

**Amendment Dated April 22, 2021
To
Official Statement Dated March 30, 2021**

**\$1,530,000
MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 107
(A Political Subdivision of the State of Texas, located within Montgomery County)
UNLIMITED TAX REFUNDING BONDS,
SERIES 2021**

The Official Statement is hereby amended by amending and restating the Initial Reoffering Yield on the cover page. The following information is provided as a replacement.

\$315,000 Term Bonds due August 1, 2038 (c)(d) Interest Rate 2.000% Initial Yield 2.220% (a) CUSIP No. 61370UJB4 (b)

OFFICIAL STATEMENT DATED MARCH 30, 2021

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

The District has designated the Bonds as "qualified tax-exempt obligations." See "TAX MATTERS – Qualified Tax-Exempt Obligations."

NEW ISSUE – Book-Entry-Only

**RATINGS: S&P (Underlying)..... "BBB"
(Insured)..... "AA"**

**See "MUNICIPAL BOND RATING" and
"MUNICIPAL BOND INSURANCE" herein**

\$1,530,000

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 107

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

UNLIMITED TAX REFUNDING BONDS, SERIES 2021

Dated: May 6, 2021

Due: August 1, as shown below

The Montgomery County Municipal Utility District No. 107 Unlimited Tax Refunding Bonds, Series 2021 (the "Bonds"), will be issued in fully registered form only, in denominations of \$5,000 or any integral multiple of \$5,000. Principal of and interest on the Bonds will be payable by The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, (the "Paying Agent/Registrar"). Interest accrues from May 6, 2021, and is payable on August 1, 2021 and each February 1 and August 1 thereafter (each an "Interest Payment Date") until the earlier of maturity or redemption. Interest on the Bonds will be payable by check or draft, dated as of the Interest Payment Date, and mailed by the Paying Agent/Registrar to the registered owners as shown on the bond register kept by the Paying Agent/Registrar (the "Registered Owners") on the fifteenth day of the month prior to each Interest Payment Date (the "Record Date"), or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and a Registered Owner at the risk and expense of such Registered Owner.

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



The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by Assured Guaranty Municipal Corp. ("AGM").

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS

Due (August 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Nos. 61370U (b)	Due (August 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Nos. 61370U (b)
2021	\$10,000	3.000%	0.220%	HS9	2024	\$75,000	3.000%	0.610%	HV2
2022	15,000	3.000%	0.290%	HT7	2025	80,000	3.000%	0.840%	HW0
2023	135,000	3.000%	0.390%	HU4	2026	80,000	3.000%	1.000%	HX8

\$250,000 Term Bonds due August 1, 2029 (c)(d) Interest Rate 2.000% Initial Yield 1.400% (a) CUSIP No. 61370UHY6 (b)

\$275,000 Term Bonds due August 1, 2032 (c)(d) Interest Rate 2.000% Initial Yield 1.900% (a) CUSIP No. 61370UHZ3 (b)

\$295,000 Term Bonds due August 1, 2035 (c)(d) Interest Rate 2.000% Initial Yield 2.100% (a) CUSIP No. 61370UJA6 (b)

\$315,000 Term Bonds due August 1, 2038 (c)(d) Interest Rate 2.000% Initial Yield 2.200% (a) CUSIP No. 61370UJB4 (b)

- (a) The initial reoffering yields on the Bonds are established by, and are the sole responsibility of the Underwriter (hereinafter defined), and may subsequently be changed.
- (b) CUSIP numbers have been assigned to the Bonds by Standard & Poor's CUSIP Service Bureau, a division of the McGraw-Hill Companies, Inc., and are included solely for the convenience of the owners of the Bonds.
- (c) Bonds maturing on August 1, 2027, and thereafter, shall be subject to redemption and payment at the option of the District, in whole or from time to time in part on August 1, 2026, or on any date thereafter, at the par value thereof plus accrued interest from the most recent Interest Payment Date to the date fixed for redemption. See "THE BONDS – Redemption Provisions." The yield on Bonds maturing on and after August 1, 2027 is calculated to the lower of yield to redemption or maturity.
- (d) In addition to being subject to optional redemption, as described above, the Term Bonds are also subject to mandatory redemption by lot or other customary random selection method on August 1 in the years and in the amounts set forth herein under the caption "THE BONDS – Redemption Provisions."

The Bonds, when issued, will constitute valid and legally binding obligations of Montgomery County Municipal Utility District No. 107 (the "District") and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against taxable property located within the District. Proceeds from the sale of the Bonds, together with certain other legally available funds, will be used to establish an escrow fund to currently refund an aggregate principal amount of \$1,420,000 of the District's outstanding Unlimited Tax Bonds, Series 2012 and Series 2013, (the "Refunded Bonds"), and to pay the costs of issuance of the Bonds. 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. THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS DESCRIBED HEREIN. See "INVESTMENT Considerations."

The Bonds are offered when, as and if issued, subject to approval of legality by the Attorney General of the State of Texas and by Allen Boone Humphries Robinson LLP, Houston, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriter (as, hereinafter defined) by Norton Rose Fulbright US LLP, Houston, Texas, Underwriter's Counsel. The Bonds are expected to be available for delivery on May 6, 2021 in Houston, Texas.

SAMCO CAPITAL MARKETS, INC.

USE OF INFORMATION IN OFFICIAL STATEMENT

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

This Official Statement does not constitute, and is not authorized by the District for use in connection with, an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

All of the summaries of the statutes, resolutions, contracts, audited financial statements, and engineering and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from the District, upon payment of duplication costs.

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

The following statement is provided by the Underwriter. In accordance with its responsibilities under the federal securities laws, the Underwriter has reviewed the information in this Official Statement but does not guarantee its accuracy or completeness.

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 C – Specimen Municipal Bond Insurance Policy".

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INTRODUCTION

This Official Statement provides certain information in connection with the issuance by Montgomery County Municipal Utility District No. 107 (the “District”) of its Unlimited Tax Refunding Bonds, Series 2021 (the “Bonds”).

The Bonds are issued pursuant to Article XVI, Section 59 of the Constitution, the general laws of the State of Texas, particularly Chapter 1207, Texas Government Code, and Chapters 49 and 54, Texas Water Code, as amended, and pursuant to a resolution (the “Bond Resolution”) adopted by the Board of Directors of the District (the “Board”), a political subdivision of the State of Texas. In the Bond Resolution, the District’s Board delegated pricing of the Bonds to a pricing officer, who will approve a pricing certificate which contains final pricing information for the Bonds.

The Official Statement includes descriptions of the Bonds, the Bond Resolution, and certain information about the District and its financial condition. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the District upon request.

SALE AND DISTRIBUTION OF THE BONDS

Underwriting

SAMCO Capital Markets, Inc. (referred to as the “Initial Purchaser” or “Underwriter”) has agreed, subject to certain conditions, to purchase the Bonds from the District for \$1,542,612.50 (an amount equal to the par amount of the Bonds, plus a net original issue premium in the amount of \$24,852.50, less an Underwriter’s discount of \$12,240.00).

The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

Prices and Marketability

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

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

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

Securities Laws

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

OFFICIAL STATEMENT SUMMARY

The following material is qualified in its entirety by the more detailed information and financial statements appearing elsewhere in this Official Statement. Particularly, the reader should refer to indicated sections for more complete information on the discussed topic.

The District..... Montgomery County Municipal Utility District No. 107 (the “District”), a political subdivision of the State of Texas, created by an order of the Texas Commission on Environmental Quality (“TCEQ or “Commission”), dated February 14, 2006, is located in central Montgomery County within the city limits of the City of Conroe, Texas (the “City”), approximately 3 miles north of downtown Conroe. It is located approximately 1 mile west of the intersection of Interstate 45 and Loop 336 W. At the time of its creation, the District contained 349.78 acres. The District annexed 50.829 acres on January 26, 2009, bringing the total acreage to 400.6105 acres. The District operates in accordance with Chapters 49 and 54 of the Texas Water Code, as amended, and other applicable laws of the State of Texas applicable to municipal utility districts. See “THE DISTRICT.”

The Issue..... \$1,530,000 Montgomery County Municipal Utility District No. 107 Unlimited Tax Refunding Bonds, Series 2021 (the “Bonds”) are being issued pursuant to a resolution authorizing issuance of the Bonds by the District’s Board (the “Bond Resolution”). In the Bond Resolution, the District’s Board delegated pricing of the Bonds to a pricing officer, who will approve a pricing certificate which contains final pricing information for the Bonds. The Bonds are being issued as serial bonds (the “Serial Bonds”) maturing annually on August 1, 2021 through 2026, inclusive, and as term bonds maturing on August 1, 2029, August 1, 2032, August 1, 2035, and August 1, 2038 (the “Term Bonds”). The Serial Bonds and the Term Bonds are collectively referred to herein as the “Bonds”. Interest on the Bonds is payable on each August 1 and February 1 beginning August 1, 2021. Bonds maturing August 1, 2027 through August 1, 2038, both inclusive, are subject to redemption prior to their scheduled maturities on August 1, 2026, and on any date thereafter. The Bonds are offered in fully registered form in integral multiples of \$5,000 principal amount. See “THE BONDS.”

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. 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 or homebuilding activity within the District. The Bonds are secured by an annual unlimited ad valorem tax levied by the District. A reduction in property values in the District may require an increase in the ad valorem tax rate required to pay debt service on the Bonds.

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 in some instances 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.

Book-Entry-Only The Bonds are initially issuable in book-entry-only form and, when issued, will be registered in the name of Cede & Co., as nominee of the Depository Trust Company, which will act as securities depository. Beneficial owners of the Bonds will not receive physical delivery of bond certificates. See “THE BONDS - Book-Entry-Only System.”

Tax-Exemption	In the opinion of Allen Boone Humphries Robinson LLP, Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, and the Bonds are not subject to the alternative tax on individuals and corporations. See “TAX MATTERS” herein for a discussion of Bond Counsel’s opinions, including a description of certain alternative minimum tax consequences for corporations.
Source of Payment.....	Principal of and interest on the Bonds are payable from the proceeds of an annual ad valorem tax levied, without legal limitation as to rate or amount, upon all taxable property within the District. (See “THE BONDS - Source of Payment”). The Bonds are obligations of the District, and are not obligations of the State of Texas, Montgomery County, the City, or any entity other than the District.
Use of Proceeds	Proceeds from the sale of the Bonds, together with certain other legally available funds, will be used to establish an escrow fund to currently refund an aggregate principal amount of \$1,420,000 of the District’s outstanding Unlimited Tax Bonds, Series 2012 and Series 2013, (the “Refunded Bonds”), and to pay the costs of issuance of the Bonds. See “SOURCES AND USES OF FUNDS” and “APPENDIX B – Schedule of Refunded Bonds.”
Authorized but Unissued Bonds	After sale of the Bonds, a total of \$27,460,000 principal amount of unlimited tax refunding bonds will remain authorized but unissued. See “THE BONDS - Issuance of Additional Debt.”
Qualified Tax-Exempt Obligations	The District has designated the Bonds as “qualified tax-exempt obligations” within the meaning of Section 265(b) of the Internal Revenue Code of 1986, as amended. See “TAX MATTERS - Qualified Tax-Exempt Obligations.”
Municipal Bond Rating and Insurance.....	Standard & Poor’s Rating Services (“S&P”) has assigned its municipal bond ratings of “AA” (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy guaranteeing the timely payment of the principal of and interest on the Bonds will be issued by Assured Guaranty Municipal Corp. (AGM). Additionally, S&P has assigned to the Bonds an underlying rating of “BBB”. The ratings reflect the view of S&P and the District makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that they will not be revised or withdrawn entirely by S&P, if in their judgment, circumstances so warrant. Any such revisions or withdrawal of the ratings may have an adverse effect on the market price of the Bonds. The purchase of such insurance and payment of all associated costs, including the premium charged by the insurer, and fees charged by any rating companies other than S&P, will be at the expense of the Initial Purchaser. See “MUNICIPAL BOND RATINGS” and “MUNICIPAL BOND INSURANCE.”
Status of Development..	As of March 16, 2021, the District contained 883 completed single-family homes, 2 homes under construction and 7 lots available for home construction. The remaining land in the District is comprised of approximately 20 undeveloped but developable acres and approximately 33.7 acres that are undevelopable. See “THE DISTRICT – Status of Development.”
Developer	Land within the District is being developed by Savannah Development, Ltd. and “THE DEVELOPER—The Developer.”
Payment Record.....	The District has never defaulted in the payment of principal or interest on its previously issued bonds. See “SELECTED FINANCIAL INFORMATION - Total Outstanding Bonds.”
Legal Opinion.....	Allen Boone Humphries Robinson LLP, Houston, Texas, Bond Counsel.
Underwriter’s Counsel..	Norton Rose Fulbright US LLP, Houston, Texas.
Engineer.....	BGE Engineering, Inc., Houston, Texas.
Financial Advisor	RBC Capital Markets, LLC, Houston, Texas.

THE BONDS INVOLVE CERTAIN INVESTMENT CONSIDERATIONS, AND ALL PROSPECTIVE PURCHASERS ARE URGED TO EXAMINE CAREFULLY THE ENTIRE OFFICIAL STATEMENT, INCLUDING PARTICULARLY THE SECTION CAPTIONED “INVESTMENT CONSIDERATIONS.”

SELECTED FINANCIAL INFORMATION SUMMARY
(Unaudited as of December 31, 2020)

2020 Assessed Valuation (100% of taxable value as of December 31, 2020)	\$263,743,952 ^(a)
Estimated Taxable Assessed Valuation at January 1, 2021	\$270,514,431
Direct Debt Outstanding (after issuance of the Bonds)	\$21,895,000
Estimated Overlapping Debt	20,307,943
	<hr/> \$42,202,943
Direct Debt Ratios:	
as a percentage of 2020 Assessed Valuation	8.30%
as a percentage of Estimated Taxable Assessed Valuation at January 1, 2021	8.09%
Direct and Estimated Overlapping Debt Ratios:	
as a percentage of 2020 Assessed Valuation	16.00%
as a percentage of Estimated Taxable Assessed Valuation at January 1, 2021	15.60%
Debt Service Fund Balance (as of March 16, 2021)	2,491,962 ^(b)
Capital Projects Fund Balance (as of March 16, 2021)	96,673
General Fund Balance (as of March 16, 2021)	707,018
2020 Tax Rate	
Maintenance & Operations	\$0.08
Debt Service	0.54
	<hr/> \$0.62
Average Annual Total Debt Service Requirements (2021 – 2042)	
(“Average Annual Requirement”)	\$1,413,343
\$0.57 Debt Service Tax Rate on 2020 Assessed Valuation,	
of \$263,743,952 at 95% collections produces	\$1,428,174
\$0.55 Debt Service Tax Rate on Estimated Taxable Assessed Valuation,	
of \$270,514,431 at 95% collections produces	\$1,413,438
Maximum Annual Total Debt Service Requirements (2042)	
(“Maximum Annual Requirement”)	\$1,480,625
\$0.60 Debt Service Tax Rate on 2020 Assessed Valuation,	
of \$263,743,952 at 95% collections produces	\$1,503,341
\$0.58 Debt Service Tax Rate on Estimated Taxable Assessed Valuation,	
of \$270,514,431 at 95% collections produces	\$1,490,535
Estimated District Population	3,090 ^(c)

(a) As certified by the Montgomery Central Appraisal District (“MCAD”). See “TAXING PROCEDURES.”

(b) Neither Texas law nor the Bond Resolution requires that the District maintain any particular sum in the District’s debt service funds.

(c) Based upon 3.5 residents per occupied single family home, which at March 16, 2021 totaled 883.

OFFICIAL STATEMENT
relating to

\$1,530,000

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 107
(A political subdivision of the State of Texas, located within Montgomery County, Texas)

Unlimited Tax Refunding Bonds
Series 2021

INTRODUCTION

The Official Statement provides certain information in connection with the issuance of the Montgomery County Municipal Utility District No. 107 Unlimited Tax Refunding Bonds, Series 2021 (the “Bonds”).

The Bonds are issued pursuant to the Constitution and laws of the State of Texas, particularly Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54, Texas Water Code, as amended, Chapter 1207, Texas Government Code, as amended, an election held within the District, and pursuant to a resolution (the “Bond Resolution”), adopted by the Board of Directors (the “Board”) of the District, a political subdivision of the State of Texas located within the city limits of the City of Conroe, Texas (the “City”) in Montgomery County, Texas.

The Official Statement includes descriptions of the Bonds, the Bond Resolution, and certain information about the District and its financial condition. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the District upon request.

PLAN OF FINANCING

Purpose

The proceeds from the sale of the Bonds, together with certain other legally available funds, will be used to establish an escrow fund to currently refund a portion of the District’s outstanding Unlimited Tax Bonds, Series 2012 and Series 2013, (the “Refunded Bonds”) and to pay costs of issuance of the Bonds. The schedule of Refunded Bonds is shown in “APPENDIX B – Schedule of Refunded Bonds.” By refunding the Refunded Bonds, the District will achieve a net present value savings in the District’s annual debt service expense.

Remaining Outstanding Bonds

The following table lists the original principal amount of the bonds issued by the District, the current principal balance of such bonds, the Refunded Bonds and the outstanding remaining bonds of the District (the “Remaining Outstanding Bonds.”)

