropriate, as are all other outstanding balances between funds. Operating transfers between funds represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

Receivables

Service accounts receivable as reported are considered collectible. The District uses the direct write off method for uncollectible service accounts. Unbilled water and sewer revenues are not material and are not recorded at year end. The District considers service accounts revenues to be available if they are to be collected within 60 days after the end of the fiscal year.

In the fund financial statements, ad valorem taxes and penalties and interest are reported as revenues in the fiscal year in which they become available to finance expenditures of the fiscal year for which they have been levied. Property taxes which have been levied and are not yet collected (or have been collected in advance of the fiscal year for which they have been levied) are recorded as deferred inflow of resources. Property taxes collected after the end of the fiscal year are not included in revenues.

Capital Assets

Capital assets, which include property, plant, equipment, and immovable public domain or "infrastructure" assets are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 (including installation costs, if any, and associated professional fees) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed by the District. Donated capital assets are recorded at historical cost. Additions, improvements and other capital outlays that significantly extend the useful life of an asset or increase the value of an asset are capitalized. Costs incurred for repairs and maintenance are expensed as incurred.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

Plant and equipment	10-45 years
Underground lines	45 years

Long-term Liabilities

Long-term debt and other long-term obligations are reported in the government-wide financial statements. Bond premiums and discounts, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable premium or discount. If bonds are refunded and the carrying amount of the new debt is different than the net carrying amount of the old debt, the difference is netted against the new debt and amortized using the effective interest method over the shorter of the remaining life of the refunded debt or the life of the new debt issued.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures of the fund from which they are paid.

NOTE 3: RECONCILIATION OF FUND TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Reconciliation of year end fund balances to net position:

Total fund balances, end of year		\$ 5,059,751	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:			
Total capital assets, net			25,980,104
Some long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:			
Bonds payable	\$ (12,380,000)		
Deferred charge on refunding (to be amortized as interest expense)	177,569		
Issuance (premium) net of discount (to be amortized as interest expense)	<u>(877,031)</u>	(13,079,462)	
Some receivables that do not provide current financial resources are not reported as receivables in the funds:			
Accrued penalty and interest on property taxes receivable		43,106	
Uncollected standby fees		40,967	
Uncollected property taxes		<u>88,480</u>	172,553
Some liabilities that do not require the use of current financial resources are not reported as liabilities in the funds:			
Accrued interest			<u>(35,976)</u>
Net position, end of year			<u>\$ 18,096,970</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Reconciliation of net change in fund balances to change in net position:

Total net change in fund balances		\$ (867,523)
<p>The funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:</p>		
Capital outlay	\$ 1,300,154	
Depreciation	<u>(1,280,184)</u>	19,970
<p>The issuance of long-term debt (bonds payable) provides current financial resources to the funds, while the repayment of the principal of long-term debt consumes the current financial resources of the funds. Neither transaction, however, has any effect on net position. The effect of these differences in the treatment of long-term debt:</p>		
Sale of bonds	(3,840,000)	
Principal reduction	1,780,000	
Payment to escrow agent for refunding	<u>3,936,758</u>	1,876,758
<p>The funds report the effect of bond premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of these items:</p>		
Refunding charges	(28,609)	
Issuance premiums, net of discounts	<u>(215,027)</u>	(243,636)
<p>Some revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in the funds:</p>		
Accrued penalty and interest on property taxes receivable	7,729	
Uncollected standby fees	(411)	
Uncollected property taxes	<u>9,032</u>	16,350
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds:</p>		
Accrued interest		<u>7,694</u>
Change in net position		<u>\$ 809,613</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 4: CAPITAL ASSETS

Capital asset activity for the fiscal year ended September 30, 2019, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 38,670	\$	\$	\$ 38,670
Construction in progress	<u>35,893</u>	<u>1,186,601</u>	<u>1,218,793</u>	<u>3,701</u>
Total capital assets not being depreciated	<u>74,563</u>	<u>1,186,601</u>	<u>1,218,793</u>	<u>42,371</u>
Depreciable capital assets:				
Water system	17,535,084	999,122		18,534,206
Sewer system	17,628,150	286,034		17,914,184
Drainage system	<u>8,847,539</u>	<u>47,190</u>		<u>8,894,729</u>
Total depreciable capital assets	<u>44,010,773</u>	<u>1,332,346</u>	<u>0</u>	<u>45,343,119</u>
Less accumulated depreciation for:				
Water system	(6,477,213)	(619,701)		(7,096,914)
Sewer system	(7,757,769)	(461,668)		(8,219,437)
Drainage system	<u>(3,890,220)</u>	<u>(198,815)</u>		<u>(4,089,035)</u>
Total accumulated depreciation	<u>(18,125,202)</u>	<u>(1,280,184)</u>	<u>0</u>	<u>(19,405,386)</u>
Total depreciable capital assets, net	<u>25,885,571</u>	<u>52,162</u>	<u>0</u>	<u>25,937,733</u>
Total capital assets, net	<u>\$ 25,960,134</u>	<u>\$ 1,238,763</u>	<u>\$ 1,218,793</u>	<u>\$ 25,980,104</u>
Changes to capital assets:				
Capital outlay		\$ 1,300,154	\$	
Assets transferred to depreciable assets		1,218,793	1,218,793	
Less depreciation expense for the fiscal year		<u>(1,280,184)</u>		
Net increases / decreases to capital assets		<u>\$ 1,238,763</u>	<u>\$ 1,218,793</u>	

