

OFFICIAL STATEMENT DATED MAY 18, 2021

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

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

NEW ISSUE-Book-Entry Only

Insured Rating (BAM): S&P "AA" (stable outlook)
See "MUNICIPAL BOND RATING" and
"MUNICIPAL BOND INSURANCE" herein.

\$5,000,000
MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 127
(A political subdivision of the State of Texas located within Montgomery County)
UNLIMITED TAX BONDS
SERIES 2021

Dated Date: June 1, 2021

Due: September 1, as shown below

The bonds described above (the "Bonds") will be issued in fully registered form only, in denominations of \$5,000 or any integral multiple of \$5,000 for any one maturity. Principal of the Bonds will be payable at stated maturity or redemption upon presentation of the Bonds at the principal payment office of the paying agent/registrars, initially, The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Paying Agent/Registrar"). Interest accrues from June 1, 2021, and is payable March 1, 2022 (nine months of interest), and each September 1 and March 1 thereafter until the earlier of maturity or redemption on the basis of a 360 day year of twelve 30 day months.

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



The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by BUILD AMERICA MUTUAL ASSURANCE COMPANY. See "MUNICIPAL BOND INSURANCE" herein.

MATURITY SCHEDULE

Due (Sept. 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number (c)	Due (Sept. 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number (c)
2022	\$ 175,000	4.00 %	0.40 %	61372GFN1	2025	\$ 175,000	4.00 %	0.85 %	61372GFR2
2023	175,000	3.50	0.60	61372GFP6	2026	175,000	4.00	1.00	61372GFS0
2024	175,000	3.00	0.75	61372GFQ4	2027	175,000 (b)	2.00	1.15	61372GFT8
	\$350,000	Term Bonds due September 1, 2029 (b),	61372G FV3 (c),	2.000% Interest Rate, 1.40% Yield (a)					
	\$350,000	Term Bonds due September 1, 2031 (b),	61372G FX9 (c),	2.000% Interest Rate, 1.75% Yield (a)					
	\$350,000	Term Bonds due September 1, 2033 (b),	61372G FZ4 (c),	2.000% Interest Rate, 2.00% Yield (a)					
	\$350,000	Term Bonds due September 1, 2035 (b),	61372G GB6 (c),	2.000% Interest Rate, 2.10% Yield (a)					
	\$350,000	Term Bonds due September 1, 2037 (b),	61372G GD2 (c),	2.000% Interest Rate, 2.15% Yield (a)					
	\$350,000	Term Bonds due September 1, 2039 (b),	61372G GF7 (c),	2.000% Interest Rate, 2.20% Yield (a)					
	\$700,000	Term Bonds due September 1, 2043 (b),	61372G GK6 (c),	2.125% Interest Rate, 2.30% Yield (a)					
	\$1,150,000	Term Bonds due September 1, 2048 (b),	61372G GQ3 (c),	2.250% Interest Rate, 2.40% Yield (a)					

- (a) Initial reoffering yield represents the initial offering yield to the public which has been established by the Initial Purchaser (as herein defined) for offers to the public and which may be subsequently changed by the Initial Purchaser and is the sole responsibility of the Initial Purchaser. The initial reoffering yields indicated above represent the lower of the yields resulting when priced at maturity or to the first call date. Accrued interest from June 1, 2021, is to be added to the price.
- (b) Bonds maturing on and after September 1, 2027, are subject to redemption prior to maturity at the option of the District, in whole or from time to time in part, on September 1, 2026, or on any date thereafter, at a price equal to the principal amount thereof plus accrued interest to the date fixed for redemption. The Term Bonds (as defined herein) are also subject to mandatory sinking fund redemption as described herein. See "THE BONDS—Redemption Provisions."
- (c) CUSIP Numbers have been assigned to the Bonds by CUSIP Service Bureau and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Initial Purchaser shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.

The Bonds, when issued, will constitute valid and legally binding obligations of Montgomery County Municipal Utility District No. 127 (the "District") and will be payable from the proceeds of a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. The Bonds are obligations solely of the District and are not obligations of the State of Texas, Montgomery County, the City of Conroe or any entity other than the District. The Bonds are subject to special investment risks described herein. See "INVESTMENT CONSIDERATIONS."