Series	Original Principal Amount	Principal Currently Outstanding	Refunded Bonds	Remaining Outstanding Bonds
2012	\$1,765,000	\$190,000	\$65,000	\$125,000
2013	1,750,000	1,460,000	1,355,000	105,000
2016	2,760,000	2,530,000	0	2,530,000
2016A	4,865,000	4,395,000	0	4,395,000
2018	5,350,000	5,350,000	0	5,350,000
2019	3,980,000	3,920,000	0	3,920,000
2019A	3,985,000	3,940,000	0	3,940,000
2021	1,530,000	0	0	1,530,000
Total	\$25,985,000	\$21,785,000	\$1,420,000	\$21,895,000

(a) The Bonds.

Escrow Agreement

The Refunded Bonds, and interest due thereon, will be paid on their scheduled interest payment dates and the dates chosen for redemption from funds to be deposited with The Bank of New York Mellon Trust, N.A., Dallas, Texas, as escrow agent (the “Escrow Agent”) pursuant to the escrow agreement (the “Escrow Agreement”) to be effective on the date of delivery of the Bonds (expected on or about May 6, 2021). The Bond Resolution provides that proceeds from the sale of the Bonds, plus certain other legally available funds, will be deposited by the District with the Escrow Agent in an amount sufficient to accomplish the discharge and final payment of the Refunded Bonds. Such funds will be held by the Escrow Agent in a segregated escrow account (the “Escrow Fund”) and used to purchase a portfolio of securities authorized by Section 1207.062, Texas Government Code, which include direct noncallable obligations of the United States and/or noncallable obligations of an agency or instrumentality of the United States rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent and guaranteed by the full faith and credit of the United States of America (the “Escrowed Obligations”). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Bonds and will not be available to pay principal of and interest on the Bonds or the Remaining Outstanding Bonds.

At the time of delivery of the Bonds to the Underwriter, Public Finance Partners LLC will verify mathematical calculations to the effect that the cash and Escrowed Securities deposited with the Escrow Agent are sufficient to pay the principal of and interest on the Refunded Bonds on the appropriate redemption dates. See “VERIFICATION OF MATHEMATICAL CALCULATIONS.”

By the deposit of the cash and Escrowed Obligations 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 authorizing the issuance of the Refunded Bonds. In the opinion of Allen Boone Humphries Robinson LLP (“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 the Escrow Fund.

SOURCES AND USES OF FUNDS

The proceeds derived from the sale of the Bonds, together with certain other legally available funds, will be applied approximately as follows:

Sources of Funds:	
Par Amount of Bonds	\$1,530,000.00
Net Original Issue Premium	<u>24,852.50</u>
Total Sources of Funds	\$1,554,852.50
Uses of Funds:	
Escrow Deposit	\$1,450,650.49
Underwriter’s Discount	12,240.00
Costs of Issuance and Insurance Premium	91,947.15
Additional Proceeds – Deposit to Debt Service Fund	<u>14.86</u>
Total Uses of Funds	\$1,554,852.50

THE BONDS

General

The following is a description of some of the terms and conditions of the Bonds, which description is qualified in its entirety by reference to the Bond Resolution. The Bond Resolution authorizes the issuance and sale of the Bonds and prescribes the terms, conditions, and provisions for the payment of the principal of and interest on the Bonds by the District.

The Bonds will be dated May 6, 2021, and will mature on the dates and in the amounts shown under “MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS” on the cover page hereof. Interest on the Bonds is payable on each August 1 and February 1 (“Interest Payment Date”), beginning August 1, 2021. The Bonds will be issued in fully registered form only, in denominations of \$5,000 or any integral multiple of \$5,000.

Paying Agent/Registrar

Principal of and semiannual interest on the Bonds will be paid through The Bank of New York Mellon Trust Company, N.A., Dallas, TX, (the “Paying Agent/Registrar”). Provision is made in the Bond Resolution for replacement of the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, the new registrar shall act in the same capacity as the previous registrar. Any new registrar selected by the District shall be a commercial bank or trust company organized under the laws of the United States or of any State, and authorized under such laws to perform the duties of paying agent and registrar for the Bonds.

Book-Entry-Only System

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company (“DTC”), New York, New York, 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, the Financial Advisor and the Underwriter believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

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 certificate will be issued for the Bonds, in the aggregate principal amount of each 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 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. 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 Note 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 Cede & Co. 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 Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the Record Date (hereinafter defined). The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, principal, and interest payments, on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Issuer or Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal, Maturity Amounts, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer 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 securities depository with respect to the Bonds at any time by giving reasonable notice to the Issuer. Under such circumstances, in the event that a successor depository is not obtained, the Bonds are required to be printed and delivered. The Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, certificates will be printed and delivered. Discontinuation of the Book-Entry-Only-System by the District may require Participant approval under DTC operational arrangements.

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

So long as Cede & Co. is the registered owner of the Bonds, the District will have no obligation or responsibility to the DTC. Participants or Indirect Participants, or the persons for which they act as nominees, with respect to payment to or providing of notice to the District, or the persons for which they act as nominees.

Effect of Termination of Book-Entry Only System

In the event that the Book-Entry Only System is discontinued by DTC or the use of the Book-Entry Only System is discontinued by the District, printed Bonds will be issued to the holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Bond Resolution and summarized under "THE BONDS - Transfer, Exchange and Registration" below. Discontinuance by the District of the DTC System of book-entry-only transfers may require the consent of DTC Participants under DTC Operational Arrangements.

Use of Certain Terms in Other Sections of this Official Statement

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

Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the District or the Underwriter.

Source of Payment

While the Bonds or any part of the principal thereof or interest thereon remain outstanding and unpaid, the District covenants to levy and annually assess and collect in due time, form and manner, and at the same time as other District taxes are assessed, levied, and collected, in each year, a continuing direct annual ad valorem tax, without limit as to rate or amount, upon all taxable property in the District sufficient to pay the interest on the Bonds as the same becomes due and to pay each installment of the principal of the Bonds as the same matures, with full allowance being made for delinquencies and costs of collection. In the Bond Resolution, the District covenants that said taxes are irrevocably pledged to the payment of the interest on and principal of the Bonds and to no other purpose.

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

Authority for Issuance

The Bonds are issued pursuant to the authority of Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54, Texas Water Code, as amended, Chapter 1207, Texas Government Code, as amended, and the Bond Resolution. The Attorney General of Texas does not guarantee or pass upon the safety of the Bonds as an investment or upon the adequacy of the information contained in this Official Statement.

At a bond election held within the District on May 13, 2006, the voters authorized issuance of \$28,000,000 principal amount of unlimited tax refunding bonds. The Bonds constitute the third issuance of bonds from such authorization. After sale of the Bonds, a total of \$27,460,000 in principal amount of unlimited tax refunding bonds will remain authorized but unissued. See "Issuance of Additional Debt" below.

Funds

In the Bond Resolution, the District confirms the debt service fund. The proceeds from all taxes levied, assessed and collected for and on account of the Bonds shall be deposited, as collected, in the district's debt service fund and used only for the purpose of paying principal of and interest on the Bonds.

No Arbitrage

The District will certify as of the date of delivery of the Bonds that, based upon all facts and estimates then known or reasonably expected to be in existence on the date the Bonds are delivered, 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. Moreover, the District will covenant 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.

Redemption Provisions

Optional Redemption: The District reserves the right, at its option, to redeem the Bonds maturing on or after August 1, 2027, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000, on August 1, 2026, or any date thereafter, at a price of par plus accrued interest on the principal amounts called for redemption to the date fixed for redemption. If less than all of the Bonds are redeemed at any time, the maturities of the Bonds to be redeemed shall be determined by the District. If less than all of the Bonds of a certain maturity are to be redeemed, the particular Bonds to be redeemed shall be selected by the Paying Agent/Registrar by lot or other random method (or by DTC in accordance with its procedures, while the Bonds are in book-entry only form). If a Bond subject to redemption is in a denomination larger than \$5,000, a portion of such Bond may be redeemed, but only in integral multiples of \$5,000.

Mandatory Redemption: The Bonds due on August 1 in the years 2029, 2032, 2035, and 2038 (the “Term Bonds”) also are subject to mandatory sinking fund redemption by the District by lot or other customary random method prior to scheduled maturity on August 1 in the years (“Mandatory Redemption Dates”) and in the amounts set forth below, at a redemption price of par plus accrued interest to the date of redemption:

<u>Term Bond 2029 - \$250,000</u>	
<u>Year of Redemption</u>	<u>Principal Amount</u>
2027	\$80,000
2028	\$85,000
2029 (maturity)	\$85,000
<u>Term Bond 2032 - \$275,000</u>	
<u>Year of Redemption</u>	<u>Principal Amount</u>
2030	\$90,000
2031	\$90,000
2032 (maturity)	\$95,000
<u>Term Bond 2035 - \$295,000</u>	
<u>Year of Redemption</u>	<u>Principal Amount</u>
2033	\$100,000
2034	\$100,000
2035 (maturity)	\$95,000
<u>Term Bond 2038 - \$315,000</u>	
<u>Year of Redemption</u>	<u>Principal Amount</u>
2036	\$100,000
2037	\$105,000
2038 (maturity)	\$110,000

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

Notice of any redemption identifying the Bonds to be redeemed in whole or in part shall be given by the Registrar at least thirty (30) days prior to the date fixed for redemption by sending written notice by first class mail to the Registered Owner of each Bond to be redeemed in whole or in part at the address shown on the Register. Such notices shall state the redemption date, the redemption price, the place at which the Bonds are to be surrendered for payment and, if less than all the Bonds outstanding are to be redeemed, the numbers of the Bonds or the portions thereof to be redeemed. Any notice given shall be conclusively presumed to have been duly given, whether or not the Registered Owner receives such notice. By the date fixed for redemption, due provision shall be made with the Registrar for payment of the redemption price of the Bonds or portions thereof to be redeemed, plus accrued interest to the date fixed for redemption. When Bonds have been called for redemption in whole or in part and due provision has been made to redeem the same, 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 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.

Transfer, Exchange and Registration

So long as any Bonds remain outstanding, the Registrar shall keep the Register at its principal payment office and, subject to such reasonable regulations as it may prescribe, the Registrar shall provide for the registration and transfer of Bonds in accordance with the terms of the Bond Resolution.

In the event the Book-Entry-Only System is discontinued, each Bond shall be transferable only upon the presentation and surrender of such Bond at the payment office of the Registrar, duly endorsed for transfer, or accompanied by an assignment duly executed by the Registered Owner or his authorized representative in form satisfactory to the Registrar. Upon due presentation of any Bond in proper form for transfer, the Registrar has been directed by the District to authenticate and deliver in exchange therefor, within three (3) business days after such presentation, a new Bond or Bonds, registered in the name of the transferee or transferees, in authorized denominations and of the same maturity and aggregate principal amount and paying interest at the same rate as the Bond or Bonds so presented. The Registrar is authorized to authenticate and deliver exchange Bonds. Each Bond delivered shall be entitled to the benefits and security of the Bond Resolution to the same extent as the Bond or Bonds in lieu of which such Bond is delivered.

The District or the Registrar may require the Registered Owner of any Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the transfer or exchange of such Bond.

Replacement of Bonds

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

Issuance of Additional Debt

The District may issue additional bonds, with the approval of the Commission, necessary to provide and maintain improvements and facilities consistent with the purposes for which the District was created. See "THE DISTRICT – Authority for Issuance."

After the issuance of the Bonds, the District will have \$27,460,000 principal amount of unlimited tax refunding bonds authorized but unissued, \$7,000,000 principal amount of unlimited tax park bonds for the Park and Recreational Facilities and \$17,930,000 principal amount of unlimited tax bonds for water, sewer and drainage facilities authorized but unissued. The Bond Resolution imposes no limitation on the amount of additional parity bonds which may be issued by the District. See "INVESTMENT CONSIDERATIONS."

In addition to the above-mentioned bonds, the District has the right to issue such additional tax bonds or combination tax and revenue bonds as may be hereafter approved by the voters of the District. The District also has the right to issue revenue notes, bond anticipation notes, and tax anticipation notes without the necessity of voter approval. In addition, the District has the right to enter into contracts and to pledge its taxing power to secure any payments the District is required to make under such contracts, provided the provisions of the contract are approved by the voters of the District. The District further has the right to issue refunding bonds without additional voter approval.

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

Consolidation and Dissolution

The District has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its assets (such as cash and the utility system) and liabilities (such as the Bonds), with the assets and

liabilities of districts with which it is consolidating. Although no consolidation is presently contemplated by the District, no representation is made concerning the likelihood of consolidation in the future.

Under existing Texas law, since the District lies wholly within the corporate limits of the City, the District may be dissolved by the City without the consent of the District or its voters. If the District is dissolved, the City must assume the District's assets and obligations (including the Bonds).

Dissolution of a district is a policy-making matter within the discretion of the Mayor and City Council of the City, and the District makes no representation that the City will ever dissolve the District and assume its debt. Moreover, no representation is made concerning the ability of the City to make debt service payments should dissolution occur.

Remedies in Event of Default

Other than a writ of mandamus, the Bond Resolution does not provide a specific remedy for a default. 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 and conditions prescribed in the Bond Resolution. 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 principles of equity. The Texas Legislature has not generally waived the District's immunity from suit for money damages, and if such immunity was waived and a judgment obtained, such judgment could not be satisfied by execution against any property of the District. See "INVESTMENT CONSIDERATIONS - Registered Owners' Remedies" and "INVESTMENT CONSIDERATIONS – Bankruptcy Limitation to Registered Owners' Rights."

Legal Investment and Eligibility to Secure Public Funds in Texas

Pursuant to the Texas Bond Procedures Act, Chapter 1201, Texas Government Code, as amended, and Section 49.186 Texas Water Code, the Bonds, whether rated or unrated, are (a) legal investments for banks, savings banks, trust companies, building and loan associations, savings and loan associations, insurance companies, fiduciaries, and trustees and (b) legal investments for the public funds of cities, towns, villages, school districts, and other political subdivisions or public agencies of the State of Texas. Most political subdivisions in the State of Texas are required to adopt investment guidelines under the Public Funds Investment Act, Chapter 2256, Texas Government Code, and such political subdivisions may impose a requirement consistent with such act that the Bonds have a rating of not less than "A" or its equivalent to be legal investments for such entity's funds. The Bonds are eligible under the Public Funds Collateral Act, Chapter 2257, Texas Government Code, to secure deposits of public funds of the State of Texas or any political subdivision or public agency of the State of Texas and are lawful and sufficient security for those deposits to the extent of their market value. The District has not reviewed the laws in other states to determine whether the Bonds are legal investments for various institutions in those states or eligible to serve as collateral for public funds in those states. The District has made no investigation of any other laws, rules, regulations or investment criteria that might affect the suitability of the Bonds for any of the above purposes or limit the authority of any of the above persons or entities to purchase or invest in the Bonds.

Defeasance

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

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

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

INVESTMENT CONSIDERATIONS

General

The Bonds are obligations of the District and are not obligations of the State of Texas, Montgomery County, the City or any other entity. The Bonds, equally and ratably with future bonds, are payable from a continuing, direct, annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District. See “THE BONDS - Source of Payment.” The investment quality of the Bonds depends on the ability of the District to collect from the property owners all taxes levied against their property or, in the event of foreclosure, the value of the taxable property with respect to taxes levied by the District and by other taxing authorities. The District makes no representation that over the life of the Bonds the taxable property within the District will maintain a value sufficient to justify continued payment of taxes by property owners or that there will be a market for any property if the District forecloses on property to enforce its tax lien. See “Registered Owners’ Remedies” and “Tax Collections” below.

Factors Affecting Taxable Values and Tax Payments

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 or homebuilding activity within the District. The Bonds are secured by the proceeds of an annual unlimited ad valorem tax. A reduction in property values in the District may require an increase in the ad valorem tax rate required to make such payments.

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

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

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

The greater Houston area, including the District, has experienced four storms exceeding a 0.2% probability (i.e. "500-year flood" events) since 2015, including Hurricane Harvey which made landfall along the Texas Gulf Coast on August 25, 2017, and brought historic levels of rainfall during the successive four days. According to the City of Conroe, the District experienced no interruption of water and sewer service as a result of Hurricane Harvey. According to the Engineer, the water supply, sanitary sewer, and drainage facilities serving the area within the District did not sustain any material damage from Hurricane Harvey. To the knowledge of the District, no homes 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: The rate of development of the District is primarily related to the vitality of the residential housing industry. New residential housing construction can be significantly affected by factors such as interest rates, construction costs, energy availability, gasoline prices and consumer demand. Decreased levels of home construction activity tend to restrict the growth of property values in the District.

Interest rates have a direct impact on the level of housing construction activity. Long-term rates affect a home purchaser's ability to qualify for and to afford the total financing costs of a new home. High long-term interest rates may negatively affect home sales and the rate of growth of taxable property values in the District. Further, the short-term interest rates at which developers and builders are able to obtain financing for development and building costs may affect the developers' or builders' ability or willingness to complete development or building plans.

Competitive Nature of Residential Housing Market: The housing industry in the Houston metropolitan area is very competitive, and the District can give no assurance that the building programs which are planned by the Developer will be implemented or completed. The competitive position of the Developer in the sale of improved lots

to builders or in the construction of single-family residential units by the builders is affected by most of the factors discussed in this section, and such competitive position is directly related to tax revenues received by the District and the growth and maintenance of taxable values in the District.