NOTE 5: LONG-TERM LIABILITIES AND CONTINGENT LIABILITIES

Long-term liability activity for the fiscal year ended September 30, 2019, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Bonds payable	\$ 14,220,000	\$ 3,840,000	\$ 5,680,000	\$ 12,380,000	\$ 1,665,000
Issuance premium, net of (discount)	660,403	259,277	42,649	877,031	65,527
Deferred amounts on refunding	<u>(167,819)</u>	<u>(38,359)</u>	<u>(28,609)</u>	<u>(177,569)</u>	<u>(31,858)</u>
Total bonds payable	<u>14,712,584</u>	<u>4,060,918</u>	<u>5,694,040</u>	<u>13,079,462</u>	<u>1,698,669</u>
Total long-term liabilities	<u>\$ 14,712,584</u>	<u>\$ 4,060,918</u>	<u>\$ 5,694,040</u>	<u>\$ 13,079,462</u>	<u>\$ 1,698,669</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Bonds payable, beginning of year		\$ 14,220,000
Bonds paid		(1,780,000)
Bonds sold:		
Proceeds	\$ 4,099,277	
Premium	<u>(259,277)</u>	3,840,000
Bonds refunded		<u>(3,900,000)</u>
Bonds payable, end of year		<u>\$ 12,380,000</u>

As of September 30, 2019, the debt service requirements on the bonds payable were as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 1,665,000	\$ 405,693	\$ 2,070,693
2021	1,435,000	355,218	1,790,218
2022	1,250,000	312,494	1,562,494
2023	1,130,000	274,064	1,404,064
2024	1,130,000	232,776	1,362,776
2025 - 2029	5,070,000	598,374	5,668,374
2030 - 2031	<u>700,000</u>	<u>28,000</u>	<u>728,000</u>
	<u>\$ 12,380,000</u>	<u>\$ 2,206,619</u>	<u>\$ 14,586,619</u>

Bonds voted	\$ 60,000,000
Bonds approved for sale and sold	38,690,000
Bonds voted and not issued	21,310,000

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

The bond issues payable at September 30, 2019, were as follows:

	<u>Refunding Series 2010</u>	<u>Series 2011</u>	<u>Refunding Series 2012</u>
Amounts outstanding, September 30, 2019	\$225,000	\$340,000	\$1,255,000
Interest rates	3.625% to 3.75%	4.25%	3.00% to 3.50%
Maturity dates, serially beginning/ending	March 1, 2020/2021	March 1, 2020	March 1, 2020/2024
Interest payment dates	March 1/September 1	March 1	March 1/September 1
Callable dates	March 1, 2018*	March 1, 2019*	March 1, 2020*

*Or any date thereafter at par plus accrued interest to the date of redemption, in whole or in part at the option of the District.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	<u>Refunding Series 2013</u>	<u>Refunding Series 2016</u>	<u>Refunding Series 2019**</u>
Amounts outstanding, September 30, 2019	\$4,265,000	\$2,455,000	\$3,840,000
Interest rates	2.00% to 3.50%	3.00% to 4.00%	3.00% to 4.00%
Maturity dates, serially beginning/ending	March 1, 2020/2029	March 1, 2020/2029	March 1, 2020/2031
Interest payment dates	March 1/September 1	March 1/September 1	March 1/September 1
Callable dates	March 1, 2021*	March 1, 2023*	March 1, 2025*

*Or any date thereafter at par plus accrued interest to the date of redemption, in whole or in part at the option of the District.

**On May 15, 2019, the District issued \$3,840,000 in unlimited tax refunding bonds to refund \$3,900,000 of outstanding Series 2011 bonds. The net proceeds of \$3,936,758 (after payment of \$158,973 in issuance costs) were deposited in an irrevocable trust with an escrow agent for the refunded bonds to call and retire the refunded bonds on May 16, 2019. As a result, the refunded bonds are considered defeased and the liability for these bonds will be removed from the financial statements.

The District refunded the bonds to reduce total debt service payments over future years by approximately \$347,000 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$286,000.

Developer Construction Commitments and Liabilities

At September 30, 2019, there were no developer construction commitments and liabilities.

NOTE 6: PROPERTY TAXES

The Montgomery Central Appraisal District has the responsibility for appraising property for all taxing units within the county as of January 1 of each year, subject to review and change by the county Appraisal Review Board. The appraisal roll, as approved by the Appraisal Review Board, must be used by the District in establishing its tax roll and tax rate. The District's taxes are usually levied in the fall, are due when billed and become delinquent after January 31 of the following year or 30 days after the date billed, whichever is later. On January 1 of each year, a statutory tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed for the year on the property.

The Bond Resolutions and 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.

At an election on March 18, 1989, the voters within the District authorized a maintenance tax not to exceed \$0.25 per \$100 valuation on all property within the District subject to taxation. This maintenance tax is being used by the General Fund to pay expenditures of operating the District.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

On September 18, 2018, the District levied the following ad valorem taxes for the 2018 tax year on the adjusted taxable valuation of \$1,067,002,372:

	Rate	Amount
Debt service	\$ 0.1900	\$ 2,027,305
Maintenance	0.1400	1,493,804
	\$ 0.3300	\$ 3,521,109

A reconciliation of the tax levy to property tax revenues on the Statement of Activities is as follows:

2018 tax year total property tax levy	\$ 3,521,109
Appraisal district adjustments to prior year taxes	(1)
Statement of Activities property tax revenues	\$ 3,521,108

NOTE 7: DEPOSITS AND TEMPORARY INVESTMENTS

The District complied with the requirements of the Public Funds Investment Act during the current fiscal year including the preparation of quarterly investment reports required by the Act.

State statutes authorize the District to invest and reinvest in direct or indirect obligations of the United States, the State of Texas, any county, city, school district, or other political subdivision of the state, or in local government investment pools authorized under the Public Funds Investment Act. Funds of the District may be placed in certificates of deposit of state or national banks or savings and loan associations within the state provided that they are secured in the manner provided for the security of the funds under the laws of the State of Texas. In accordance with the District's investment policies, during the current year the District's funds were invested in interest bearing accounts at authorized financial institutions, an authorized private sector investment pool, and in TexPool, a local government investment pool sponsored by the State Comptroller. TexPool is rated AAAM by Standard & Poor's.