The Bonds are offered by the Initial Purchaser subject to prior sale, when, as and if issued by the District and accepted by the Initial Purchaser, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Smith, Murdaugh, Little & Bonham, L.L.P., Bond Counsel. Delivery of the Bonds through DTC is expected on or about June 17, 2021.

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USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

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

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader’s convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for purposes of, and as that term is defined in, SEC Rule 15c2-12, as amended.

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

Build America Mutual Assurance Company (“BAM”) makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM 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 BAM, supplied by BAM and presented under the heading “MUNICIPAL BOND INSURANCE” and “APPENDIX B—Specimen Municipal Bond Insurance Policy.”

OFFICIAL STATEMENT SUMMARY

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

INFECTIOUS DISEASE OUTLOOK (COVID-19)

General...

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.

Impact...

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

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

While the potential impact of the Pandemic on the District cannot be quantified at this time, the continued outbreak of 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 partially 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. See “INVESTMENT CONSIDERATIONS—Infectious Disease Outlook (COVID-19).”

SEVERE WEATHER EVENTS; HURRICANE HARVEY

General...

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

Impact on the District...

According to Municipal Operations & Consulting, Inc. (the “Operator”), the District’s water and sewer system did not sustain any material damage and there was no interruption of water and sewer service as a result of Hurricane Harvey. Further, to the knowledge of the District, no homes within the District experienced structural flooding or other material damage as a result of Hurricane Harvey.

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

THE FINANCING

<i>The Issuer...</i>	Montgomery County Municipal Utility District No. 127 (the "District"), a political subdivision of the State of Texas, located in Montgomery County, Texas. See "THE DISTRICT."
<i>The Issue...</i>	\$5,000,000 Montgomery County Municipal Utility District No. 127 Unlimited Tax Bonds, Series 2021 (the "Bonds"), dated June 1, 2021. The Bonds mature serially on September 1 in each of the years 2022 through 2027, both inclusive, and as term bonds on September 1 in each of the years 2029, 2031, 2033, 2035, 2037, 2039, 2043, and 2048 (the "Term Bonds") in the principal amounts set forth on the cover page of this Official Statement. Interest on the Bonds will accrue from June 1, 2021, with interest payable March 1, 2022 (nine months of interest) and each September 1 and March 1 thereafter until maturity. See "THE BONDS."
<i>Redemption...</i>	Bonds maturing on or after September 1, 2027 are subject to redemption in whole, or from time to time in part, at the option of the District prior to their maturity dates on September 1, 2026, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. The Term Bonds are also subject to mandatory sinking fund redemption as more fully described herein. See "THE BONDS—Redemption Provisions."
<i>Book-Entry-Only System...</i>	The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC, pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS—Book-Entry-Only System."
<i>Source of Payment...</i>	The Bonds are payable from a continuing direct annual ad valorem tax, unlimited as to rate or amount, levied against all taxable property within the District. The Bonds are obligations solely of the District and are not obligations of the State of Texas, Montgomery County, the City of Conroe or any entity other than the District. See "THE BONDS—Source of Payment."
<i>Use of Proceeds...</i>	Proceeds from the sale of the Bonds will be used to finance (1) water, sewer and drainage facilities for Falls at Imperial Oaks; (2) clearing and grubbing; (3) engineering costs for wastewater treatment plant expansion; (4) materials testing; and (5) engineering fees. Bond proceeds will also be used to pay developer interest, operational costs, and certain costs associated with the issuance of the Bonds. See "THE SYSTEM—Use and Distribution of Bond Proceeds."
<i>Payment Record...</i>	The District has previously issued five series of unlimited tax bonds for water, sewer and drainage facilities, \$15,490,000 of which remains outstanding as of April 1, 2021 (the "Outstanding Bonds"). The District has never defaulted in the payment of principal of and interest on the Outstanding Bonds.
<i>Qualified Tax-Exempt Obligations...</i>	The Bonds have been designated as qualified tax-exempt obligations for financial institutions. See "TAX MATTERS—Qualified Tax-Exempt Obligations for Financial Institutions."