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

Maximum Impact on District Tax Rates: Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of District property owners to pay their taxes. The 2020 Assessed Valuation of the District is \$263,743,952 and the Estimated Taxable Assessed Valuation at January 1, 2021 is \$270,514,431 (see "SELECTED FINANCIAL INFORMATION"). After issuance of the Bonds, the Maximum Annual Debt Service Requirement will be \$1,480,625 (2042), and the Average Annual Debt Service Requirement, on a calendar year basis, will be \$1,413,343 (2021 through 2042, inclusive). Assuming no increase or decrease from the 2020 Assessed Valuation and no use of funds on hand, a debt service tax rate of \$0.60 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the Maximum Annual Debt Service Requirement and a debt service tax rate of \$0.57 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the Average Annual Debt Service Requirement. Assuming no increase or decrease from the Estimated Taxable Assessed Valuation at January 1, 2021 and no use of funds on hand, a debt service tax rate of \$0.58 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the Maximum Annual Debt Service Requirement and a debt service tax rate of \$0.55 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the Average Annual Debt Service Requirement. See "SELECTED FINANCIAL INFORMATION - Tax Adequacy for Debt Service" and "DEBT SERVICE SCHEDULE." The District makes no representation that such additional development will actually occur. Property within the District also is subject to taxes levied by other political subdivisions. See "SELECTED FINANCIAL INFORMATION – Estimated Overlapping Debt Statement."

Tax Collections

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

Registered Owners' Remedies

Pursuant to Texas law, the Bond Resolution provides that if the District defaults in the payment of the principal of or interest on any of the Bonds when due, or defaults in the observance or performance of any of the covenants, conditions or obligations set forth in the Bond Resolution, then the Registered Owners shall be entitled to seek a writ of mandamus from a court of proper jurisdiction to compel the District to perform its obligations or levy adequate taxes to make principal or interest payments on the Bonds. Such remedy would have to be exercised upon each separate default and may prove costly, time-consuming and difficult to enforce. Furthermore, there is no trust indenture or trustee, to protect the interests of the bondholders, and all legal actions to enforce such remedies would have to be taken at the initiative of, and be financed by, the Registered Owners. The Bond Resolution does not provide for acceleration of maturity of the Bonds upon any default; consequently, the remedy of mandamus may have to be relied upon from year to year. Texas courts have held that districts such as the District are immune from suits for money damages under the doctrine of sovereign immunity. Further, if a judgment in such a suit could be obtained, such a judgment could not be enforced by a 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 in order to pay the principal of and interest on the Bonds. The rights and remedies of the Registered Owners and the enforceability of the Bonds may also be limited by bankruptcy, reorganization and other similar laws affecting the enforcement of creditor's rights generally. In this regard, should the District file a petition for protection from creditors under federal bankruptcy laws, a suit seeking the remedy of mandamus would be automatically stayed and could not be pursued unless authorized by a federal bankruptcy judge.

Bankruptcy Limitation to Registered Owners' Rights

The enforceability of the rights and remedies of registered owners of the Bonds may be limited by laws relating to bankruptcy, reorganization, or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. 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 U.S. Bankruptcy Code, 11 USC sections 901-946. The filing of such petition would automatically stay the enforcement of Registered Owners' remedies, including mandamus and the foreclosure of tax liens upon property within the District discussed above. The automatic stay would remain in effect until the federal bankruptcy judge hearing the case dismisses the petition, enters an order granting relief from the stay or otherwise allows creditors to proceed against the petitioning political subdivision. A political subdivision, such as the District, may qualify as a debtor eligible to proceed in a Chapter 9 case only if it (1) is generally 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 has negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiations are impracticable. Under Texas law, a municipal utility district, such as the District, must obtain the approval of the TCEQ as a condition to seeking relief under the U.S. 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, a district could file a voluntary bankruptcy petition under Chapter 9, thereby involving 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 determining the decision of whether to grant the petitioning district relief from its creditors. While such a decision might be applicable, the concomitant delay and loss of remedies to the Registered Owners could potentially and adversely impair the value of the Registered Owners' claims.

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

A district cannot be placed into bankruptcy involuntarily.

Marketability

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

Continuing Compliance with Certain Covenants

Failure of the District to comply with certain covenants contained in the Bond Resolution on a continuing basis prior to the maturity of the Bonds could result in interest on the Bonds becoming taxable retroactively to the date of original issuance. See “TAX MATTERS.”

Environmental Regulations

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

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

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

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

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

In February 2018, the U.S. Court of Appeals for the District of Columbia Circuit issued an opinion in *South Coast Air Quality Management District v. EPA*, 882 F.3d 1138 (D.C. Cir. 2018) vacating the EPA redesignation substitute rule that provided the basis for the EPA’s decision to eliminate the anti-backsliding requirements that had applied in the HGB Area under the 1997 Ozone Standard. The court has not responded to the EPA’s April 2018 request for rehearing of the case. To address the uncertainty created by the *South Coast* court’s ruling, the TCEQ developed a formal request that the HGB Area be redesignated to attainment under the 1997 Ozone Standards. The TCEQ Commissioners adopted the request and maintenance plan for the 1997 one-hour and eight-hour standards on December 12, 2018. On May 16, 2019, the EPA proposed a determination that the HGB Area has met the redesignation criteria and continues to attain the 1997 one-hour and eight-hour standards, the termination of the anti-backsliding obligations, and approval of the proposed maintenance plan.

The HGB Area is currently designated as a “serious” nonattainment area under the 2008 Ozone Standard, with an attainment deadline of July 20, 2021. If the EPA ultimately determines that the HGB Area has failed to meet the attainment deadline based on the relevant data, the area is subject to reclassification to a nonattainment classification that provides for more stringent controls on emissions from the industrial sector. In addition, the EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects if it finds that an area fails to demonstrate progress in reducing ozone levels.

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

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

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

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

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

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

The District is subject to the TCEQ’s General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the “MS4 Permit”), which was issued by the TCEQ on January 24, 2019. The MS4 Permit authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems. In order to maintain MS4 Permit compliance, the District is partnering with the City of Conroe (the “City”), to participate in the City’s program to develop, implement, and maintain the required plan (the “MS4 Permit Plan”) as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff. While the District does not have its own independent MS4 Permit Plan, the District has taken all necessary steps required by the City to be included in the City’s MS4 Permit Plan in order to obtain MS4 Permit compliance with the TCEQ. If at any time in the future the District were required to maintain independent coverage under the MS4 Permit, it is anticipated that the District could incur substantial additional costs to develop and implement its own program necessary to comply with the MS4 Permit.

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

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

On September 12, 2019, the 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 became 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.

Changes in Tax Legislation

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

THE DISTRICT

General

The District was created by order of the TCEQ, dated February 14, 2006, and by a confirmation election held within the District on May 13, 2006, and operates under Chapters 49 and 54 of the Texas Water Code, as amended, and other general laws of the State of Texas applicable to municipal utility districts.

At the time of the confirmation election, the District encompassed 349.78 acres. The District annexed 50.829 acres on January 26, 2009, bringing the total acreage to 400.6105 acres.

Location

The District is located entirely within the city limits of the City. The District is located in central Montgomery County, approximately 3 miles north of downtown Conroe. It is located approximately 1 mile west of the intersection of Interstate 45 and Loop 336 W. The District is bordered by FM 3083 and the new Madison Bond residential development to the north, White Oak Creek to the west, Longmire Road, White Oak Blvd, Giesinger Elementary School, and Cryar Intermediate School to the south and Interstate 45 to the east.

Authority

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities.

The District is authorized to issue its bonds to finance its water, sanitary sewer and drainage facilities, with the approval of the Commission and the Attorney General of Texas, to the extent authorized by the District's qualified voters. The District has \$17,930,000 in principal amount authorized but unissued water, sewer and drainage unlimited tax bonds payable from ad valorem taxes unlimited as to rate or amount. The District is also authorized to issue \$7,000,000 in unlimited tax bonds for park and recreational facilities, of which all remains unissued, and \$28,000,000 in unlimited tax bonds for refunding purposes, of which \$27,460,000 will remain unissued after issuance of the Bonds.

Status of Development

The following chart more completely describes the status of residential development within the District as of March 16, 2021.

Subdivision	Acreage	Platted Lots	Completed Homes	Homes Under Construction	Vacant Lots
Graystone Hills					
Section 1	31.1	60	60	0	0
Section 2	21.4	67	67	0	0
Section 3	16.1	58	58	0	0
Section 4	19.8	46	46	0	0
Section 5	16.4	48	48	0	0
Section 6	16.2	50	50	0	0
Section 7	18.8	19	19	0	0
Section 8	11.8	32	32	0	0
Section 9	17.8	42	42	0	0
Section 10	15.9	49	49	0	0
Section 11	12.4	46	46	0	0
Section 12	17.5	41	38	0	3
Section 13	12.1	42	42	0	0
Section 14	7.9	18	18	0	0
Section 15	17.3	51	47	0	4
Section 16	20.6	54	52	2	0
Section 17	14.2	44	44	0	0
Aaron Pasternak Drive	4.9	0	0	0	0
Total	292.2	767	758	2	7
Laurel Ridge					
Section 1	23.4	65	65	0	0
Section 2	2.2	9	9	0	0
Section 3	26.5	51	51	0	0
Total	52.1	125	125	0	0
Grand Total	344.3	892	883	2	7

Remaining Developable Acreage: 20.0

Parks & Recreational Acreage: 2.6

Undevelopable Acreage

(Streets, Drainage, Open Space): 33.7

Total Acreage: 400.6

Future Development

As of March 16, 2021, the District contained 883 completed single-family homes. The remaining land in the District is comprised of approximately 20 undeveloped but developable acres and approximately 33.7 acres that are undevelopable. See "THE DISTRICT – Status of Development."

Community Facilities

Churches: No churches are located within the District; however, churches of most denominations are located within the general vicinity of the District.

Fire Protection: Fire protection is provided by the City.

Medical Facilities: The nearest major medical facility is Conroe Regional Medical Center, a 360 bed hospital, located in the City approximately five minutes from the District. Another 5 minutes south of the City is The Memorial Hermann Hospital, The Woodlands with 168 beds, and St. Luke's Community Medical Center, The Woodlands with 84 beds. All of these hospitals provide general and emergency care.

Recreational Facilities: The District contains a recreation center with a pool, a park and playground, meeting room, changing areas, rest rooms and a children’s water-play area. The District is also located 5 miles from the 22,000-acre Lake Conroe, which is known for its fishing and boating activities.

Schools: The District is located in the Conroe Independent School District. Conroe Independent School District provides bus transportation for District residents to the following state-accredited schools:

<u>School</u>	<u>Approximate Distance from District</u>
Giesinger Elementary School	Adjacent to the District
Cryar Intermediate School.....	Adjacent to the District
Peet Junior High School	2 miles
Conroe High School	2 miles

Shopping Facilities: Shopping facilities are located within close proximity to the District. Within one mile of the District are a Kroger, several restaurants, a Wal-Mart super center, a Sam’s Club, and other major retail stores. Major shopping is also available along the I-45 corridor, including the Conroe Outlet Center at I-45 and League Line Road, approximately 4 miles north of the District.

THE DEVELOPER

Role of a Developer

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

The Developer

The primary developer of land within the District is Savannah Development Ltd., a Texas limited partnership (the “Developer”). Savannah Development Ltd. is a wholly owned subsidiary of Lennar Corporation. Lennar Corporation is a publicly traded corporation whose stock is listed on the New York Stock Exchange. Its activities include homebuilding, real estate investments, residential and commercial developments and financial services operations throughout the United States.

In addition to Graystone Hills, Savannah Development Ltd. is the developer in the master planned communities of West Ranch, Oakhurst at Kingwood, Lakemont, Kingwood, and Fairfield, as well as the built-out communities of Village Creek, Laurel Creek, Kings Manor and Clear Lake City.

UTILITY FUNCTIONS AGREEMENT BETWEEN THE DISTRICT AND THE CITY

The District operates pursuant to a Utility Functions Agreement between the City and the District, dated as of September 8, 2005 (the “Utility Agreement”). Pursuant to the Utility Agreement, the City consented to the creation of the District within the city limits of the City, the District assumed responsibility for acquiring and constructing for the benefit of, and for ultimate conveyance to, the City, the water distribution, wastewater collection and drainage facilities to serve development occurring within the boundaries of the District (the “Facilities”), and the City agreed to accept the Facilities for operation and maintenance in consideration for the District’s financing, acquisition and construction of the Facilities. The City agrees to charge residents of the District the same water and wastewater rates that the City charges in other parts of the City.

The Utility Agreement provides that the Facilities shall be designed and constructed in accordance with the City’s requirements and criteria. The City agrees to provide the District with its ultimate requirements for water supply capacity and wastewater treatment capacity without capital charges of any kind. Per the Utility Agreement, in the event the City’s existing capacity is not sufficient to serve the development needs of the District, the City is obligated to make additional improvements to its Facilities.

Under the Utility Agreement, the District is authorized to issue bonds to financing the construction and acquisition of the Facilities. Before the District is authorized to issue bonds, the District must provide the City with a copy of the TCEQ order authorizing issuance of the bonds and such order must provide that under the TCEQ’s rules governing the issuance of bonds it is feasible to sell the bonds at a District tax rate that does not exceed \$0.60 per \$100 in valuation. The City has waived the \$0.60 tax rate requirement for the Bonds. The Utility Agreement expressly provides that such condition is not a limitation on the District’s authority to levy an unlimited tax and that the District’s bonds are secured by a pledge of the proceeds of an ad valorem tax without limit as to rate or amount.

The Utility Agreement provides that the City pay an annual rebate to the District. The annual rebate is equal to the total assessed value in the District for a given year multiplied by the portion of the City’s tax rate that is attributable to water, sewer or drainage facilities. The annual rebate payment is to be deposited in the District’s debt service fund.

The City’s right to dissolve the District is restricted under the Utility Agreement. Under the terms of the Utility Agreement, the City agrees that it will not dissolve the District until ninety percent of the District’s Facilities have been developed and the developers advancing funds to construct the Facilities have been reimbursed.

THE SYSTEM

Regulation

According to the District’s Engineer, the District’s water distribution, wastewater collection and drainage facilities (the “System”) have been designed in accordance with accepted engineering practices and the requirements of all governmental agencies having regulatory or supervisory jurisdiction over the construction and operation of such facilities including, among others, the Commission, the City and Montgomery County. According to the District’s Engineer, the design of all such facilities has been approved by all required governmental agencies, and the construction has been inspected by the Commission.

Ownership and operation of the District’s waterworks and sewage treatment facilities constructed by the District are provided by the City, and is subject to regulation by, among others, the United States Environmental Protection Agency and the Commission. In many cases, regulations promulgated by these agencies have become effective only recently and are subject to further development and revisions. The District receives no revenues from operation of its System.

Water System

Water supply for district customers is provided pursuant to contracts with the City. The District’s current source of water is groundwater from wells owned and operated by the City. The City’s water supply system that serves the District is capable of serving 4,167 ESFC’s.

Wastewater System

Pursuant to a Utility Agreement between the City, the Developer and the District, the City has agreed to provide capacity for the ultimate wastewater discharge of the District. Wastewater treatment for District customers is currently provided by the City's 10,000,000 gallon per day wastewater treatment plant. The City's wastewater system that serves the District is capable of serving 33,333 ESFC's.

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 developable acreage within the District is located within the 100-year flood plain. Additionally, the District's storm water drainage system has been designed and constructed in accordance with current applicable regulatory standards for a development of this size and location. See "STATUS OF DEVELOPMENT."

Atlas 14

The National Weather Service has completed a rainfall study known as NOAA Atlas 14. Volume 11, Version 2.0: Texas Precipitation Frequency Atlas of the United States ("Atlas 14"). Floodplain boundaries with the Service Area may be redrawn based on the Atlas 14 study based on revised statistical rainfall amounts, which may result in the application of more stringent floodplain regulations applying to a larger area and potentially leaving less developable property within the Service Area. The application of such regulations could additionally result in higher insurance rates, increased development fees, and stricter building codes for any property located within the expanded boundaries of the floodplain.

DISTRICT BONDS AUTHORIZED BUT UNISSUED

Date of Authorization	Purpose	Authorized	Issued To Date	Amount Unissued
13-May-06	Water, Sewer & Drainage	\$43,000,000	\$25,070,000	\$17,930,000
13-May-06	Parks & Recreation	7,000,000	0	7,000,000
13-May-06	Refunding	28,000,000	540,000	27,460,000

SELECTED FINANCIAL INFORMATION
(Unaudited as of December 31, 2020)

2020 Assessed Valuation (100% of taxable value as of December 31, 2020).....	\$263,743,952 (a)
Estimated Taxable Assessed Valuation at January 1, 2021	\$270,514,431
Direct Debt (including the Bonds).....	\$21,895,000
Ratio of Direct Debt to 2020 Assessed Valuation	8.30%
Ratio of Direct Debt to Estimated Taxable Assessed Valuation at January 1, 2021	8.09%

Area of District: 400.6105 acres
Estimated Population: 3,090 ^(b)

(a) As certified by MCAD. See "TAXING PROCEDURES."

(b) Based upon 3.5 residents per occupied single family home, which at March 16, 2021 totaled 883.

Total Outstanding Bonds

Series	Original Principal Amount	Principal Currently Outstanding	Refunded Bonds	Remaining Outstanding Bonds
2012	\$1,765,000	\$190,000	\$65,000	\$125,000
2013	1,750,000	1,460,000	1,355,000	105,000
2016	2,760,000	2,530,000	0	2,530,000
2016A	4,865,000	4,395,000	0	4,395,000
2018	5,350,000	5,350,000	0	5,350,000
2019	3,980,000	3,920,000	0	3,920,000
2019A	3,985,000	3,940,000	0	3,940,000
2021 (a)	1,530,000	0	0	1,530,000
Total	\$25,985,000	\$21,785,000	\$1,420,000	\$21,895,000

(a) The Bonds.