In accordance with state statutes and the District's investment policies, the District requires that insurance or security be provided by depositories for all funds held by them. At the balance sheet date, the District's deposits were covered by federal insurance.

At the balance sheet date the carrying value and market value of the investments in TexPool was \$5,005,798.

Deposits and temporary investments restricted by state statutes and Bond Resolutions and Orders:

Debt Service Fund

For payment of debt principal and interest, paying agent fees and costs of assessing and collecting taxes:

Cash	\$ 127,394
Temporary investments	974,822
	\$ 1,102,216

NOTES TO THE FINANCIAL STATEMENTS (Continued)**NOTE 8: RISK MANAGEMENT**

The District is exposed to various risks of loss related to: torts; theft of, damage to, and destruction of assets; errors and omissions; personal injuries and natural disasters. Significant losses are covered by insurance as described below. There were no significant reductions in insurance coverage from the prior fiscal year. There have been no settlements which have exceeded the insurance coverage for each of the past three fiscal years.

At September 30, 2019, the District had physical damage and boiler and machinery coverage of \$16,998,700, inland marine coverage of \$20,135, comprehensive general liability coverage with a per occurrence limit of \$1,000,000 and \$3,000,000 general aggregate, worker's compensation coverage of \$1,000,000, automobile coverage of \$1,000,000, consultant's crime coverage of \$100,000 and a tax assessor-collector bond of \$100,000.

NOTE 9: STANDBY CHARGES

The District levies a standby charge of \$5.00 per month per lot for maintenance and operations in accordance with the deed restrictions of the subdivisions served by the District.

NOTE 10: GROUNDWATER CONSERVATION DISTRICT

The District is within the boundaries of the Lone Star Groundwater Conservation District ("LSGCD"). The LSGCD was created by the Legislature of the State of Texas in Acts 2001, 77th Legislature, Regular Session. The LSGCD is a political subdivision of the State of Texas, governed by an elected seven member board of directors. The purpose of the LSGCD is to provide for the conservation, preservation, protection, recharging, and prevention of waste of groundwater, and of groundwater reservoirs or their subdivisions, and the control of subsidence which may be caused by the withdrawal of water from those groundwater reservoirs or their subdivisions, consistent with the objectives of Section 59, Article XVI, Texas Constitution. Rule 8.1 of the rules of the LSGCD authorizes the board of directors of the LSGCD to establish by resolution a regulatory water use fee to accomplish the purposes of the LSGCD. In accordance with this rule, as of September 30, 2019, the LSGCD had established a regulatory water use fee of \$0.105 per 1,000 gallons of water pumped from each regulated well. The District's well regulatory water use fees payable to the LSGCD for the fiscal year ended September 30, 2019, were \$44,821.

As of September 30, 2019, the Groundwater District's Board and Consultants were working on replacement regulations to accomplish their objectives found in their Groundwater Management Plan.

Previous regulations included reductions in groundwater pumping within the Gulf Coast Aquifer system, and they have been declared invalid by a Montgomery County Court. This was due to a lawsuit against the Lone Star Groundwater Conservation District by several Large Volume Groundwater Users (LVGUs) in Montgomery County. The ruling was confirmed and signed by the Judge on May 15, 2019, ending the lawsuit.

The District was not a party to this lawsuit, and was in compliance with the previous regulations requiring reduced groundwater pumping. By investing in two deeper water wells in the Catahoula Aquifer (not part of the Gulf Coast Aquifer System), the District has successfully accessed another water supply for the future.

Currently the District has plentiful water supplies and exceeds the current Texas Commission on Environmental Quality (TCEQ) regulations for public water supplies. Future Lone Star Groundwater Conservation District regulations on pumping are anticipated to be less stringent and should have no effect on the District.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 18

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE, BUDGET AND ACTUAL, GENERAL FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 1,483,054	\$ 1,483,054	\$ 1,489,249	\$ 6,195
Water service	800,000	800,000	749,321	(50,679)
Sewer service	750,000	750,000	902,015	152,015
Standby charges	45,000	45,000	39,561	(5,439)
Penalty and other	6,800	6,800	20,861	14,061
Tap connection and inspection fees	65,000	65,000	92,925	27,925
Interest on deposits and investments	65,000	65,000	109,109	44,109
Other	<u>4,000</u>	<u>4,000</u>	<u>5,195</u>	<u>1,195</u>
TOTAL REVENUES	<u>3,218,854</u>	<u>3,218,854</u>	<u>3,408,236</u>	<u>189,382</u>
EXPENDITURES				
Service operations:				
Professional fees	160,500	160,500	163,558	3,058
Contracted services	170,000	170,000	168,332	(1,668)
Utilities	222,000	222,000	186,601	(35,399)
Ground water pumpage fees	45,000	45,000	44,821	(179)
Repairs, maintenance and other operating expenditures	860,000	860,000	1,138,694	278,694
Garbage disposal	480,000	480,000	520,918	40,918
Administrative expenditures	125,000	125,000	100,026	(24,974)
Capital outlay	<u>1,346,100</u>	<u>1,346,100</u>	<u>1,737,152</u>	<u>391,052</u>
TOTAL EXPENDITURES	<u>3,408,600</u>	<u>3,408,600</u>	<u>4,060,102</u>	<u>651,502</u>
EXCESS REVENUES (EXPENDITURES)	<u>(189,746)</u>	<u>(189,746)</u>	<u>(651,866)</u>	<u>(462,120)</u>
FUND BALANCE, BEGINNING OF YEAR	<u>4,632,258</u>	<u>4,632,258</u>	<u>4,632,258</u>	<u>0</u>
FUND BALANCE, END OF YEAR	<u>\$ 4,442,512</u>	<u>\$ 4,442,512</u>	<u>\$ 3,980,392</u>	<u>\$ (462,120)</u>

The District's Board of Directors adopts an annual nonappropriated budget. This budget may be amended throughout the fiscal year and is prepared on a basis consistent with generally accepted accounting principles.

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 18
SCHEDULE OF TEXAS SUPPLEMENTARY INFORMATION
REQUIRED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY
SEPTEMBER 30, 2019

(Schedules included are checked or explanatory notes provided for omitted schedules.)

- [X] TSI-1. Services and Rates
- [X] TSI-2. General Fund Expenditures
- [X] TSI-3. Temporary Investments
- [X] TSI-4. Taxes Levied and Receivable
- [X] TSI-5. Long-Term Debt Service Requirements by Years
- [X] TSI-6. Changes in Long-Term Bonded Debt
- [X] TSI-7. Comparative Schedule of Revenues and Expenditures -
General Fund and Debt Service Fund - Five Year
- [X] TSI-8. Board Members, Key Personnel and Consultants

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 18

SCHEDULE OF SERVICES AND RATES

SEPTEMBER 30, 2019

1. Services Provided by the District during the Fiscal Year:

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

2. Retail Service Providers

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

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1000 Gallons Over Minimum</u>	<u>Usage Levels</u>
WATER:	\$10.00	4,000	N	\$1.00	4,001 to 10,000
				1.50	10,001 to 15,000
				2.00	15,001 to 20,000
				3.00	20,001 to 30,000
				3.75	Over 30,000
WASTEWATER:	\$45.00		Y		
SURCHARGE:	\$0.00				

District employs winter averaging for wastewater usage: Yes No

Total charges per 10,000 gallons usage: Water: \$16.00 Wastewater: \$45.00 Surcharge: \$0.00

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 18

SCHEDULE OF SERVICES AND RATES (Continued)

SEPTEMBER 30, 2019

b. Water and Wastewater Retail Connections (unaudited):

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC* Factor</u>	<u>Active ESFCs</u>
Unmetered	0	0	1.0	0
< or = 3/4"	1,720	1,700	1.0	1,700
1"	549	546	2.5	1,365
1-1/2"	19	19	5.0	95
2"	23	23	8.0	184
3"	0	0	15.0	0
4"	1	1	25.0	25
6"	0	0	50.0	0
8"	0	0	80.0	0
10"	0	0	115.0	0
Total Water	<u>2,312</u>	<u>2,289</u>		<u>3,369</u>
Total Wastewater	<u>2,198</u>	<u>2,174</u>	1.0	<u>2,174</u>

*Single family equivalents

3. Total Water Consumption during the Fiscal Year (rounded to thousands):

Gallons pumped into system (unaudited): 375,489
 Gallons billed to customers (unaudited): 357,846

Water Accountability Ratio
 (Gallons billed/ gallons pumped): 95%

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 18

SCHEDULE OF SERVICES AND RATES (Continued)

SEPTEMBER 30, 2019

4. Standby Fees (authorized only under TWC Section 49.231):

Does the District have Debt Service standby fees? Yes No

If yes, date of the most recent Commission Order: _____

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

If yes, date of the most recent Commission Order: Not Applicable, see below.

For the fiscal year ended September 30, 2019:

<u>Operation and maintenance</u>	
Total levy	\$ 42,150
Total collected	32,670
Percentage collected	77.5%

The District levies a standby charge of \$5.00 per month per lot for maintenance and operations in accordance with the deed restrictions of the subdivisions served by the District.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 18

EXPENDITURES

FOR THE YEAR ENDED SEPTEMBER 30, 2019

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
CURRENT				
Professional fees:				
Auditing	\$ 10,950	\$	\$	\$ 10,950
Legal	104,266	10,122		114,388
Engineering	<u>48,342</u>			<u>48,342</u>
	<u>163,558</u>	<u>10,122</u>	<u>0</u>	<u>173,680</u>
Contracted services:				
Bookkeeping	23,984			23,984
Operation and billing	142,881			142,881
Standby fee billing	1,467			1,467
Tax assessor-collector Central appraisal district		18,000		18,000
		<u>30,658</u>		<u>30,658</u>
	<u>168,332</u>	<u>48,658</u>	<u>0</u>	<u>216,990</u>
Utilities	<u>186,601</u>	<u>0</u>	<u>0</u>	<u>186,601</u>
Ground water pumpage fees	<u>44,821</u>	<u>0</u>	<u>0</u>	<u>44,821</u>
Repairs, maintenance and other operating expenditures:				
Repairs and maintenance	1,078,587			1,078,587
Laboratory costs	27,312			27,312
Sewer inspection costs	7,616			7,616
Reconnection costs	17,162			17,162
TCEQ assessment	8,017			8,017
	<u>1,138,694</u>	<u>0</u>	<u>0</u>	<u>1,138,694</u>
Garbage disposal	<u>520,918</u>	<u>0</u>	<u>0</u>	<u>520,918</u>
Administrative expenditures:				
Director's fees	7,650			7,650
Office supplies and postage	36,359			36,359
Insurance	40,948	500		41,448
Permit fees	9,575			9,575
Customer education	1,549			1,549
Other	3,945	9,483		13,428
	<u>100,026</u>	<u>9,983</u>	<u>0</u>	<u>110,009</u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 18

EXPENDITURES (Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2019

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
CAPITAL OUTLAY				
Authorized expenditures	\$ 1,679,555	\$	\$	\$ 1,679,555
Tap connection costs	57,597			57,597
	<u>1,737,152</u>	<u>0</u>	<u>0</u>	<u>1,737,152</u>
DEBT SERVICE				
Principal retirement	<u>0</u>	<u>1,780,000</u>	<u>0</u>	<u>1,780,000</u>
Interest and fees:				
Interest		454,683		454,683
Paying agent fees		3,550		3,550
	<u>0</u>	<u>458,233</u>	<u>0</u>	<u>458,233</u>
TOTAL EXPENDITURES	<u>\$ 4,060,102</u>	<u>\$ 2,306,996</u>	<u>\$ 0</u>	<u>\$ 6,367,098</u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 18