Cash and Investment Balances (Unaudited at March 16, 2021)

General Fund	Cash and Temporary Investments	\$707,018
Debt Service Fund (a)	Cash and Temporary Investments	\$2,491,962
Capital Projects Fund	Cash and Temporary Investments	\$96,673

(a) Neither Texas law nor the Bond Resolution requires that the District maintain any particular sum in the debt service fund.

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, unless otherwise indicated, from information contained in "Texas Municipal Reports," published by the Municipal Advisory Council of Texas. Except for the amounts relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person is entitled to rely upon such information as being accurate or complete. Furthermore, certain of the entities listed below may have issued additional bonds since the dates stated in this table, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined. Political subdivisions overlapping the District are authorized by Texas law to levy and collect ad valorem taxes for operation, maintenance and/or general revenue purposes in addition to taxes for payment of their debt, and some are presently levying and collecting such taxes.

Taxing Body ^(a)	Outstanding Gross Debt	As of	%Overlpg. Gross Debt	Overlpg. Gross Debt
Conroe ISD	\$1,351,160,000	02/28/2021	0.63%	\$8,512,308
Conroe, City of	356,585,000	02/28/2021	2.61%	9,306,869
Lone Star College System	518,505,000	02/28/2021	0.11%	570,356
Montgomery Co	504,845,000	02/28/2021	0.38%	1,918,411
Total Overlapping Debt:				<u>\$20,307,943</u>
Montgomery Co MUD #107 ^(b)				\$21,895,000
Total Direct and Overlapping Debt: ^(b)				\$42,202,943
Total Direct and Overlapping Debt % of A.V.:				16.001%

(a) Taxing jurisdictions with outstanding general obligation debt.

(b) Includes the Bonds.

Overlapping Taxes for 2020

Overlapping Entity	2020 Tax Rate Per \$100 AV
Montgomery County	\$0.431
Montgomery County Hospital District	0.059
Lone Star College System	0.108
Conroe Independent School District	1.213
The City of Conroe	0.438
The District	0.620
Total	<u>\$2.869</u>

Classification of Assessed Valuation ^(a)

The following represents the type of property comprising the 2016 – 2020 tax rolls:

	2020 Assessed Valuation	2019 Assessed Valuation	2018 Assessed Valuation	2017 Assessed Valuation	2016 Assessed Valuation
Land	\$59,299,600	\$41,392,060	\$40,908,310	\$39,525,790	\$37,169,350
Improvements	219,750,640	208,723,810	189,175,430	177,014,170	170,292,110
Personal Property	756,063	2,113,688	918,481	1,930,653	1,500,441
	<u>\$279,806,303</u>	<u>\$252,229,558</u>	<u>\$231,002,221</u>	<u>\$218,470,613</u>	<u>\$208,961,901</u>
Exemptions	(16,062,351)	(13,603,973)	(10,783,988)	(9,391,984)	(7,401,849)
Total	<u>\$263,743,952</u>	<u>\$238,625,585</u>	<u>\$220,218,233</u>	<u>\$209,078,629</u>	<u>\$201,560,052</u>

(a) Provided by the Montgomery County Appraisal District (“MCAD”). Does not include any uncertified values.

Tax Collections

The following statement of tax collections set forth in condensed form is the tax collection of the District. Such summary has been prepared for inclusion herein based upon information from the District’s annual financial report and the records of the District Tax Assessor/Collector. Reference is made to such records for further and more complete information.

Tax Year	Assessed Valuation ^(a)	Tax Rate	Collections as of Tax Year End			Collections Through February 28, 2021	
			Levy	Amount	%	Amount	%
2015	\$172,896,441	\$0.70	\$1,210,275	\$1,208,958	99.89%	\$1,210,275	100.00%
2016	201,560,052	0.70	1,410,920	1,401,005	99.30%	1,410,920	100.00%
2017	209,799,951	0.69	1,447,620	1,438,123	99.34%	1,447,620	100.00%
2018	220,218,233	0.68	1,497,484	1,493,790	99.75%	1,497,483	100.00%
2019	238,645,585	0.65	1,551,196	1,545,468	99.63%	1,549,224	99.87%
2020	263,743,952	0.62	(b)	(b)	(b)	(b)	(b)

(a) As provided by the district’s Tax Assessor/Collector.

(b) In process of collection. Taxes become delinquent if not paid by January 31, 2021.

District Tax Rate

	2020	2019	2018	2017	2016
Debt Service Fund	\$0.540	\$0.500	\$0.550	\$0.590	\$0.630
Maintenance & Operation	0.080	0.150	0.130	0.100	0.070
Total	<u>\$0.620</u>	<u>\$0.650</u>	<u>\$0.680</u>	<u>\$0.690</u>	<u>\$0.700</u>

Tax Rate Limitation

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

Maintenance: \$1.50 per \$100 of 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 planning, maintaining, repairing and operating of the District’s improvements, if such maintenance tax is authorized by a vote of the District’s electors. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the District’s outstanding bonds and any tax bonds which may be issued in the future. An election was held within the District on May 13, 2006, which authorized the levy of a maintenance tax not to exceed \$1.50/\$100 assessed valuation. The District levied a maintenance tax of \$0.08 per \$100 of assessed valuation for tax year 2020. The District receives no revenues from operation of its system, and must pay any operations costs it incurs from maintenance tax revenues.

Principal Taxpayers

The following list of top ten principal taxpayers was provided by the District's Tax Assessor/Collector based on the 2019 and 2020 certified tax rolls of the District, which reflect ownership as of January 1 of each year. Ownership changes since January 1, 2020 are not known to the District.

Taxpayer	Property Type	2020	2019
Savannah Development Ltd.	Developer	\$883,860	\$1,660,940
Homeowner	Individual Residence	777,800	765,530
Lennar Homes of Texas	Home Builder	760,700	576,190
Homeowner	Individual Residence	670,000	675,000
Homeowner	Individual Residence	664,000	683,710
Homeowner	Individual Residence	642,000	667,000
Homeowner	Individual Residence	609,800	584,160
Homeowner	Individual Residence	593,480	-
Homeowner	Individual Residence	588,370	593,630
Homeowner	Individual Residence	586,660	605,920
Homeowner	Individual Residence	-	571,500
Total		\$6,776,670	\$7,383,580
% of Assessed Valuation		2.57%	3.09%

- Not a taxpayer this year

Tax Adequacy for Debt Service

The calculations shown below assume, solely for purposes of illustration, no increase or decrease in assessed valuation over the 2020 Certified Taxable Assessed Valuation or the Estimated Taxable Assessed Valuation at January 1, 2021, as indicated, and utilize tax rates adequate to service the District's total debt service requirements on the Bonds and the outstanding bonds of the District. See "INVESTMENT CONSIDERATIONS – Factors Affecting Tax Values and Tax Payments – Maximum Impact of District Tax Rates."

Average Annual Total Debt Service Requirements (2021 – 2042) ("Average Annual Requirement")	\$1,413,343
\$0.57 Debt Service Tax Rate on 2020 Assessed Valuation, of \$263,743,952 at 95% collections produces	\$1,428,174
\$0.55 Debt Service Tax Rate on Estimated Taxable Assessed Valuation, of \$270,514,431 at 95% collections produces	\$1,413,438
Maximum Annual Total Debt Service Requirements (2042) ("Maximum Annual Requirement")	\$1,480,625
\$0.60 Debt Service Tax Rate on 2020 Assessed Valuation, of \$263,743,952 at 95% collections produces	\$1,503,341
\$0.58 Debt Service Tax Rate on Estimated Taxable Assessed Valuation, of \$270,514,431 at 95% collections produces	\$1,490,535

Debt Service Fund

Debt Service Requirements for year ending 2021	\$1,389,036 ^(a)
Debt Service Fund Balance at March 16, 2021	\$2,491,962 ^(b)
2020 Debt Service Tax Levy @ 95% collections produces	\$1,356,358 ^(c)

- (a) Reflects the 2021 debt service requirements after the issuance of The Bonds. The first interest payment date on The Bonds is August 1, 2021.
(b) Neither Texas law nor the Bond Resolution requires that the District maintain any particular sum in the debt service fund.
(c) Based on 2020 Assessed Value at the 2020 debt service tax rate of \$0.54/\$100 assessed valuation.

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OPERATING STATEMENT

Operating Statement

The following statement sets forth in condensed form the historical results of the District's operations. Such summary has been prepared by the Financial Advisor and bookkeeper for inclusion herein, based upon information obtained from the District's Bookkeeper's reports and annual financial reports. Water and sanitary sewer service is supplied in the District by the City, and the District receives no revenues and pays none of the expenses of the water, sewer, or drainage systems.

	Fiscal Year Ended July 31				
	2020 (a)	2019 (a)	2018 (a)	2017 (a)	2016 (a)
Revenues					
Property Taxes	\$ 356,494	\$ 285,139	\$ 208,774	\$ 143,212	\$ 86,350
Miscellaneous	4,238	1,150	203	-	58
Total	<u>\$ 360,732</u>	<u>\$ 286,289</u>	<u>\$ 208,977</u>	<u>\$ 143,212</u>	<u>\$ 86,408</u>
Expenditures					
Service Operations:					
Professional Fees	\$ 68,377	\$ 58,990	\$ 49,006	\$ 55,305	\$ 50,815
Contracted Services	18,645	18,333	16,325	15,295	16,050
Repairs & Maintenance	-	23,943	140	31,140	780
Other Expenditures	11,177	12,071	12,101	12,467	17,521
Total	<u>\$ 98,199</u>	<u>\$ 113,337</u>	<u>\$ 77,572</u>	<u>\$ 114,207</u>	<u>\$ 85,166</u>
Excess Revenues (Expenditures)	<u>\$ 262,533</u>	<u>\$ 172,952</u>	<u>\$ 131,405</u>	<u>\$ 29,005</u>	<u>\$ 1,242</u>
Developer Advances	\$ -	\$ -	\$ -	\$ -	\$ -
Net Change in Fund Balance	\$ 262,533	\$ 172,952	\$ 131,405	\$ 29,005	\$ 1,242
Fund Balance, Beginning of Year	<u>\$ 408,330</u>	<u>\$ 235,378</u>	<u>\$ 103,973</u>	<u>\$ 74,968</u>	<u>\$ 73,726</u>
Fund Balance, End of Year	<u><u>\$ 670,863</u></u>	<u><u>\$ 408,330</u></u>	<u><u>\$ 235,378</u></u>	<u><u>\$ 103,973</u></u>	<u><u>\$ 74,968</u></u>

(a) Audited.

MANAGEMENT

Board of Directors

The current directors of the District are listed below:

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Ken Schoppe	President	May, 2022
Lloy Weaver	Vice President	May, 2024
Jane Saladino	Secretary	May, 2022
Kathy Grisham	Assistant Vice President	May, 2022
Joe Caracciolo	Assistant Secretary	May, 2024

All of the Directors own property in the District. Directors have four-year terms staggered every two years. Elections are held only in even numbered years on the first Saturday in May.

Tax Assessor/Collector

The tax assessor/collector for the District is the Montgomery County Tax Office.

Operator of Water and Sewer Facilities

The City, pursuant to the Utility Functions and Service Allocation Agreement between the District and the City, operates the District's water and sewer system. (See "UTILITY FUNCTIONS AGREEMENT BETWEEN THE DISTRICT AND THE CITY").

Auditor

The District has employed McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountants to conduct the District's annual audit for the fiscal year ended July 31, 2020. The financial statements for the fiscal year ended July 31, 2020 are attached as "APPENDIX A." BKD, LLP was not requested to perform any updating procedures subsequent to the date of its audit opinion on the July 31, 2020, financial statements.

Bookkeeper

Myrtle Cruz, Inc. acts as bookkeeper for the District. Myrtle Cruz, Inc. performs similar services for approximately 255 other utility districts.

Engineer

The consulting engineer for the District is BGE, Inc. ("BGE"). BGE currently serves approximately 100 other special districts as engineer.

Bond Counsel/General Counsel

The District employs Allen Boone Humphries Robinson LLP as Bond Counsel in connection with the issuance of bonds by 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. Such firm also acts as general counsel for the District on other matters.

Financial Advisor

The District has employed the firm of RBC Capital Markets, LLC as financial advisor to the District. The fees paid the Financial Advisor for services rendered in connection with the issuance and sale of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered, and therefore such fees are contingent on the sale and delivery of the Bonds. The Financial Advisor may also receive a fee for conducting a competitive bidding process regarding the investment of certain proceeds of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, and independent verification or to assume responsibility for the accuracy, completeness or fairness of the information in this Official Statement.

DEBT SERVICE SCHEDULE

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

Year Ending 12/31	Outstanding Debt Service	Less: Refunded Bonds	The Bonds				New Debt Service
			Principal Due 8/1	Interest Due 2/1	Interest Due 8/1	Total Principal & Interest	
2021	\$1,402,005.00	(31,126.25)	\$10,000.00	-	\$8,157.64	\$18,157.64	\$1,389,036.39
2022	1,403,005.00	(62,252.50)	15,000.00	\$17,125.00	17,125.00	49,250.00	1,390,002.50
2023	1,406,255.00	(182,252.50)	135,000.00	16,900.00	16,900.00	168,800.00	1,392,802.50
2024	1,403,615.00	(118,037.50)	75,000.00	14,875.00	14,875.00	104,750.00	1,390,327.50
2025	1,405,925.00	(120,637.50)	80,000.00	13,750.00	13,750.00	107,500.00	1,392,787.50
2026	1,404,312.50	(118,037.50)	80,000.00	12,550.00	12,550.00	105,100.00	1,391,375.00
2027	1,406,087.50	(120,437.50)	80,000.00	11,350.00	11,350.00	102,700.00	1,388,350.00
2028	1,406,800.00	(122,637.50)	85,000.00	10,550.00	10,550.00	106,100.00	1,390,262.50
2029	1,408,850.00	(119,637.50)	85,000.00	9,700.00	9,700.00	104,400.00	1,393,612.50
2030	1,409,925.00	(121,637.50)	90,000.00	8,850.00	8,850.00	107,700.00	1,395,987.50
2031	1,414,350.00	(123,037.50)	90,000.00	7,950.00	7,950.00	105,900.00	1,397,212.50
2032	1,407,562.50	(124,212.50)	95,000.00	7,050.00	7,050.00	109,100.00	1,392,450.00
2033	1,414,562.50	(125,162.50)	100,000.00	6,100.00	6,100.00	112,200.00	1,401,600.00
2034	1,414,950.00	(125,650.00)	100,000.00	5,100.00	5,100.00	110,200.00	1,399,500.00
2035	1,416,387.50	(120,900.00)	95,000.00	4,100.00	4,100.00	103,200.00	1,398,687.50
2036	1,423,118.75	(121,150.00)	100,000.00	3,150.00	3,150.00	106,300.00	1,408,268.75
2037	1,455,943.75	(126,162.50)	105,000.00	2,150.00	2,150.00	109,300.00	1,439,081.25
2038	1,461,093.75	(125,700.00)	110,000.00	1,100.00	1,100.00	112,200.00	1,447,593.75
2039	1,464,512.50						1,464,512.50
2040	1,472,200.00						1,472,200.00
2041	1,477,262.50						1,477,262.50
2042	1,480,625.00						1,480,625.00
	<u>\$31,359,348.75</u>	<u>(2,108,668.75)</u>	<u>\$1,530,000.00</u>	<u>\$152,350.00</u>	<u>\$160,507.64</u>	<u>\$1,842,857.64</u>	<u>\$31,093,537.64</u>

TAXING PROCEDURES

Authority to Levy Taxes

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

Property Tax Code and County-Wide Appraisal District

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

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

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: property owned by the State of Texas or its political subdivisions, if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies and personal effects; certain goods, wares, and merchandise in transit; certain farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually-owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons 65 years or older and certain disabled persons, to the extent deemed advisable by the Board of Directors of the District. The District may be required to offer such exemptions if a majority of voters approve same at an election. The District would be required to call an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the preceding election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District’s obligation to pay tax supported debt incurred prior to adoption of the exemption by the District. Furthermore, the District must grant exemptions to disabled veterans, or certain surviving dependents of disabled veterans if requested, but only to the maximum extent of \$5,000 to \$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 the exemption for the full amount of the residential homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran is entitled to an exemption for the full value of the veteran’s residence homestead to which the disabled veterans’ exemption applied. Effective January 1, 2014, a partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a disability rating if the residence homestead was donated by a charitable organization. The surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse’s residence homestead, and subject to certain conditions an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. The surviving spouse of a first responder who was killed or fatally injured in the line of duty is, subject to certain conditions, also entitled to an exemption of the total appraised value of the surviving spouse’s residence homestead, and, subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

Residential Homestead Exemptions: The Property Tax Code authorizes the governing body of each political subdivision in the State to exempt up to twenty percent (20%) of the appraised market value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the

homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of a homestead exemption may be considered each year, but must be adopted before July 1.

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

Tax Abatement

The City or Montgomery County may designate all or part of the area within the District as a reinvestment zone. Thereafter, Montgomery County or the City at the option and discretion of each entity, may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the District, for a period of up to ten (10) years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with the terms of the tax abatement agreement. The terms of all tax abatement agreements need not be the same.

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Property Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Property Tax Code. Recent changes in state law require that homesteads be valued solely as a homestead and not for any other uses which might make the property more valuable.