ANALYSIS OF CHANGES IN DEPOSITS AND TEMPORARY INVESTMENTS
ALL GOVERNMENTAL FUND TYPES

FOR THE YEAR ENDED SEPTEMBER 30, 2019

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
SOURCES OF DEPOSITS AND TEMPORARY INVESTMENTS				
Cash receipts from revenues excluding maintenance taxes	\$ 1,877,110	\$ 2,087,793	\$	\$ 3,964,903
Maintenance tax receipts		1,489,249		1,489,249
Transfer of maintenance taxes	1,485,990			1,485,990
Proceeds from sale of bonds		4,099,277		4,099,277
Increase in customer and builder deposits	12,606			12,606
Overpayments from taxpayers		<u>45,797</u>		<u>45,797</u>
TOTAL DEPOSITS AND TEMPORARY INVESTMENTS PROVIDED	<u>3,375,706</u>	<u>7,722,116</u>	<u>0</u>	<u>11,097,822</u>
APPLICATIONS OF DEPOSITS AND TEMPORARY INVESTMENTS				
Cash disbursements for:				
Current expenditures	2,333,336	72,718		2,406,054
Capital outlay	1,737,152			1,737,152
Debt service		2,238,233		2,238,233
Payment to refunding escrow agent		3,936,758		3,936,758
Refunding bond issuance expenditures		158,973		158,973
Transfer of maintenance taxes		1,485,990		1,485,990
Refund of taxpayer overpayments		<u>52,204</u>		<u>52,204</u>
TOTAL DEPOSITS AND TEMPORARY INVESTMENTS APPLIED	<u>4,070,488</u>	<u>7,944,876</u>	<u>0</u>	<u>12,015,364</u>
INCREASE (DECREASE) IN DEPOSITS AND TEMPORARY INVESTMENTS	(694,782)	(222,760)	0	(917,542)
DEPOSITS AND TEMPORARY INVESTMENTS BALANCES, BEGINNING OF YEAR	<u>4,849,652</u>	<u>1,324,976</u>	<u>0</u>	<u>6,174,628</u>
DEPOSITS AND TEMPORARY INVESTMENTS BALANCES, END OF YEAR	<u>\$ 4,154,870</u>	<u>\$ 1,102,216</u>	<u>\$ 0</u>	<u>\$ 5,257,086</u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 18SCHEDULE OF TEMPORARY INVESTMENTSSEPTEMBER 30, 2019

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Year End Balance</u>	<u>Accrued Interest Receivable</u>
GENERAL FUND				
TexPool				
No. 1701800003	Market	On demand	\$ <u>4,030,976</u>	\$ <u>0</u>
DEBT SERVICE FUND				
TexPool				
No. 1701800001	Market	On demand	\$ <u>974,822</u>	\$ <u>0</u>
Total – All Funds			\$ <u>5,005,798</u>	\$ <u>0</u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 18

TAXES LEVIED AND RECEIVABLE

FOR THE YEAR ENDED SEPTEMBER 30, 2019

	<u>Maintenance Taxes</u>	<u>Debt Service Taxes</u>
RECEIVABLE, BEGINNING OF YEAR	\$ 24,973	\$ 54,475
Additions and corrections to prior year taxes	<u>(1)</u>	<u>0</u>
Adjusted receivable, beginning of year	24,972	54,475
2018 ADJUSTED TAX ROLL	<u>1,493,804</u>	<u>2,027,305</u>
Total to be accounted for	1,518,776	2,081,780
Tax collections: Current tax year	(1,481,709)	(2,010,891)
Prior tax years	<u>(7,540)</u>	<u>(11,936)</u>
RECEIVABLE, END OF YEAR	<u>\$ 29,527</u>	<u>\$ 58,953</u>
RECEIVABLE, BY TAX YEAR		
2008 and prior	\$ 2,097	\$ 9,103
2009	853	2,900
2010	1,229	4,177
2011	1,420	4,132
2012	1,432	3,514
2013	1,437	3,528
2014	1,645	3,738
2015	629	1,154
2016	2,409	3,706
2017	4,281	6,587
2018	<u>12,095</u>	<u>16,414</u>
RECEIVABLE, END OF YEAR	<u>\$ 29,527</u>	<u>\$ 58,953</u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 18

TAXES LEVIED AND RECEIVABLE (Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2019

ADJUSTED PROPERTY VALUATIONS AS OF JANUARY 1 OF TAX YEAR	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Land	\$ 261,020,940	\$ 260,948,660	\$ 261,243,630	\$ 261,279,200
Improvements	808,476,366	812,943,286	796,966,733	718,556,726
Personal property	12,632,038	11,293,972	9,522,436	8,652,117
Less exemptions	<u>(15,126,972)</u>	<u>(21,357,556)</u>	<u>(32,623,305)</u>	<u>(30,391,535)</u>
 TOTAL PROPERTY VALUATIONS	 <u>\$ 1,067,002,372</u>	 <u>\$ 1,063,828,362</u>	 <u>\$ 1,035,109,494</u>	 <u>\$ 958,096,508</u>
 TAX RATES PER \$100 VALUATION				
Debt service tax rates	\$ 0.19000	\$ 0.20000	\$ 0.20000	\$ 0.22000
Maintenance tax rates*	<u>0.14000</u>	<u>0.13000</u>	<u>0.13000</u>	<u>0.12000</u>
 TOTAL TAX RATES PER \$100 VALUATION	 <u>\$ 0.33000</u>	 <u>\$ 0.33000</u>	 <u>\$ 0.33000</u>	 <u>\$ 0.34000</u>
 TAX ROLLS	 <u>\$ 3,521,109</u>	 <u>\$ 3,510,637</u>	 <u>\$ 3,415,878</u>	 <u>\$ 3,257,587</u>
 PERCENT OF TAXES COLLECTED TO TAXES LEVIED	 <u>99.2 %</u>	 <u>99.7 %</u>	 <u>99.8 %</u>	 <u>99.9 %</u>

*Maximum tax rate approved by voters on March 18, 1989: \$0.25

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 18

LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS

SEPTEMBER 30, 2019

<u>Due During Fiscal Years Ending September 30</u>	<u>Series 2010</u>		
	<u>Principal Due March 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2020	\$ 110,000	\$ 6,306	\$ 116,306
2021	<u>115,000</u>	<u>2,156</u>	<u>117,156</u>
TOTALS	<u>\$ 225,000</u>	<u>\$ 8,462</u>	<u>\$ 233,462</u>

<u>Due During Fiscal Years Ending September 30</u>	<u>Series 2011</u>		
	<u>Principal Due March 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2019	<u>\$ 340,000</u>	<u>\$ 7,225</u>	<u>\$ 347,225</u>

<u>Due During Fiscal Years Ending September 30</u>	<u>Series 2012</u>		
	<u>Principal Due March 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2020	\$ 310,000	\$ 35,262	\$ 345,262
2021	325,000	25,737	350,737
2022	335,000	15,419	350,419
2023	140,000	7,526	147,526
2024	<u>145,000</u>	<u>2,538</u>	<u>147,538</u>
TOTALS	<u>\$ 1,255,000</u>	<u>\$ 86,482</u>	<u>\$ 1,341,482</u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 18
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)
SEPTEMBER 30, 2019

<u>Due During Fiscal Years Ending September 30</u>	<u>Series 2013</u>		
	<u>Principal Due March 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2020	\$ 285,000	\$ 142,150	\$ 427,150
2021	280,000	134,400	414,400
2022	360,000	123,200	483,200
2023	445,000	109,113	554,113
2024	445,000	93,538	538,538
2025	540,000	76,300	616,300
2026	485,000	58,362	543,362
2027	480,000	41,474	521,474
2028	475,000	24,763	499,763
2029	470,000	8,225	478,225
TOTALS	\$ 4,265,000	\$ 811,525	\$ 5,076,525

<u>Due During Fiscal Years Ending September 30</u>	<u>Series 2016</u>		
	<u>Principal Due March 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2020	\$ 585,000	\$ 76,125	\$ 661,125
2021	355,000	62,025	417,025
2022	195,000	53,775	248,775
2023	195,000	47,925	242,925
2024	190,000	41,200	231,200
2025	190,000	33,600	223,600
2026	190,000	26,000	216,000
2027	185,000	18,500	203,500
2028	185,000	11,100	196,100
2029	185,000	3,700	188,700
TOTALS	\$ 2,455,000	\$ 373,950	\$ 2,828,950

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 18
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)
SEPTEMBER 30, 2019

<u>Due During Fiscal Years Ending September 30</u>	<u>Series 2019</u>		
	<u>Principal Due September 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2020	\$ 35,000	\$ 138,625	\$ 173,625
2021	360,000	130,900	490,900
2022	360,000	120,100	480,100
2023	350,000	109,500	459,500
2024	350,000	95,500	445,500
2025	345,000	81,600	426,600
2026	345,000	71,250	416,250
2027	335,000	61,100	396,100
2028	330,000	47,800	377,800
2029	330,000	34,600	364,600
2030	350,000	21,000	371,000
2031	<u>350,000</u>	<u>7,000</u>	<u>357,000</u>
TOTALS	<u>\$ 3,840,000</u>	<u>\$ 918,975</u>	<u>\$ 4,758,975</u>

<u>Due During Fiscal Years Ending September 30</u>	<u>Annual Requirements for All Series</u>		
	<u>Total Principal Due</u>	<u>Total Interest Due</u>	<u>Total</u>
2020	\$ 1,665,000	\$ 405,693	\$ 2,070,693
2021	1,435,000	355,218	1,790,218
2022	1,250,000	312,494	1,562,494
2023	1,130,000	274,064	1,404,064
2024	1,130,000	232,776	1,362,776
2025	1,075,000	191,500	1,266,500
2026	1,020,000	155,612	1,175,612
2027	1,000,000	121,074	1,121,074
2028	990,000	83,663	1,073,663
2029	985,000	46,525	1,031,525
2030	350,000	21,000	371,000
2031	<u>350,000</u>	<u>7,000</u>	<u>357,000</u>
TOTALS	<u>\$ 12,380,000</u>	<u>\$ 2,206,619</u>	<u>\$ 14,586,619</u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 18

ANALYSIS OF CHANGES IN LONG-TERM BONDED DEBT

FOR THE YEAR ENDED SEPTEMBER 30, 2019

	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	<u>(4)</u>
Bond Series:	2008	2010	2011	2012
Interest Rate:	Not Applicable	3.625% to 3.75%	4.25%	3.00% to 3.50%
Dates Interest Payable:	Not Applicable	March 1/ September 1	March 1	March 1/ September 1
Maturity Dates:	Not Applicable	March 1, 2020/2021	March 1, 2020	March 1, 2020/2024
Bonds Outstanding at Beginning of Current Year	\$ 175,000	\$ 530,000	\$ 4,580,000	\$ 1,550,000
Less Retirements	<u>(175,000)</u>	<u>(305,000)</u>	<u>(4,240,000)</u>	<u>(295,000)</u>
Bonds Outstanding at End of Current Year	<u>\$ 0</u>	<u>\$ 225,000</u>	<u>\$ 340,000</u>	<u>\$ 1,255,000</u>
Current Year Interest Paid:	<u>\$ 3,500</u>	<u>\$ 14,019</u>	<u>\$ 109,894</u>	<u>\$ 44,337</u>