The Property Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land’s capacity to produce agricultural or timber products rather than at its market value. The Property Tax Code permits, under certain circumstances, that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Provisions of the Property Tax Code are complex and are not fully summarized herein. Landowners wishing to avail themselves of the agricultural use, open space or timberland designation or residential real property inventory designation must apply for the designation, and the appraiser is required by the Property Tax Code to act on each claimant’s right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions while claiming it as to another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous three (3) years for agricultural use and taxes for the previous five (5) years for open space land and timberland.

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

For more information on the exemption, reference is made to Section 11.35 of the Tax Code. Section 11.35 of the Tax Code was enacted during the 2019 legislative session, and there is no judicial precedent for how the statute will be applied. Texas Attorney General Opinion KP-0299, issued on April 13, 2020, concluded a court would likely find the Texas Legislature intended to limit the temporary tax exemption to apply to property physically harmed as a result of a declared disaster.

District and Taxpayer Remedies

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

The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

Levy and Collection of Taxes

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

Tax Payment Installments after Disaster

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

Rollback of Operation and Maintenance Tax Rate

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 "Special Taxing Units." Districts that have financed, completed, and issued bonds to pay for all improvements and facilities necessary to serve at least 95% of the projected build-out of the district are classified as "Developed Districts." Districts that do not meet either of the classifications previously discussed can be classified herein as "Developing Districts." The impact each classification has on the ability of a district to increase its maintenance and operations tax rate pursuant to SB 2 is described for each classification below.

Special Taxing Units

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

Developed Districts

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

Developing Districts

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

The District

A determination as to a district's status as a Special Taxing Unit, Developed District or Developing District will be made by the Board of Directors on an annual basis, beginning with the 2020 tax rate. The District cannot give any assurances as to what its classification will be at any point in time or whether the District's future tax rates will result in a total tax rate that will reclassify the District into a new classification and new election calculation.

District Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State of Texas and each local taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of such other taxing units (see "SELECTED FINANCIAL INFORMATION - Overlapping Taxes for 2018"). A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law.

Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights (a taxpayer may redeem property within two years after the purchaser's deed issued at the foreclosure sale is filed in the county records) or by bankruptcy proceedings which restrict the collection of taxpayer debts. In addition, a person 65 or older may defer or abate a suit to collect delinquent taxes on the person's residence homestead. See "INVESTMENT CONSIDERATIONS- General - Tax Collection Limitations and Foreclosure Remedies."

LEGAL MATTERS

Legal Proceedings

Delivery of the Bonds will be accompanied by the unqualified approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the District under the Constitution and laws of the State of Texas payable from the proceeds of an annual ad valorem tax levied, without limit as to rate or amount, upon all taxable property within the District, and, based upon their examination of a transcript of certified proceedings relating to the issuance and sale of the Bonds, the approving legal opinion of Bond Counsel, to a like effect and to the effect that, under existing law, interest on the Bonds is excludable from gross income for federal income tax purposes and interest on the Bonds is not subject to the alternative minimum tax on individuals.

Bond Counsel has reviewed the information appearing in this Official Statement under "THE BONDS (except for "Book-Entry-Only System")," "THE DISTRICT - General," "TAXING PROCEDURES," "LEGAL MATTERS," "TAX MATTERS," and "CONTINUING DISCLOSURE OF INFORMATION (except for "-Compliance with Prior Undertakings")," solely to determine whether such information fairly summarizes matters of law and the provisions of the documents referred to therein. Bond Counsel has not, however, independently verified any of the factual information contained in this Official Statement or conducted an investigation of the affairs of the District or the Developers for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon Bonds Counsel's limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of the information contained herein.

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

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

No-Litigation Certificate

The District will furnish the Initial Purchaser 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 there is not pending, and to their knowledge, there is not threatened, any litigation affecting the validity of the Bonds, or the levy and/or collection of taxes for the payment thereof, or the organization or boundaries of the District, or the title of the officers thereof to their respective offices, and that no additional bonds or other indebtedness have been issued since the date of the statement of indebtedness or nonencumbrance certificate submitted to the Attorney General of Texas in connection with approval of the Bonds.

No Material Adverse Change

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

TAX MATTERS

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

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

Bond Counsel’s opinion will assume continuing compliance with the covenants of the Bond Resolution pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Bonds for federal income tax purposes and, in addition, will rely on representations by the District, the District’s Financial Advisor and Initial Purchaser with respect to matters solely within the knowledge of the District, the District’s Financial Advisor and the Initial Purchaser, respectively, which Bond Counsel has not independently verified. If the District should fail to comply with the covenants in the Bond Resolution or if the foregoing representations should be determined to be inaccurate or incomplete, interest on the Bonds could become taxable from the date of delivery of the Bonds, regardless of the date on which the event causing such taxability occurs.

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

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

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

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

Tax Accounting Treatment of Original Issue Discount Bonds

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

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Bond was held by such initial owner) is includable in gross income. (Because original issue discount is treated as interest for federal income tax purposes, the discussion regarding interest on the Bonds under the caption “TAX MATTERS” generally applies, except as otherwise provided below, to original issue discount on a Original Issue Discount Bond held by an owner who purchased such Bond at the initial offering price in the initial public offering of the Bonds, and should be considered in connection with the discussion in this portion of the Official Statement.

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

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

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

Qualified Tax-Exempt Obligations

The Code requires a pro rata reduction in the interest expense deduction of a financial institution to reflect such financial institution's investment in tax-exempt obligations acquired after August 7, 1986. An exception to the foregoing provision is provided in the Code for "qualified tax-exempt obligations," which include tax-exempt obligations, such as the Bonds, (a) designated by the issuer as "qualified tax-exempt obligations" and (b) issued by or on behalf of a political subdivision for which the aggregate amount of tax-exempt obligations (not including private activity bonds other than qualified 501(c)(3) bonds) to be issued during the calendar year is not expected to exceed \$10,000,000.

The District has designated the Bonds as "qualified tax-exempt obligations" and represents that the aggregate amount of tax-exempt bonds (including the Bonds) issued by the District and entities aggregated with the District under the Code during calendar year 2021 is not expected to exceed \$10,000,000 and that the District and entities aggregated with the District under the Code have not designated more than \$10,000,000 in "qualified tax-exempt obligations" (including the Bonds) during calendar year 2021.

Notwithstanding these exceptions, financial institutions acquiring the Bonds will be subject to a 20% disallowance of allocable interest expense.

MUNICIPAL BOND RATING

S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P") has assigned its municipal bond rating of "AA" (stable outlook), respectively, to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy guaranteeing the timely payment of the principal of and interest on the Bonds will be issued by Assured Guaranty Municipal Corp. (AGM). See "MUNICIPAL BOND INSURANCE". Additionally, S&P has assigned to the Bonds an underlying rating of "BBB". An explanation of the significance of such ratings may be obtained from S&P. These ratings reflect only the view of S&P, and the District makes no representation as to the appropriateness of such ratings. Further, there is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely, if circumstances so warrant. Any such downward revisions or withdrawal of the ratings may have an adverse effect on the trading value and the market price of the Bonds.

MUNICIPAL BOND INSURANCE

Municipal Bond Insurance Policy

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

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

Assured Guaranty Municipal Corp.

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO". AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and international public finance (including infrastructure) and structured finance markets and 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 October 29, 2020, 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 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 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, 2020.

Capitalization of AGM

At December 31, 2020:

- The policyholders' surplus of AGM was approximately \$2,864 million.
- The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. ("MAC") (as described below) were approximately \$940 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 \$2,112 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 UK Limited ("AGUK") and Assured Guaranty (Europe) SA ("AGE"), and (iii) 60.7% of the net unearned premium reserve of MAC.

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

Merger of MAC into AGM

On April 1, 2021, MAC was merged into AGM, with AGM as the surviving company. Prior to that merger transaction, MAC was an indirect subsidiary of AGM (which indirectly owned 60.7% of MAC) and AGM's affiliate, Assured Guaranty Corp., a Maryland-domiciled insurance company ("AGC") (which indirectly owned 39.3% of MAC). In connection with the merger transaction, AGM and AGC each reassumed the remaining outstanding par they ceded to MAC in 2013, and AGC sold its indirect share of MAC to AGM. All of MAC's direct insured par exposures have become insured obligations of AGM.

Incorporation of Certain Documents by Reference

Portions of the following document filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof: the Annual Report on Form 10-K for the fiscal year ended December 31, 2020 (filed by AGL with the SEC on February 26, 2021).

All information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents.

Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 1633 Broadway, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

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

Miscellaneous Matters

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

MUNICIPAL BOND INSURANCE RISK FACTORS

The District has applied for a bond insurance policy to guarantee the scheduled payment of principal and interest on the Bonds. The following are risk factors relating to bond insurance.

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

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

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

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

The obligations of the Bond Insurer are general obligations of the Bond Insurer and in an event of default by the Bond Insurer, the remedies available to the Trustee may be limited by applicable bankruptcy law or other similar laws related to insolvency.

Neither the District or Initial Purchaser have made independent investigation into the claims paying ability of the Bond Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Bond Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest on the Bonds and the claims paying ability of the Bond Insurer, particularly over the life of the investment. See “MUNICIPAL BOND INSURANCE” herein for further information provided by the Bond Insurer and the Policy, which includes further instructions for obtaining current financial information concerning the Bond Insurer.

FINANCIAL ADVISOR

The District has employed the firm of RBC Capital Markets, LLC as financial advisor to the District. The fees paid the Financial Advisor for services rendered in connection with the issuance and sale of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered, and therefore such fees are contingent on the sale and delivery of the Bonds. The Financial Advisor may also receive a fee for conducting a competitive bidding process regarding the investment of certain proceeds of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, and independent verification or to assume responsibility for the accuracy, completeness or fairness of the information in this Official Statement.

VERIFICATION OF MATHEMATICAL CALCULATIONS

Public Finance Partners LLC, a firm of independent consultants, will deliver to the District, on or before the settlement date of the Bonds, its verification report indicating that it has verified, the accuracy of mathematical computations with respect to (i) the mathematical computations of the adequacy of the maturing principal of and interest on the Escrowed Securities, to pay, when due, the maturing principal of, and interest on the Refunded Bonds; (ii) the “yield” on the Bonds, prepared by the Financial Advisor; and (iii) compliance with certain conditions of the City of Conroe Ordinance. These computations will be based upon information and assumptions supplied by the Financial Advisor on behalf of the District. Public Finance Partners LLC has restricted its procedures to verifying the computations provided by the Financial Advisor and has not evaluated or the assumptions or information used in the computations.

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OFFICIAL STATEMENT

Consultants

In approving this Official Statement, the District has relied upon the following consultants in addition to the Financial Advisor. Each consultant has consented to the use of the information provided by such firms.

The Engineer. The information contained in this Official Statement relating to engineering and to the description of the System has been provided by BGE, Inc. and has been included in reliance upon the authority of said firm as experts in the field of civil engineering.

Appraisal District & Tax Assessor/Collector. The information contained in this Official Statement relating to the assessed valuation of property, classification of assessed valuation, tax collection rates, principal taxpayers, and in particular, such information contained in the section captioned “SELECTED FINANCIAL INFORMATION” has been provided by the Montgomery Central Appraisal District in reliance upon their authority as experts in the field of tax assessing and tax collecting, respectively.

Auditor. The District employed McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountants to conduct the District’s annual audit for the fiscal year ended July 31, 2020. The financial statements for the fiscal year ended July 31, 2020 are attached as “APPENDIX A.” BKD, LLP was not requested to perform any updating procedures subsequent to the date of its audit opinion on the July 31, 2020, financial statements.

Certification as to Official Statement

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

Updating of Official Statement

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

CONTINUING DISCLOSURE OF INFORMATION

In the Resolution, 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 material events, to certain information to the Municipal Securities Rulemaking Board (“MSRB”). The MSRB has established the Electronic Municipal Market Access (“EMMA”) system.

Annual Reports

The District will provide certain updated financial information and operating data to EMMA annually.

The information to be updated with respect to the District includes all quantitative financial information and operating data of the general type included in this Official Statement included under the headings “SELECTED FINANCIAL INFORMATION,” and “APPENDIX A” (the Audit). The District will update and provide this information within six months after the end of each of its fiscal years ending in or after 2021. The District will provide the updated information to EMMA.

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

Specified 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 status of the Bonds, or other material events affecting the tax 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; (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person or the sale of all or substantially all of the assets of the District or other obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of an definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District or other obligated person, 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, any of which affect Beneficial Owners of the Bonds, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District or other obligated person, any of which reflect financial difficulties. The terms “obligated person” and “financial obligation” when used in this paragraph shall have the meanings ascribed to them under SEC Rule 15c2-12 (the “Rule”).

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 Resolution makes any provision for liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under “Annual Reports.”

Availability of Information from EMMA

The District has agreed to provide the foregoing updated information only to the information vendors described above. The information will be available to holders of Bonds only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

Investors will be able to access continuing disclosure information filed with the MSRB at www.emma.org.

Limitations and Amendments

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

The District may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if but only if the agreement, as amended, would have permitted an initial purchaser to purchase or sell Bonds in the offering made hereby in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. The District may amend or repeal the agreement in the Bond Resolution if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction determines that such provisions are invalid or unenforceable, but only to the extent that its right to do so would not prevent the Initial Purchaser from lawfully purchasing the Bonds in the initial offering. If the District so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance With Prior Undertakings

During the past five years, the District has complied with all of its continuing disclosure agreements in accordance with SEC Rule 15c2-12.

Official Statement "Deemed Final"

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission, this document, as the same may be supplemented or corrected by the District from time-to-time, may be treated as an Official Statement with respect to the Bonds described herein "deemed final" by the District as of the date hereof (or of any such supplement or correction) except for the omission of certain information referred to in the succeeding paragraph.

The Official Statement, when further supplemented by adding information specifying the interest rates and certain other information relating to the Bonds, shall constitute a "Final Official Statement" of the District with respect to the Bonds, as that term is defined in Rule 15c2-12.

MISCELLANEOUS

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

This Official Statement was approved by the Board of Directors of Montgomery County Municipal Utility District No. 107, as of the date shown on the first page hereof.

/s/

Ken Schoppe
President, Board of Directors
Montgomery County Municipal Utility District No. 107

/s/

Jane Saladino
Secretary, Board of Directors
Montgomery County Municipal Utility District No. 107

AERIAL PHOTOGRAPH
(March 2021)



PHOTOGRAPHS

Community Center



Single-Family Residential



Single-Family Residential



Single-Family Residential Under Construction



Single-Family Residential



Single-Family Residential Under Construction



APPENDIX A

Audited Financial Statements

EXHIBIT B

**MONTGOMERY COUNTY MUNICIPAL
UTILITY DISTRICT NO. 107**

MONTGOMERY COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

JULY 31, 2020

**MONTGOMERY COUNTY MUNICIPAL
UTILITY DISTRICT NO. 107**

MONTGOMERY COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

JULY 31, 2020

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McCALL GIBSON SWEDLUND BARFOOT PLLC

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Montgomery County Municipal Utility District No. 107
Montgomery County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Montgomery County Municipal Utility District No. 107 (the "District"), as of and for the year ended July 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Board of Directors
Montgomery County Municipal
Utility District No. 107

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of July 31, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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



McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

November 17, 2020

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 107
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JULY 31, 2020

Management's discussion and analysis of Montgomery County Municipal Utility District No. 107's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended July 31, 2020. Please read it in conjunction with the District's financial statements.

USING THIS ANNUAL REPORT

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

FUND FINANCIAL STATEMENTS

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has three governmental fund types. The General Fund accounts for maintenance tax revenues, operating costs and general expenditures. The Debt Service Fund accounts for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes. The Capital Projects Fund accounts for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 107
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JULY 31, 2020

FUND FINANCIAL STATEMENTS (Continued)

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

OTHER INFORMATION

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, liabilities exceeded assets and deferred outflows of resources by \$2,717,352 as of July 31, 2020. The following is a comparative analysis of government-wide changes in net position:

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 107
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JULY 31, 2020

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Summary of Changes in the Statement of Net Position			
	2020	2019	Change Positive (Negative)
Current and Other Assets	\$ 2,218,066	\$ 2,161,234	\$ 56,832
Intangible Assets (Net of Accumulated Amortization)	15,144,302	15,754,522	(610,220)
Capital Assets	1,538,595	1,538,595	
Total Assets	\$ 18,900,963	\$ 19,454,351	\$ (553,388)
Deferred Outflows of Resources	\$ 582,134	\$ 625,226	\$ (43,092)
Due to Developer	\$ 183,712	\$ 198,378	\$ 14,666
Bonds Payable	22,007,899	22,644,638	636,739
Other Liabilities	8,838	29,303	20,465
Total Liabilities	\$ 22,200,449	\$ 22,872,319	\$ 671,870
Net Position:			
Net Investment in Capital Assets	\$ (4,646,195)	\$ (4,619,678)	\$ (26,517)
Restricted	1,398,636	1,556,225	(157,589)
Unrestricted	530,207	270,711	259,496
Total Net Position	\$ (2,717,352)	\$ (2,792,742)	\$ 75,390

The following table provides a summary of the District's operations for the years ended July 31, 2020 and July 31, 2019.

Summary of Changes in the Statement of Activities			
	2020	2019	Change Positive (Negative)
Revenues:			
Property Taxes/Tax Rebates	\$ 1,561,474	\$ 1,513,855	\$ 47,619
Other Revenues	37,994	24,156	13,838
Total Revenues	\$ 1,599,468	\$ 1,538,011	\$ 61,457
Expenses for Services	1,524,078	2,233,091	709,013
Change in Net Position	\$ 75,390	\$ (695,080)	\$ 770,470
Net Position, Beginning of Year	(2,792,742)	(2,097,662)	(695,080)
Net Position, End of Year	\$ (2,717,352)	\$ (2,792,742)	\$ 75,390

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 107
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JULY 31, 2020

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of July 31, 2020, were \$2,162,049, an increase of \$69,801 from the prior year.

The General Fund fund balance increased by \$262,533, primarily due to property tax revenues exceeding operating costs.

The Debt Service Fund fund balance decreased by \$168,138, primarily due to the structure of the District's debt service requirements.

The Capital Projects Fund fund balance decreased by \$24,594. The District used bond proceeds received in a prior year to reimburse a developer.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors adopted an unappropriated General Fund budget for the current fiscal year which was subsequently amended to increase the amount of budget property tax revenues. Actual revenues were \$19,092 more than budgeted revenues due to higher than anticipated property tax collections. Actual expenditures were \$6,469 more than budgeted.

CAPITAL ASSETS AND INTANGIBLE ASSETS

Capital assets in which the District has maintained ownership as of July 31, 2020, consist of the Pond A detention facilities totaling \$1,538,595.

Capital Assets At Year-End			
	2020	2019	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Detention Facilities - Pond A	\$ 1,538,595	\$ 1,538,595	\$ -0-

Intangible assets have a July 31, 2020 balance of \$15,144,302 and include water, wastewater, drainage and detention facilities constructed by the District and conveyed to the City of Conroe (the "City"). The City operates and maintains the facilities for the benefit of District residents.

Intangible Assets At Year-End			
	2020	2019	Change Positive (Negative)
Infrastructure - Utilities	\$ 18,610,076	\$ 18,610,076	\$
Detention Facilities	1,837,811	1,837,811	
Less: Accumulated Amortization	5,303,585	4,693,365	(610,220)
Total Net Intangible Assets	\$ 15,144,302	\$ 15,754,522	\$ (610,220)

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 107
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JULY 31, 2020

LONG-TERM DEBT ACTIVITY

As of July 31, 2020, the District had total bond debt payable of \$21,785,000. The changes in the debt position of the District during the current fiscal year are summarized as follows:

Bond Debt Payable, August 1, 2019	\$ 22,400,000
Less: Bond Principal Paid	<u>615,000</u>
Bond Debt Payable, July 31, 2020	<u>\$ 21,785,000</u>

The District had an underlying rating of “BBB” for the current and prior fiscal years. The Series 2013, Series 2016, Series 2016A Refunding, Series 2018, Series 2019A and Series 2019 Refunding bonds carry insured ratings of “AA” by virtue of bond insurance issued by Assured Guaranty Municipal, Build America Mutual Assurance Company or Municipal Assurance Corp. The ratings above reflect changes, if any, through July 31, 2020.

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Montgomery County Municipal Utility District No. 107, c/o Allen Boone Humphries Robinson LLP, 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 107
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
JULY 31, 2020

	General Fund	Debt Service Fund
ASSETS		
Cash	\$ 21,119	\$ 285,378
Investments	554,937	1,206,302
Receivables:		
Property Taxes	1,231	4,123
Accrued Interest		4,306
Due from Other Funds	101,473	
Prepaid Costs	1,972	
Detention Facilities		
Intangible Assets (Net of Accumulated Amortization)		
TOTAL ASSETS	<u>\$ 680,732</u>	<u>\$ 1,500,109</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Charges on Refunding Bonds	\$ - 0 -	\$ - 0 -
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 680,732</u>	<u>\$ 1,500,109</u>
LIABILITIES		
Accounts Payable	\$ 8,638	\$
Due to Other Funds		101,473
Due to Developer		
Long-Term Liabilities:		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
TOTAL LIABILITIES	<u>\$ 8,638</u>	<u>\$ 101,473</u>
DEFERRED INFLOWS OF RESOURCES		
Property Taxes	\$ 1,231	\$ 4,123
FUND BALANCES		
Nonspendable: Prepaid Costs	\$ 1,972	\$
Restricted for Authorized Construction		
Restricted for Debt Service		1,394,513
Unassigned	668,891	
TOTAL FUND BALANCES	<u>\$ 670,863</u>	<u>\$ 1,394,513</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 680,732</u>	<u>\$ 1,500,109</u>
NET POSITION		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
TOTAL NET POSITION		

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

Capital Projects Fund	Total	Adjustments	Statement of Net Position
\$ 96,873	\$ 403,370	\$	\$ 403,370
	1,761,239		1,761,239
	5,354		5,354
	4,306		4,306
	101,473	(101,473)	
	1,972	41,825	43,797
		1,538,595	1,538,595
		15,144,302	15,144,302
<u>\$ 96,873</u>	<u>\$ 2,277,714</u>	<u>\$ 16,623,249</u>	<u>\$ 18,900,963</u>
<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 582,134</u>	<u>\$ 582,134</u>
<u>\$ 96,873</u>	<u>\$ 2,277,714</u>	<u>\$ 17,205,383</u>	<u>\$ 19,483,097</u>
\$ 200	\$ 8,838	\$	\$ 8,838
	101,473	(101,473)	
		183,712	183,712
		670,000	670,000
		21,337,899	21,337,899
<u>\$ 200</u>	<u>\$ 110,311</u>	<u>\$ 22,090,138</u>	<u>\$ 22,200,449</u>
<u>\$ -0-</u>	<u>\$ 5,354</u>	<u>\$ (5,354)</u>	<u>\$ - 0 -</u>
\$ 96,673	\$ 1,972	\$ (1,972)	\$
	96,673	(96,673)	
	1,394,513	(1,394,513)	
	668,891	(668,891)	
<u>\$ 96,673</u>	<u>\$ 2,162,049</u>	<u>\$ (2,162,049)</u>	<u>\$ - 0 -</u>
<u>\$ 96,873</u>	<u>\$ 2,277,714</u>		
		\$ (4,646,195)	\$ (4,646,195)
		1,398,636	1,398,636
		530,207	530,207
		<u>\$ (2,717,352)</u>	<u>\$ (2,717,352)</u>

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 107
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JULY 31, 2020

Total Fund Balances - Governmental Funds	\$	2,162,049
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Interest paid in advance as part of a refunding bond sale is recorded as deferred outflows in governmental activities and systematically charged to interest expense over the remaining life of the old debt or the life of the new debt, whichever is		582,134
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Prepaid bond insurance in governmental activities is not a current financial resource and, therefore, is not reported as an asset in the governmental funds.		41,825
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Capital assets and intangible assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.		16,682,897
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Deferred inflows of resources related to property tax revenues for the 2019 and prior tax levies became part of recognized revenue in the governmental activities of the District.		5,354
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

Due to Developer	\$ (183,712)	
Bonds Payable	<u>(22,007,899)</u>	<u>(22,191,611)</u>
Total Net Position - Governmental Activities		<u>\$ (2,717,352)</u>

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

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MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 107
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JULY 31, 2020

	General Fund	Debt Service Fund
REVENUES		
Property Taxes	\$ 356,494	\$ 1,187,907
Tax Rebate		18,406
Penalty and Interest		4,984
Investment and Miscellaneous Revenues	<u>4,238</u>	<u>28,772</u>
TOTAL REVENUES	<u>\$ 360,732</u>	<u>\$ 1,240,069</u>
EXPENDITURES/EXPENSES		
Service Operations:		
Professional Fees	\$ 68,377	\$ 967
Contracted Services	18,645	19,359
Amortization		
Other	11,177	6,156
Capital Outlay		
Debt Service:		
Bond Principal		615,000
Bond Interest		<u>766,725</u>
TOTAL EXPENDITURES/EXPENSES	<u>\$ 98,199</u>	<u>\$ 1,408,207</u>
NET CHANGE IN FUND BALANCES	\$ 262,533	\$ (168,138)
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION - AUGUST 1, 2019	<u>408,330</u>	<u>1,562,651</u>
FUND BALANCES/NET POSITION - JULY 31, 2020	<u><u>\$ 670,863</u></u>	<u><u>\$ 1,394,513</u></u>

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 1,544,401	\$ (1,333)	\$ 1,543,068
	18,406		18,406
	4,984		4,984
	33,010		33,010
<u>\$ - 0 -</u>	<u>\$ 1,600,801</u>	<u>\$ (1,333)</u>	<u>\$ 1,599,468</u>
\$ 9,928	\$ 79,272	\$	\$ 79,272
	38,004		38,004
		610,220	610,220
	17,333		17,333
14,666	14,666	(14,666)	
	615,000	(615,000)	
	766,725	12,524	779,249
<u>\$ 24,594</u>	<u>\$ 1,531,000</u>	<u>\$ (6,922)</u>	<u>\$ 1,524,078</u>
\$ (24,594)	\$ 69,801	\$ (69,801)	\$
		75,390	75,390
<u>121,267</u>	<u>2,092,248</u>	<u>(4,884,990)</u>	<u>(2,792,742)</u>
<u>\$ 96,673</u>	<u>\$ 2,162,049</u>	<u>\$ (4,879,401)</u>	<u>\$ (2,717,352)</u>

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 107
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JULY 31, 2020

Net Change in Fund Balances - Governmental Funds	\$ 69,801
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are due and/or levied.	(1,333)
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Governmental funds do not account for amortization. However, amortization expense is recorded in the Statement of Activities.	(610,220)
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Governmental funds record developer reimbursements as expenditures. However, developer reimbursements reduce the related liability in the Statement of Net Position and the Statement of Activities is not affected.	14,666
--	--------

Governmental funds report bond principal payments as expenditures. However, in the Statement of Net Position bond principal payments are reported as decreases in long-term liabilities.	615,000
--	---------

Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end.	(12,524)
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Change in Net Position - Governmental Activities	\$ <u>75,390</u>
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The accompanying notes to the financial
statements are an integral part of this report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 107
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2020

NOTE 1. CREATION OF DISTRICT

Montgomery County Municipal Utility District No. 107 (the “District”) was created by an order of the Texas Commission on Environmental Quality (the “Commission”), effective February 14, 2006, in accordance with the provisions of Article XVI, Section 59, of the Texas Constitution. The District operates in accordance with Chapters 49 and 54 of the Texas Water Code and is subject to the continuing supervision of the Commission. The principal functions of the District are to finance and construct waterworks, wastewater and drainage facilities.

The District is governed by a Board of Directors consisting of five individuals who are residents or owners of property within the District and are voters within the District. The Board of Directors sets the policies of the District. The accounting and reporting policies of the District conform to accounting principles generally accepted in the United States of America for state and local governments, as defined by the Governmental Accounting Standards Board.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

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

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

Financial Statement Presentation

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 107
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2020

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

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

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

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

Government-Wide Financial Statements

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

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

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 107
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2020

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

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

Governmental Funds

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

General Fund – To account for maintenance tax revenues, operating costs and general expenditures.

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

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

Basis of Accounting

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

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

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund can repay the advance on a timely basis. As of July 31, 2020, the District's Debt Service Fund owed the General Fund \$94,318 for maintenance tax collections and \$7,155 for bond issuance costs.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 107
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2020

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets and Intangible Assets

Capital assets are reported in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenditures in the governmental fund incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Engineering fees and certain other costs are capitalized as part of the asset. Assets are capitalized, including infrastructure assets, if they have an original cost greater than \$5,000 and a useful life over two years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation.

Intangible assets include water, wastewater, drainage and detention facilities constructed by the District and conveyed to the City of Conroe. The City operates and maintains the facilities for the benefit of the residents of the District. Amortization of intangible assets is straight-line over a period of 40 years (see also Note 9).

Budgeting

An annual unappropriated budget is adopted for the General Fund by the District's Board of Directors. The budget is prepared using the same method of accounting as for financial reporting. The original General Fund budget for the current year was amended. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund presents the original and revised budget amounts compared to the actual amounts of revenues and expenditures for the current year.

Pensions

A pension plan has not been established. The District does not have employees, except that the Internal Revenue Service has determined that the directors are considered employees for federal payroll tax purposes only.

Measurement Focus

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 107
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2020

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

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

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

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

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

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

Unassigned: all other spendable amounts in the General Fund.

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

Accounting Estimates

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 107
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2020

NOTE 3. LONG-TERM DEBT

	<u>Series 2012</u>	<u>Series 2013</u>	<u>Series 2016</u>
Amount Outstanding – July 31, 2020	\$ 190,000	\$ 1,460,000	\$ 2,530,000
Interest Rates	2.75% - 3.10%	4.00% - 4.75%	2.25% - 4.00%
Maturity Dates – Serially Beginning/Ending	August 1, 2021/2023	August 1, 2021/2038	August 1, 2021/2041
Interest Payment Dates	February 1/ August 1	February 1/ August 1	February 1/ August 1
Callable Dates	August 1, 2019*	August 1, 2021*	August 1, 2024*

	<u>Refunding Series 2016A</u>	<u>Series 2018</u>	<u>Refunding Series 2019</u>	<u>Series 2019A</u>
Amount Outstanding – July 31, 2020	\$ 4,395,000	\$ 5,350,000	\$ 3,920,000	\$ 3,940,000
Interest Rates	3.00% - 4.00%	3.375% - 4.00%	2.00% - 3.125%	3.00%
Maturity Dates – Serially Beginning/Ending	August 1, 2021/2033	August 1, 2035/2042	August 1, 2021/2036	August 1, 2021/2042
Interest Payment Dates	February 1/ August 1	February 1/ August 1	February 1/ August 1	February 1/ August 1
Callable Dates	August 1, 2024*	August 1, 2023*	August 1, 2026*	August 1, 2024*

- * Or any date thereafter, callable at par plus accrued interest to the date fixed for redemption. The Series 2013 term bonds maturing on August 1, 2029, 2032 and 2038 shall be redeemed at a price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption, beginning on August 1, 2026, 2030, 2033, respectively. The Series 2016 term bonds maturing on August 1, 2027, 2029, 2031, 2033, 2035, 2037, 2039 and 2041 shall be redeemed at a price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption, beginning on August 1, 2025, 2028, 2030, 2032, 2034, 2036, 2038 and 2040, respectively. The Series 2019 term bonds maturing on August 1, 2027 and 2036 shall be redeemed at a price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption, beginning on August 1, 2026 and 2035, respectively. The Series 2019A term bonds maturing on August 1, 2034 and 2036 shall be redeemed at a price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption, beginning on August 1, 2030 and 2035, respectively.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 107
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2020

NOTE 3. LONG-TERM DEBT (Continued)

The following is a summary of transactions for bonds payable for the year ended July 31, 2020:

	August 1, 2019	Additions	Retirements	July 31, 2020
Bonds Payable	\$ 22,400,000	\$	\$ 615,000	\$ 21,785,000
Unamortized Discounts	(169,130)		(7,897)	(161,233)
Unamortized Premiums	413,768		29,636	384,132
Bonds Payable, Net	<u>\$ 22,644,638</u>	<u>\$ -0-</u>	<u>\$ 636,739</u>	<u>\$ 22,007,899</u>
		Amount Due Within One Year		\$ 670,000
		Amount Due After One Year		<u>21,337,899</u>
		Bonds Payable, Net		<u>\$ 22,007,899</u>

As of July 31, 2020, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2021	\$ 670,000	\$ 732,005	\$ 1,402,005
2022	690,000	713,005	1,403,005
2023	715,000	691,255	1,406,255
2024	735,000	668,615	1,403,615
2025	760,000	645,925	1,405,925
2026-2030	4,225,000	2,810,975	7,035,975
2031-2035	5,025,000	2,042,814	7,067,814
2036-2040	6,155,000	1,121,867	7,276,867
2041-2042	<u>2,810,000</u>	<u>147,888</u>	<u>2,957,888</u>
	<u>\$ 21,785,000</u>	<u>\$ 9,574,349</u>	<u>\$ 31,359,349</u>

As of July 31, 2020, the District had authorized but unissued bonds in the amount of \$17,930,000 for utility facilities, \$27,570,000 for refunding bonds and \$7,000,000 for park and recreational facilities. The bonds are payable from the proceeds of an ad valorem tax levied upon all property subject to taxation within the District, without limitation as to rate or amount.

During the year ended July 31, 2020, the District levied an ad valorem debt service tax rate of \$0.50 per \$100 of assessed valuation, which resulted in a tax levy of \$1,191,812 on the adjusted taxable valuation of \$238,385,064 for the 2019 tax year. The bond resolutions require that the District levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. See Note 7 for the maintenance tax.

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 107
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2020

NOTE 4. SIGNIFICANT BOND RESOLUTION AND LEGAL REQUIREMENTS

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

The bond resolutions state that the District is required to provide continuing disclosure of certain general financial information and operating data as well as notice of certain material events as defined by federal securities laws with respect to the District to certain information repositories. This information, along with the audited annual financial statements, is to be provided within six months after the end of each fiscal year and shall continue to be provided through the life of the bonds.