Bond Descriptions and Original Amount of Issue

- (1) Montgomery County Municipal Utility District No. 18 Unlimited Tax Bonds, Series 2008
(\$3,125,000)
- (2) Montgomery County Municipal Utility District No. 18 Unlimited Tax Refunding Bonds, Series 2010
(\$5,345,000)
- (3) Montgomery County Municipal Utility District No. 18 Unlimited Tax Bonds, Series 2011 (\$4,580,000)
- (4) Montgomery County Municipal Utility District No. 18 Unlimited Tax Refunding Bonds, Series 2012
(\$3,165,000)

Paying Agent/Registrar

- (1) (2) (3) (4) The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

Net Debt Service Fund deposits and investments balances as of September 30, 2019:	\$1,079,359
Average annual debt service payment for remaining term of all debt:	1,215,552

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 18
ANALYSIS OF CHANGES IN LONG-TERM BONDED DEBT (Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2019

	<u>(5)</u>	<u>(6)</u>	<u>(7)</u>	<u>Totals</u>
Bond Series:	2013	2016	2019	
Interest Rate:	2.00% to 3.50%	3.00% to 4.00%	3.00% to 4.00%	
Dates Interest Payable:	March 1/ September 1	March 1/ September 1	March 1/ September 1	
Maturity Dates:	March 1, 2020/2029	March 1, 2020/2029	March 1, 2020/2031	
Bonds Outstanding at Beginning of Current Year	\$ 4,530,000	\$ 2,855,000	\$	\$ 14,220,000
Add Bonds Sold			3,840,000	3,840,000
Less Retirements	<u>(265,000)</u>	<u>(400,000)</u>	<u>0</u>	<u>(5,680,000)</u>
Bonds Outstanding at End of Current Year	<u>\$ 4,265,000</u>	<u>\$ 2,455,000</u>	<u>\$ 3,840,000</u>	<u>\$ 12,380,000</u>
Current Year Interest Paid:	<u>\$ 147,650</u>	<u>\$ 88,900</u>	<u>\$ 46,383</u>	<u>\$ 454,683</u>

Bond Descriptions and Original Amount of Issue

- (5) Montgomery County Municipal Utility District No. 18 Unlimited Tax Refunding Bonds, Series 2013
(\$5,410,000)
- (6) Montgomery County Municipal Utility District No. 18 Unlimited Tax Refunding Bonds, Series 2016
(\$3,270,000)
- (7) Montgomery County Municipal Utility District No. 18 Unlimited Tax Refunding Bonds, Series 2019
(\$3,840,000)

Paying Agent/Registrar

(5) (6) (7) The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

<u>Bond Authority</u>	<u>Tax Bonds</u>	<u>Other Bonds</u>	<u>Refunding Bonds</u>
Amount Authorized by Voters:	\$ 60,000,000	\$ 0	\$ 0
Amount Issued:	38,690,000		
Remaining to be Issued:	21,310,000		

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 18
COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,
GENERAL FUND
FOR YEARS ENDED SEPTEMBER 30

	AMOUNT					PERCENT OF TOTAL REVENUES				
	2019	2018	2017	2016	2015	2019	2018	2017	2016	2015
REVENUES										
Property taxes	\$ 1,489,249	\$ 1,385,139	\$ 1,343,155	\$ 1,145,675	\$ 1,003,447	43.6 %	42.0 %	42.4 %	36.8 %	33.9 %
Water service	749,321	945,847	891,290	872,930	810,324	22.0	28.7	28.1	28.0	27.4
Sewer service, net of rebate	902,015	752,598	742,634	721,125	702,966	26.5	22.8	23.4	23.2	23.8
Standby charges	39,561	41,634	45,757	51,349	52,846	1.2	1.3	1.4	1.7	1.8
Conservation credit sales	0	0	0	172,725	171,524	0.0	0.0	0.0	5.6	5.8
Penalty and other	26,056	26,085	18,835	18,378	17,347	0.8	0.8	0.6	0.6	0.6
Tap connection and inspection fees	92,925	64,950	91,208	106,380	190,485	2.7	2.0	2.9	3.4	6.4
Interest on deposits and investments and other	109,109	80,871	37,058	19,443	10,159	3.2	2.4	1.2	0.7	0.3
TOTAL REVENUES	3,408,236	3,297,124	3,169,937	3,108,005	2,959,098	100.0	100.0	100.0	100.0	100.0
EXPENDITURES										
Service operations:										
Professional fees	163,558	191,418	209,651	202,996	119,196	4.8	5.8	6.6	6.5	4.0
Contracted services	168,332	167,648	165,901	164,951	160,052	4.9	5.1	5.2	5.3	5.4
Utilities	186,601	225,882	203,808	177,621	177,830	5.5	6.9	6.4	5.7	6.0
Ground water pumpage fees	44,821	40,874	39,472	33,110	46,926	1.3	1.2	1.2	1.1	1.6
Repairs , maintenance and other operating expenditures	1,138,694	907,681	1,325,251	1,071,593	1,360,839	33.4	27.5	41.9	34.5	46.1
Garbage disposal	520,918	480,810	460,933	438,981	419,634	15.3	14.6	14.5	14.1	14.2
Administrative expenditures	100,026	112,109	118,058	124,333	122,727	2.9	3.4	3.7	4.0	4.1
Capital outlay	1,737,152	780,510	2,077,779	1,650,356	403,837	51.0	23.7	65.5	53.1	13.6
TOTAL EXPENDITURES	4,060,102	2,906,932	4,600,853	3,863,941	2,811,041	119.1	88.2	145.0	124.3	95.0
EXCESS REVENUES (EXPENDITURES)	\$ (651,866)	\$ 390,192	\$(1,430,916)	\$ (755,936)	\$ 148,057	(19.1) %	11.8 %	(45.0) %	(24.3) %	5.0 %
TOTAL ACTIVE RETAIL WATER CONNECTIONS	2,289	2,233	2,211	2,153	2,102					
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	2,174	2,119	2,097	2,049	1,998					

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 18
COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,
DEBT SERVICE FUND
FOR YEARS ENDED SEPTEMBER 30

	<u>AMOUNT</u>					<u>PERCENT OF TOTAL REVENUES</u>				
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
REVENUES										
Property taxes	\$ 2,022,827	\$ 2,134,003	\$ 2,085,701	\$ 2,102,166	\$ 2,282,156	96.9 %	97.2 %	96.9 %	98.1 %	98.7 %
Penalty and interest	28,024	39,151	55,332	30,202	29,849	1.3	1.8	2.6	1.4	1.3
Accrued interest on bonds received at date of sale	5,411	0	0	6,184	0	0.3	0.0	0.0	0.3	0.0
Interest on deposits and investments	31,531	22,436	10,422	3,283	573	1.5	1.0	0.5	0.2	0.0
TOTAL REVENUES	<u>2,087,793</u>	<u>2,195,590</u>	<u>2,151,455</u>	<u>2,141,835</u>	<u>2,312,578</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
EXPENDITURES										
Current:										
Professional fees	10,122	7,233	5,936	6,831	9,455	0.5	0.3	0.3	0.3	0.4
Contracted services	48,658	49,940	48,056	45,004	45,576	2.3	2.3	2.2	2.1	2.0
Other expenditures	9,983	15,541	11,721	9,496	15,078	0.5	0.7	0.5	0.4	0.7
Debt service:										
Principal retirement	1,780,000	1,380,000	1,365,000	1,590,000	1,855,000	85.3	62.8	63.5	74.3	80.1
Refunding contribution	0	0	0	5,323	0	0.0	0.0	0.0	0.2	0.0
Interest and fees	458,233	545,794	593,850	650,120	785,437	21.9	24.9	27.6	30.4	34.0
TOTAL EXPENDITURES	<u>2,306,996</u>	<u>1,998,508</u>	<u>2,024,563</u>	<u>2,306,774</u>	<u>2,710,546</u>	<u>110.5</u>	<u>91.0</u>	<u>94.1</u>	<u>107.7</u>	<u>117.2</u>
EXCESS REVENUES (EXPENDITURES)	<u>\$ (219,203)</u>	<u>\$ 197,082</u>	<u>\$ 126,892</u>	<u>\$ (164,939)</u>	<u>\$ (397,968)</u>	<u>(10.5) %</u>	<u>9.0 %</u>	<u>5.9 %</u>	<u>(7.7) %</u>	<u>(17.2) %</u>

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 18BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTSSEPTEMBER 30, 2019

Complete District Mailing Address: Montgomery County Municipal Utility District No. 18
 c/o Young & Brooks
 10000 Memorial Drive, Suite 260
 Houston, Texas 77024

District Business Telephone No.: 713-651-0800

Submission date of the most recent District Registration Form: November 20, 2019

Limit on Fees of Office that a Director may receive during a fiscal year: \$7,200

BOARD MEMBERS

<u>Name and Address</u>	<u>Term of Office (Elected/ Appointed)</u>	<u>Fees of Office Paid</u>	<u>Expense Reimb.</u>	<u>Title at Year End</u>
Rex Cambern 23 Wycliffe Drive Montgomery, Texas 77356	Elected 5/05/18- 5/07/22	\$ 1,950	\$ 0	President
Louis Tichacek 82 Broadcove Lane Montgomery, Texas 77356	Elected 5/07/16- 5/02/20	1,500	0	Vice President
Gary Montgomery 331 Wedgewood Drive Montgomery, Texas 77356	Elected 5/07/16- 5/02/20	1,350	0	Secretary
Nancy Busen 64 Waterberry Court Montgomery, Texas 77356	Elected 5/05/18- 5/07/22	1,500	0	Assistant Secretary
Susan McFarland 462 West Shore Drive Montgomery, Texas 77356	Elected 5/05/18- 5/07/22	1,350	0	Treasurer

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 18

BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS (Continued)

SEPTEMBER 30, 2019

CONSULTANTS

<u>Name and Address</u>	<u>Date Hired</u>	<u>Fees and Expense Reimbursements</u>	<u>Title at Year End</u>
Young & Brooks 10000 Memorial Drive, Suite 260 Houston, Texas 77024	7/22/03	\$ 104,266 48,000 Bonds	Attorney
Perdue, Brandon, Fielder, Collins & Mott, L.L.P. 1235 N. Loop West, Suite 600 Houston, Texas 77008	3/28/96	10,122	Delinquent Tax Attorney
District Data Services, Inc. P.O. Box 79349 Houston, Texas 77279	8/30/90	23,984 1,000 Bonds	Bookkeeper
Wendy Austin P.O. Box 79349 Houston, Texas 77279	11/13/06	0	Investment Officer
Hays Utility North Corporation P.O. Box 1268 Montgomery, Texas 77316	1/28/89	1,809,776	Operator
Bleyl Engineering 100 Nugent Street Conroe, Texas 77301	4/03/06	170,274	Engineer
Equi-Tax, Inc. P.O. Box 73109 Houston, Texas 77273	8/30/90	26,637	Tax Assessor- Collector
Montgomery Central Appraisal District P.O. Box 2233 Conroe, Texas 77305	Legislative Action	30,658	Central Appraisal District
Masterson Advisors, LLC 4400 Post Oak Parkway, Suite 2370 Houston, Texas 77027	6/19/18	41,562	Financial Advisor
Mark C. Eyring, CPA, PLLC 12702 Century Drive, Suite C2 Stafford, Texas 77477	9/19/96	10,950 750 Bonds	Independent Auditor

See accompanying independent auditor's report.

APPENDIX B

Specimen Municipal Bond Insurance Policy



MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

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

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

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

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

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

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

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

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

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer

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