NOTE 5. DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District's deposit policy for custodial credit risk requires compliance with the provisions of Texas statutes. Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year-end, the carrying amount of the District's deposits was \$889,618 and the bank balance was \$889,531. The District was not exposed to custodial credit risk at year-end.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at July 31, 2020, as listed below:

	Cash	Certificates of Deposit	Total
GENERAL FUND	\$ 21,119	\$	\$ 21,119
DEBT SERVICE FUND	285,378	486,248	771,626
CAPITAL PROJECTS FUND	96,873		96,873
TOTAL DEPOSITS	<u>\$ 403,370</u>	<u>\$ 486,248</u>	<u>\$ 889,618</u>

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 107
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2020

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments

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

The District invests in the Texas Short Term Asset Reserve Program ("TexSTAR"), an external public funds investment pool that is not SEC-registered. J. P. Morgan Investment Management Inc. provides investment management and Hilltop Securities Inc., provides participant services and marketing under an agreement with the TexSTAR Board of Directors. Custodial, fund accounting and depository services are provided by JPMorgan Chase Bank, N.A. and/or its subsidiary J.P. Morgan Investors Services Co. Investments held by TexSTAR are marked to market daily. The investments are considered to be Level I investments because their fair value is measured by quoted prices in active markets. The fair value of the District's position in the pool is the same as the value of the pool shares. There are no limitations or restrictions on withdrawals from TexSTAR.

Certificates of deposit are valued at acquisition cost at the date of purchase. As of July 31, 2020, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities of Less Than 1 Year
<u>GENERAL FUND</u>		
TexSTAR	\$ 554,937	\$ 554,937
<u>DEBT SERVICE FUND</u>		
Certificates of Deposit	486,248	486,248
TexSTAR	<u>720,054</u>	<u>720,054</u>
TOTAL INVESTMENTS	<u>\$ 1,761,239</u>	<u>\$ 1,761,239</u>

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 107
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2020

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

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

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At July 31, 2020, the District's investment in TexSTAR was rated AAAM by Standard and Poor's. The District manages credit risk by investing in certificates of deposit covered by FDIC insurance. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District considers the investment in TexSTAR to have a maturity of less than one year due to the fact the share position can usually be redeemed each day at the discretion of the District, unless there has been a significant change in value. The District also manages interest rate risk by investing in certificates of deposit with maturities of less than one year.

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

NOTE 6. CAPITAL ASSETS AND INTANGIBLE ASSETS

Capital assets consist of Pond A detention facilities:

	<u>August 1, 2019</u>	<u>Increases</u>	<u>Decreases</u>	<u>July 31, 2020</u>
Capital Assets Not Being Depreciated				
Detention Facilities - Pond A	<u>\$ 1,538,595</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 1,538,595</u>

Intangible assets include water, wastewater, drainage and detention facilities constructed by the District and conveyed to the City of Conroe (the "City"). The City operates and maintains the facilities for the benefit of the residents of the District (see Note 9). As of July 31, 2020, the District had the following intangible assets:

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 107
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2020

NOTE 6. CAPITAL ASSETS AND INTANGIBLE ASSETS (Continued)

	<u>August 1, 2019</u>	<u>Increases</u>	<u>Decreases</u>	<u>July 31, 2020</u>
Intangible Assets Subject to Amortization				
Infrastructure - Utilities	\$ 18,610,076	\$	\$	\$ 18,610,076
Detention Facilities	<u>1,837,811</u>	<u></u>	<u></u>	<u>1,837,811</u>
Total Intangible Assets Subject to Amortization	<u>\$ 20,447,887</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 20,447,887</u>
Accumulated Amortization				
Infrastructure - Utilities	\$ 4,361,549	\$ 551,838	\$	\$ 4,913,387
Detention Facilities	<u>331,816</u>	<u>58,382</u>	<u></u>	<u>390,198</u>
Total Accumulated Amortization	<u>\$ 4,693,365</u>	<u>\$ 610,220</u>	<u>\$ - 0 -</u>	<u>\$ 5,303,585</u>
Total Amortizable Assets, Net of Accumulated Amortization	<u>\$ 15,754,522</u>	<u>\$ (610,220)</u>	<u>\$ - 0 -</u>	<u>\$ 15,144,302</u>

NOTE 7. MAINTENANCE TAX

On May 13, 2006, the voters of the District approved the levy and collection of a maintenance tax in an amount not to exceed \$1.50 per \$100 of assessed valuation of taxable property within the District. This maintenance tax is to be used by the General Fund to pay expenditures of operating the District's waterworks and wastewater systems. During the current fiscal year, the District levied an ad valorem maintenance tax rate of \$0.15 per \$100 of assessed valuation, which resulted in a tax levy of \$357,544 on the adjusted taxable valuation of \$238,385,064 for the 2019 tax year.

NOTE 8. RISK MANAGEMENT

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

NOTE 9. AGREEMENT WITH THE CITY OF CONROE

The District operates pursuant to a Utility Functions and Services Allocation Agreement between the City of Conroe and the District, dated as of September 8, 2005, (the "Utility Agreement"). Pursuant to the Utility Agreement, the City consented to the creation of the District within the city limits of the City. The District assumed responsibility for acquiring and constructing for the benefit of, and for ultimate conveyance to, the City, the water distribution, wastewater collection and drainage facilities to serve development occurring within the boundaries of the District

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 107
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2020

NOTE 9. AGREEMENT WITH THE CITY OF CONROE (Continued)

(the “Facilities”) and the City agreed to accept the Facilities for operation and maintenance in consideration for the District’s financing, acquisition and construction of the facilities. The City agrees to charge residents of the District the same water and wastewater rates that the City charges in other parts of the City.

The Utility Agreement provides that the Facilities shall be designed and constructed in accordance with the City’s requirements and criteria. The City agrees to provide the District with its ultimate requirements for water supply capacity and wastewater treatment capacity without capital charges of any kind. Per the Utility Agreement, in the event the City’s existing capacity is not sufficient to serve development needs of the District, the City is obligated to make additional improvements to its Facilities.

Under the Utility Agreement, the District is authorized to issue bonds to finance the construction and acquisition of the Facilities. Before the District is authorized to issue bonds, the District must provide the City with a copy of the Commission order authorizing issuance of the bonds and such order must provide that under the Commission’s rules governing the issuance of bonds it is feasible to sell the bonds at a District tax rate that does not exceed \$0.60 per \$100 in valuation.

The Utility Agreement expressly provides that such condition is not a limitation of the District’s authority to levy an unlimited tax and that the District’s bonds are secured by a pledge of the proceeds of an ad valorem tax without limit as to rate or amount.

The Utility Agreement provides that the City pay an annual rebate to the District. The annual rebate is equal to the total assessed value in the District for a given year multiplied by the portion of the City’s tax rate that is attributable to water, sewer or drainage facilities. The annual rebate payment is to be deposited in the District’s Debt Service Fund. The District received a tax rebate of \$18,406 during the fiscal year ended July 31, 2020.

The City’s right to dissolve the District is restricted under the Utility Agreement. Under the terms of the Utility Agreement, the City agrees that it will not dissolve the District until 90 percent of the District’s Facilities have been developed and the developers advancing funds to construct the Facilities have been reimbursed.

NOTE 10. UNREIMBURSED DEVELOPER COSTS

The District has executed developer financing agreements with a Developer within the District. The agreements provide for the Developer to fund costs associated with the construction of utilities or make operating advances, if needed. Reimbursement to the Developer will come from future bond sales or other available surplus funds. The prior year’s balance of \$198,378 was reduced by \$14,666 leaving a July 31, 2020 balance due to the developer of \$183,712 which is comprised of operating advances made by the developer in prior years.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 107
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2020

NOTE 11. ECONOMIC UNCERTAINTIES

On March 11, 2020, the World Health Organization declared the COVID-19 virus a global pandemic. As a result, economic uncertainties have arisen which could have an impact on the operations of the District. The District is carefully monitoring the situation and evaluating its options during this time. No adjustments have been made to these financial statements as a result of this uncertainty, as the potential financial impact of this pandemic is unknown at this time.

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MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 107

REQUIRED SUPPLEMENTARY INFORMATION

JULY 31, 2020

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 107
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JULY 31, 2020

	Original Budget	Final Amended Budget	Actual	Variance Positive (Negative)
REVENUES				
Property Taxes	\$ 90,175	\$ 341,640	\$ 356,494	\$ 14,854
Investment and Miscellaneous Revenues			4,238	4,238
TOTAL REVENUES	<u>\$ 90,175</u>	<u>\$ 341,640</u>	<u>\$ 360,732</u>	<u>\$ 19,092</u>
EXPENDITURES				
Service Operations:				
Professional Fees	\$ 57,850	\$ 57,850	\$ 68,377	\$ (10,527)
Contracted Services	16,500	16,500	18,645	(2,145)
Other	17,380	17,380	11,177	6,203
TOTAL EXPENDITURES	<u>\$ 91,730</u>	<u>\$ 91,730</u>	<u>\$ 98,199</u>	<u>\$ (6,469)</u>
NET CHANGE IN FUND BALANCE	\$ (1,555)	\$ 249,910	\$ 262,533	\$ 12,623
FUND BALANCE - AUGUST 1, 2019	<u>408,330</u>	<u>408,330</u>	<u>408,330</u>	
FUND BALANCE - JULY 31, 2020	<u><u>\$ 406,775</u></u>	<u><u>\$ 658,240</u></u>	<u><u>\$ 670,863</u></u>	<u><u>\$ 12,623</u></u>

See accompanying independent auditor's report.

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MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 107

SUPPLEMENTARY INFORMATION – REQUIRED BY THE

WATER DISTRICT FINANCIAL MANAGEMENT GUIDE

JULY 31, 2020

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 107
SERVICES AND RATES
FOR THE YEAR ENDED JULY 31, 2020

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

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

Pursuant to an agreement between the District and the City of Conroe, Texas, certain water, wastewater and drainage facilities constructed by the District have been conveyed to the City. The City operates and maintains the facilities for the benefit of the residents of the District. The District is responsible for the maintenance of detention pond A.

2. RETAIL SERVICE PROVIDERS: NOT APPLICABLE

3. TOTAL WATER CONSUMPTION: NOT APPLICABLE

4. STANDBY FEES: NOT APPLICABLE

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes X No _____

County in which District is located:

Montgomery County, Texas

Is the District located within a city's corporate boundaries?

Entirely X Partly _____ Not at all _____

Corporate boundaries in which District is located:

City of Conroe, Texas

Are Board Members appointed by an office outside the District?

Yes _____ No X

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 107
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED JULY 31, 2020

PROFESSIONAL FEES:

Auditing	\$ 12,750
Engineering	20,836
Legal	<u>34,791</u>
TOTAL PROFESSIONAL FEES	<u>\$ 68,377</u>

CONTRACTED SERVICES:

Bookkeeping	<u>\$ 18,645</u>
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ADMINISTRATIVE EXPENDITURES:

Director Fees, Including Payroll Taxes	\$ 5,819
Insurance	3,389
Office Supplies and Postage	<u>1,969</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 11,177</u>

TOTAL EXPENDITURES	<u><u>\$ 98,199</u></u>
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See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 107
INVESTMENTS
JULY 31, 2020

<u>Fund</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at End of Year</u>
<u>GENERAL FUND</u>					
TexSTAR	XXXX2220	Varies	Daily	\$ 554,937	\$ -0-
<u>DEBT SERVICE FUND</u>					
Certificate of Deposit	XXXX6316	2.75%	12/12/20	\$ 240,000	\$ 4,195
Certificate of Deposit	XXXX8636	0.75%	07/09/21	246,248	111
TexSTAR	XXXX3330	Varies	Daily	720,054	
TOTAL DEBT SERVICE FUND				\$ 1,206,302	\$ 4,306
TOTAL				<u>\$ 1,761,239</u>	<u>\$ 4,306</u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 107
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED JULY 31, 2020

	Maintenance Taxes		Debt Service Taxes	
TAXES RECEIVABLE -				
AUGUST 1, 2019	\$	1,268	\$	5,419
Adjustments to Beginning				
Balance		<u>(1,087)</u>	<u>(5,201)</u>	\$ 218
Original 2019 Tax Levy	\$	343,507	\$	1,145,023
Adjustment to 2019 Tax Levy		<u>14,037</u>	<u>46,789</u>	<u>1,191,812</u>
TOTAL TO BE				
ACCOUNTED FOR		\$ 357,725		\$ 1,192,030
TAX COLLECTIONS:				
Prior Years	\$	163	\$	137
Current Year		<u>356,331</u>	<u>1,187,770</u>	<u>1,187,907</u>
TAXES RECEIVABLE -				
JULY 31, 2020		<u>\$ 1,231</u>		<u>\$ 4,123</u>
TAXES RECEIVABLE BY				
YEAR:				
2019		\$ 1,213		\$ 4,042
2018		16		68
2017		<u>2</u>		<u>13</u>
TOTAL		\$ 1,231		\$ 4,123

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 107
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED JULY 31, 2020

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
PROPERTY VALUATIONS:				
Land	\$ 41,390,520	\$ 40,908,310	\$ 39,525,790	\$ 37,169,350
Improvements	208,723,810	188,110,220	175,943,530	167,554,210
Personal Property	2,133,678	2,178,315	1,930,653	1,548,987
Exemptions	<u>(13,862,944)</u>	<u>(11,167,508)</u>	<u>(8,600,022)</u>	<u>(5,489,385)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 238,385,064</u>	<u>\$ 220,029,337</u>	<u>\$ 208,799,951</u>	<u>\$ 200,783,162</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.50	\$ 0.55	\$ 0.59	\$ 0.63
Maintenance	<u>0.15</u>	<u>0.13</u>	<u>0.10</u>	<u>0.07</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.65</u>	<u>\$ 0.68</u>	<u>\$ 0.69</u>	<u>\$ 0.70</u>
ADJUSTED TAX LEVY*	<u>\$ 1,549,356</u>	<u>\$ 1,496,199</u>	<u>\$ 1,440,720</u>	<u>\$ 1,405,482</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>99.66 %</u>	<u>99.99 %</u>	<u>99.99 %</u>	<u>100.00 %</u>

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

Maintenance Tax – Maximum tax rate in an amount of \$1.50 per \$100 assessed valuation approved by voters on May 13, 2006.

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 107
LONG-TERM DEBT SERVICE REQUIREMENTS
JULY 31, 2020

Due During Fiscal Years Ending July 31	S E R I E S - 2 0 1 2		
	Principal Due August 1	Interest Due February 1/ August 1	Total
2021	\$ 60,000	\$ 5,615	\$ 65,615
2022	65,000	3,965	68,965
2023	65,000	2,015	67,015
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
2041			
2042			
	<u>\$ 190,000</u>	<u>\$ 11,595</u>	<u>\$ 201,595</u>

The District pays the amount due August 1 prior to that date. This schedule has been prepared assuming this practice will continue in the future.

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 107
LONG-TERM DEBT SERVICE REQUIREMENTS
JULY 31, 2020

S E R I E S - 2 0 1 3			
Due During Fiscal Years Ending July 31	Principal Due August 1	Interest Due February 1/ August 1	Total
2021	\$ 50,000	\$ 64,438	\$ 114,438
2022	55,000	62,437	117,437
2023	55,000	60,238	115,238
2024	60,000	58,037	118,037
2025	65,000	55,638	120,638
2026	65,000	53,037	118,037
2027	70,000	50,438	120,438
2028	75,000	47,637	122,637
2029	75,000	44,638	119,638
2030	80,000	41,637	121,637
2031	85,000	38,038	123,038
2032	90,000	34,212	124,212
2033	95,000	30,163	125,163
2034	100,000	25,650	125,650
2035	100,000	20,900	120,900
2036	105,000	16,150	121,150
2037	115,000	11,162	126,162
2038	120,000	5,700	125,700
2039			
2040			
2041			
2042			
	<u>\$ 1,460,000</u>	<u>\$ 720,150</u>	<u>\$ 2,180,150</u>

The District pays the amount due August 1 prior to that date. This schedule has been prepared assuming this practice will continue in the future.

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 107
LONG-TERM DEBT SERVICE REQUIREMENTS
JULY 31, 2020

S E R I E S - 2 0 1 6			
Due During Fiscal Years Ending July 31	Principal Due August 1	Interest Due February 1/ August 1	Total
2021	\$ 70,000	\$ 76,212	\$ 146,212
2022	75,000	73,413	148,413
2023	80,000	70,412	150,412
2024	80,000	67,213	147,213
2025	85,000	64,012	149,012
2026	90,000	62,100	152,100
2027	95,000	60,075	155,075
2028	100,000	57,938	157,938
2029	105,000	55,437	160,437
2030	110,000	52,813	162,813
2031	115,000	49,788	164,788
2032	120,000	46,625	166,625
2033	130,000	43,025	173,025
2034	135,000	39,125	174,125
2035	140,000	35,075	175,075
2036	145,000	30,875	175,875
2037	155,000	26,525	181,525
2038	160,000	21,875	181,875
2039	170,000	16,875	186,875
2040	180,000	11,562	191,562
2041	190,000	5,938	195,938
2042			
	<u>\$ 2,530,000</u>	<u>\$ 966,913</u>	<u>\$ 3,496,913</u>

The District pays the amount due August 1 prior to that date. This schedule has been prepared assuming this practice will continue in the future.

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 107
LONG-TERM DEBT SERVICE REQUIREMENTS
JULY 31, 2020

S E R I E S - 2 0 1 6 A R E F U N D I N G			
Due During Fiscal Years Ending July 31	Principal Due August 1	Interest Due February 1/ August 1	Total
2021	\$ 200,000	\$ 161,300	\$ 361,300
2022	400,000	155,300	555,300
2023	415,000	143,300	558,300
2024	435,000	130,850	565,850
2025	450,000	117,800	567,800
2026	470,000	99,800	569,800
2027	485,000	81,000	566,000
2028	235,000	61,600	296,600
2029	245,000	52,200	297,200
2030	250,000	42,400	292,400
2031	260,000	32,400	292,400
2032	270,000	22,000	292,000
2033	280,000	11,200	291,200
2034			
2035			
2036			
2037			
2038			
2039			
2040			
2041			
2042			
	<u>\$ 4,395,000</u>	<u>\$ 1,111,150</u>	<u>\$ 5,506,150</u>

The District pays the amount due August 1 prior to that date. This schedule has been prepared assuming this practice will continue in the future.

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 107
LONG-TERM DEBT SERVICE REQUIREMENTS
JULY 31, 2020

S E R I E S - 2 0 1 8			
Due During Fiscal Years Ending July 31	Principal Due August 1	Interest Due February 1/ August 1	Total
2021	\$	\$ 191,869	\$ 191,869
2022		191,869	191,869
2023		191,869	191,869
2024		191,869	191,869
2025		191,869	191,869
2026		191,869	191,869
2027		191,869	191,869
2028		191,869	191,869
2029		191,869	191,869
2030		191,869	191,869
2031		191,869	191,869
2032		191,869	191,869
2033		191,869	191,869
2034		191,869	191,869
2035	415,000	191,869	606,869
2036	430,000	175,269	605,269
2037	570,000	160,756	730,756
2038	595,000	141,519	736,519
2039	740,000	121,437	861,437
2040	770,000	95,537	865,537
2041	800,000	67,625	867,625
2042	1,030,000	38,625	1,068,625
	<u>\$ 5,350,000</u>	<u>\$ 3,678,803</u>	<u>\$ 9,028,803</u>

The District pays the amount due August 1 prior to that date. This schedule has been prepared assuming this practice will continue in the future.

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 107
LONG-TERM DEBT SERVICE REQUIREMENTS
JULY 31, 2020

S E R I E S - 2 0 1 9 R E F U N D I N G			
Due During Fiscal Years Ending July 31	Principal Due August 1	Interest Due February 1/ August 1	Total
2021	\$ 215,000	\$ 114,371	\$ 329,371
2022	25,000	110,071	135,071
2023	25,000	109,571	134,571
2024	95,000	109,046	204,046
2025	100,000	106,956	206,956
2026	100,000	104,656	204,656
2027	105,000	101,656	206,656
2028	385,000	98,506	483,506
2029	405,000	86,956	491,956
2030	420,000	74,806	494,806
2031	440,000	62,206	502,206
2032	450,000	49,006	499,006
2033	470,000	35,506	505,506
2034	490,000	21,406	511,406
2035	95,000	6,094	101,094
2036	100,000	3,125	103,125
2037			
2038			
2039			
2040			
2041			
2042			
	<u>\$ 3,920,000</u>	<u>\$ 1,193,938</u>	<u>\$ 5,113,938</u>

The District pays the amount due August 1 prior to that date. This schedule has been prepared assuming this practice will continue in the future.

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 107
LONG-TERM DEBT SERVICE REQUIREMENTS
JULY 31, 2020

S E R I E S - 2 0 1 9 A			
Due During Fiscal Years Ending July 31	Principal Due August 1	Interest Due February 1/ August 1	Total
2021	\$ 75,000	\$ 118,200	\$ 193,200
2022	70,000	115,950	185,950
2023	75,000	113,850	188,850
2024	65,000	111,600	176,600
2025	60,000	109,650	169,650
2026	60,000	107,850	167,850
2027	60,000	106,050	166,050
2028	50,000	104,250	154,250
2029	45,000	102,750	147,750
2030	45,000	101,400	146,400
2031	40,000	100,050	140,050
2032	35,000	98,850	133,850
2033	30,000	97,800	127,800
2034	315,000	96,900	411,900
2035	325,000	87,450	412,450
2036	340,000	77,700	417,700
2037	350,000	67,500	417,500
2038	360,000	57,000	417,000
2039	370,000	46,200	416,200
2040	380,000	35,100	415,100
2041	390,000	23,700	413,700
2042	400,000	12,000	412,000
	<u>\$ 3,940,000</u>	<u>\$ 1,891,800</u>	<u>\$ 5,831,800</u>

The District pays the amount due August 1 prior to that date. This schedule has been prepared assuming this practice will continue in the future.

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 107
LONG-TERM DEBT SERVICE REQUIREMENTS
JULY 31, 2020

ANNUAL REQUIREMENTS
FOR ALL SERIES

Due During Fiscal Years Ending July 31	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2021	\$ 670,000	\$ 732,005	\$ 1,402,005
2022	690,000	713,005	1,403,005
2023	715,000	691,255	1,406,255
2024	735,000	668,615	1,403,615
2025	760,000	645,925	1,405,925
2026	785,000	619,312	1,404,312
2027	815,000	591,088	1,406,088
2028	845,000	561,800	1,406,800
2029	875,000	533,850	1,408,850
2030	905,000	504,925	1,409,925
2031	940,000	474,351	1,414,351
2032	965,000	442,562	1,407,562
2033	1,005,000	409,563	1,414,563
2034	1,040,000	374,950	1,414,950
2035	1,075,000	341,388	1,416,388
2036	1,120,000	303,119	1,423,119
2037	1,190,000	265,943	1,455,943
2038	1,235,000	226,094	1,461,094
2039	1,280,000	184,512	1,464,512
2040	1,330,000	142,199	1,472,199
2041	1,380,000	97,263	1,477,263
2042	1,430,000	50,625	1,480,625
	<u>\$ 21,785,000</u>	<u>\$ 9,574,349</u>	<u>\$ 31,359,349</u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 107
CHANGES IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED JULY 31, 2020

Description	Original Bonds Issued	Bonds Outstanding August 1, 2019	
Montgomery County Municipal Utility District No. 107 Unlimited Tax Bonds - Series 2010	\$ 5,110,000	\$ 175,000	
Montgomery County Municipal Utility District No. 107 Unlimited Tax Bonds - Series 2012	1,765,000	245,000	
Montgomery County Municipal Utility District No. 107 Unlimited Tax Bonds - Series 2013	1,750,000	1,510,000	
Montgomery County Municipal Utility District No. 107 Unlimited Tax Bonds - Series 2016	2,760,000	2,600,000	
Montgomery County Municipal Utility District No. 107 Unlimited Tax Refunding Bonds - Series 2016A	4,865,000	4,590,000	
Montgomery County Municipal Utility District No. 107 Unlimited Tax Bonds - Series 2018	5,350,000	5,350,000	
Montgomery County Municipal Utility District No. 107 Unlimited Tax Refunding Bonds - Series 2019	3,980,000	3,945,000	
Montgomery County Municipal Utility District No. 107 Unlimited Tax Bonds - Series 2019A	<u>3,985,000</u>	<u>3,985,000</u>	
TOTAL	<u>\$ 29,565,000</u>	<u>\$ 22,400,000</u>	
Bond Authority:	<u>Tax Bonds</u>	<u>Refunding Bonds</u>	<u>Recreational Facilities Bonds</u>
Amount Authorized by Voters	\$ 43,000,000	\$ 28,000,000	\$ 7,000,000
Amount Issued	<u>25,070,000</u>	<u>430,000</u>	
Remaining to be Issued	\$ 17,930,000	\$ 27,570,000	\$ 7,000,000

See accompanying independent auditor's report.

Current Year Transactions				
Bonds Sold	Retirements		Bonds Outstanding July 31, 2020	Paying Agent
	Principal	Interest		
\$	\$ 175,000	\$ 7,175	\$ - 0 -	Wells Fargo Bank N.A. Houston, TX
	55,000	7,045	190,000	The Bank of New York Mellon Trust Company, N.A.
	50,000	66,437	1,460,000	The Bank of New York Mellon Trust Company, N.A.
	70,000	79,013	2,530,000	The Bank of New York Mellon Trust Company, N.A.
	195,000	167,150	4,395,000	The Bank of New York Mellon Trust Company, N.A.
		191,869	5,350,000	The Bank of New York Mellon Trust Company, N.A.
	25,000	114,871	3,920,000	The Bank of New York Mellon Trust Company, N.A.
	45,000	133,165	3,940,000	The Bank of New York Mellon Trust Company, N.A.
\$ - 0 -	\$ 615,000	\$ 766,725	\$ 21,785,000	

Debt Service Fund cash and investment balances as of July 31, 2020: \$ 1,491,680

Average annual debt service payment (principal and interest) for remaining term
of all debt: \$ 1,425,425

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

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 107
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS

	Amounts		
	2020	2019	2018
REVENUES			
Property Taxes	\$ 356,494	\$ 285,139	\$ 208,774
Investment and Miscellaneous Revenues	4,238	1,150	203
TOTAL REVENUES	<u>\$ 360,732</u>	<u>\$ 286,289</u>	<u>\$ 208,977</u>
EXPENDITURES			
Service Operations:			
Professional Fees	\$ 68,377	\$ 58,990	\$ 49,006
Contracted Services	18,645	18,333	16,325
Repairs and Maintenance		23,943	140
Other	11,177	12,071	12,101
TOTAL EXPENDITURES	<u>\$ 98,199</u>	<u>\$ 113,337</u>	<u>\$ 77,572</u>
NET CHANGE IN FUND BALANCE	\$ 262,533	\$ 172,952	\$ 131,405
BEGINNING FUND BALANCE	<u>408,330</u>	<u>235,378</u>	<u>103,973</u>
ENDING FUND BALANCE	<u>\$ 670,863</u>	<u>\$ 408,330</u>	<u>\$ 235,378</u>

See accompanying independent auditor's report.

		Percentage of Total Revenues						
2017	2016	2020	2019	2018	2017	2016		
\$ 143,212	\$ 86,350	98.8 %	99.6 %	99.9 %	100.0 %	99.9 %		
	58	1.2	0.4	0.1		0.1		
\$ 143,212	\$ 86,408	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %		
\$ 55,305	\$ 50,815	19.0 %	20.6 %	23.5 %	38.6 %	58.8 %		
15,295	16,050	5.2	6.4	7.8	10.7	18.6		
31,140	780		8.4	0.1	21.7	0.9		
12,467	17,521	3.1	4.2	5.8	8.7	20.3		
\$ 114,207	\$ 85,166	27.3 %	39.6 %	37.2 %	79.7 %	98.6 %		
\$ 29,005	\$ 1,242	72.7 %	60.4 %	62.8 %	20.3 %	1.4 %		
74,968	73,726							
\$ 103,973	\$ 74,968							

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 107
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FIVE YEARS

	Amounts		
	2020	2019	2018
REVENUES			
Property Taxes/Tax Rebates	\$ 1,206,313	\$ 1,225,035	\$ 1,248,219
Penalty and Interest	4,984	2,881	5,542
Investment and Miscellaneous Revenues	<u>28,772</u>	<u>20,125</u>	<u>8,404</u>
TOTAL REVENUES	<u>\$ 1,240,069</u>	<u>\$ 1,248,041</u>	<u>\$ 1,262,165</u>
EXPENDITURES			
Tax Collection Expenditures	\$ 26,482	\$ 24,783	\$ 22,892
Debt Service Principal	615,000	555,000	495,000
Debt Service Interest and Fees	766,725	669,080	534,437
Bond Issuance Costs	<u>159,890</u>	<u>159,890</u>	<u>159,890</u>
TOTAL EXPENDITURES	<u>\$ 1,408,207</u>	<u>\$ 1,408,753</u>	<u>\$ 1,052,329</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (168,138)</u>	<u>\$ (160,712)</u>	<u>\$ 209,836</u>
OTHER FINANCING SOURCES (USES)			
Bond (Discount)/Premium	\$	\$ (17,154)	\$
Transfer to Refunding Bond Escrow Agent		(3,810,111)	
Proceeds from Issuance of Long-Term Debt	<u>3,980,000</u>	<u>3,980,000</u>	<u>3,980,000</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ - 0 -</u>	<u>\$ 152,735</u>	<u>\$ - 0 -</u>
NET CHANGE IN FUND BALANCE	\$ (168,138)	\$ (7,977)	\$ 209,836
BEGINNING FUND BALANCE	<u>1,562,651</u>	<u>1,570,628</u>	<u>1,360,792</u>
ENDING FUND BALANCE	<u>\$ 1,394,513</u>	<u>\$ 1,562,651</u>	<u>\$ 1,570,628</u>
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2017	2016	2020	2019	2018	2017	2016
\$ 1,318,436	\$ 1,180,817	97.3 %	98.2 %	98.9 %	99.2 %	99.6 %
6,932	2,182	0.4	0.2	0.4	0.5	0.2
3,998	2,674	2.3	1.6	0.7	0.3	0.2
<u>\$ 1,329,366</u>	<u>\$ 1,185,673</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 19,668	\$ 14,805	2.1 %	2.0 %	1.8 %	1.5 %	1.2 %
455,000	345,000	49.6	44.5	39.2	34.2	29.1
544,486	567,960	61.9	53.7	42.4	41.1	48.0
210,197		0.1	12.9	0.1	15.9	
<u>\$ 1,229,351</u>	<u>\$ 927,765</u>	<u>113.7 %</u>	<u>113.1 %</u>	<u>83.5 %</u>	<u>92.7 %</u>	<u>78.3 %</u>
\$ 100,015	\$ 257,908	(13.7) %	(13.1) %	16.5 %	7.3 %	21.7 %
\$ 502,433	\$					
(5,157,236)						
4,865,000	128,119					
<u>\$ 210,197</u>	<u>\$ 128,119</u>					
\$ 310,212	\$ 386,027					
1,050,580	664,553					
<u>\$ 1,360,792</u>	<u>\$ 1,050,580</u>					
<u>N/A</u>	<u>N/A</u>					
<u>N/A</u>	<u>N/A</u>					

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 107
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
JULY 31, 2020

District Mailing Address - Montgomery County Municipal Utility District No. 107
c/o Allen Boone Humphries Robinson, LLP
3200 Southwest Freeway, Suite 2600
Houston, TX 77027

District Telephone Number - (713) 860-6400

Board Members	Term of Office - Elected or Appointed	Fees of Office for the year ended July 31, 2020	Expense Reimbursements for the year ended July 31, 2020	Title
Ken Schoppe	05/18 05/22 (Elected)	\$ 900	\$ -0-	President
Lloy Weaver	05/18 05/22 (Elected)	\$ 1,050	\$ -0-	Vice President
Kathy Grisham	05/18 05/22 (Elected)	\$ 1,050	\$ -0-	Assistant Vice President
Jane Saladino	05/20 05/24 (Elected)	\$ 1,050	\$ -0-	Secretary
Joe Caracciolo	05/20 05/24 (Elected)	\$ 1,050	\$ -0-	Assistant Secretary

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

Submission date of most recent District Registration Form: March 4, 2020

The limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by Board Resolution. Fees of Office are the amounts actually paid to a Director during the District's current fiscal year.

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 107
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
JULY 31, 2020

Consultants:	<u>Date Hired</u>	<u>Fees for the year ended July 31, 2020</u>	<u>Title</u>
Allen Boone Humphries Robinson LLP	03/01/06	\$ 35,901 \$ -0-	General Counsel/ Bond Counsel
McCall Gibson Swedlund Barfoot PLLC	06/27/11	\$ 12,750 \$ 2,450	Audit Related/ AUP Services
Myrtle Cruz, Inc.	03/27/06	\$ 20,544	Bookkeeper
BGE, Inc.	02/05/13	\$ 20,836	Engineer
RBC Capital Markets, LLC	03/27/06	\$ -0-	Financial Advisor
Mary Jarmon	03/27/06	\$ -0-	Investment Officer

See accompanying independent auditor's report.

APPENDIX B
SCHEDULE OF REFUNDED BONDS

	Maturity Date (Aug. 1)	Coupon	Principal	Call Date/Price
<u>Unlimited Tax Bonds, Series 2012</u>	2023	3.100%	<u>\$65,000</u> \$65,000	08/01/2019 @ 100
<u>Unlimited Tax Bonds, Series 2013</u>	2023	4.000%	\$55,000	08/01/2021 @ 100
	2024	4.000%	60,000	08/01/2021 @ 100
	2025	4.000%	65,000	08/01/2021 @ 100
	2026(a)	4.000%	65,000	08/01/2021 @ 100
	2027(a)	4.000%	70,000	08/01/2021 @ 100
	2028(a)	4.000%	75,000	08/01/2021 @ 100
	2029(a)	4.000%	75,000	08/01/2021 @ 100
	2030(b)	4.500%	80,000	08/01/2021 @ 100
	2031(b)	4.500%	85,000	08/01/2021 @ 100
	2032(b)	4.500%	90,000	08/01/2021 @ 100
	2033(c)	4.750%	95,000	08/01/2021 @ 100
	2034(c)	4.750%	100,000	08/01/2021 @ 100
	2035(c)	4.750%	100,000	08/01/2021 @ 100
	2036(c)	4.750%	105,000	08/01/2021 @ 100
	2037(c)	4.750%	115,000	08/01/2021 @ 100
	2038(c)	4.750%	<u>120,000</u>	08/01/2021 @ 100
			\$1,355,000	
	Grand Total		<u><u>\$1,420,000</u></u>	

- (a) Representing one term bond in the total principal amount of \$285,000, maturing on August 1, 2029, with mandatory redemption amounts shown above.
- (b) Representing one term bond in the total principal amount of \$255,000, maturing on August 1, 2032, with mandatory redemption amounts shown above.
- (c) Representing one term bond in the total principal amount of \$635,000, maturing on August 1, 2038, with mandatory redemption amounts shown above.

APPENDIX C

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