*Municipal Bond Rating and
Municipal Bond Ratings...*

It is expected that S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC, (“S&P”) will assign a municipal bond rating of “AA” (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Build America Mutual Assurance Company (“BAM” or the “Insurer”). The District is not aware of any rating assigned to the Bonds other than the insured rating of S&P. See “RISK FACTORS—Risk Factors Related to the Purchase of Municipal Bond Insurance,” “MUNICIPAL BOND RATING,” “MUNICIPAL BOND INSURANCE,” and “APPENDIX B.”

Bond Counsel...

Smith, Murdaugh, Little & Bonham, L.L.P., Bond Counsel, Houston, Texas.

Financial Advisor...

Masterson Advisors LLC, Houston, Texas.

Disclosure Counsel...

McCall Parkhurst & Horton L.L.P., Disclosure Counsel, Houston, Texas.

Investment Considerations...

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

THE DISTRICT

Description...

The District is a political subdivision of the State of Texas, created by Order of the Texas Commission on Environmental Quality (the “Commission”) on August 22, 2008, under 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, as amended. The District is located in southeastern Montgomery County, approximately 25 miles north of downtown Houston and approximately 15 miles south of the City of Conroe. The District lies approximately three miles east of Interstate Highway 45 (“IH 45”) north of Rayford Road. The District contains approximately 429 acres and is within the boundaries of the Conroe Independent School District. Substantially all of the acreage in the District is within the extraterritorial jurisdiction of the City of Conroe. See “THE DISTRICT” and “AERIAL PHOTOGRAPH.”

Status of Development...

The District is being developed as The Falls at Imperial Oaks, a single-family residential community. Development in the District currently includes 551 single-family residential lots on approximately 163 acres. As of April 13, 2021, the District consisted of 550 completed occupied homes and 1 completed unoccupied home. Homes in the District range in price from approximately \$250,000 to \$450,000.

Approximately 70 acres of commercial acreage are served with trunk utilities, but no vertical improvements have been constructed on such acreage. The District includes approximately 33 developable acres that have not been provided with water distribution, sanitary sewer and storm drainage facilities.

Construction on Phase One of The Holcomb Family YMCA on approximately 10 acres in the District has commenced, which will include outdoor fitness facilities, a pavilion, soccer fields, and a parking lot, and is expected to be open and operational in October 2021. This facility is exempt from ad valorem taxation by the District. Recreational facilities within the boundaries of the District include Lake Holcomb Recreation Area, a 120-acre recreational area with various amenities, including a 100-acre lake with a 2.5 mile nature trail around the lake, a fishing dock, pedestrian bridges and an additional recreational center named “The Retreat,” with a resort style pool, splash pad, playground, outdoor patio with shade arbors, covered pavilions, and pool house.

The Conroe Independent School District has constructed an elementary school on approximately 15 acres in the District, which is exempt from ad valorem taxation. The remainder of the District is comprised of approximately 138 acres of amenity lakes, easements, detention and drainage facilities, street right-of-way, floodway and flood plain. See “THE DISTRICT.”

Developer...

The developer of the residential land within the District is Imperial Promenade Inc., a Texas corporation (“Imperial Promenade”), and the developer of the future commercial tracts of land is 830 Investors, Ltd., a Texas limited partnership (“830 Investors”) whose general partner is Jim/Judy Management, L.L.C., a Texas limited liability company. Imperial Promenade and 830 Investors are collectively referred to herein as the “Developer.” James R. Holcomb is the President of Imperial Promenade and the sole manager of the general partner of 830 Investors. With the consent of the District and pursuant to prefinancing contracts, the Developer has financed and, subject to certain conditions, is entitled to be reimbursed for the design and construction of certain water, sanitary sewer, drainage and recreational facilities. See “THE DEVELOPER.”

Additionally, the Developer has entered into a joint venture partnership, Grand Parkway & Imperial Promenade, LLC, to develop an approximately 37-acre tract of land in the District for commercial purposes.

SELECTED FINANCIAL INFORMATION

2020 Certified Taxable Assessed Valuation	\$162,876,410 (a)
2021 Preliminary Taxable Assessed Valuation	\$176,458,826 (b)
Gross Debt Outstanding (after the issuance of the Bonds)	\$20,490,000 (c)
Estimated Overlapping Debt.....	<u>6,616,714</u> (d)
Gross Debt and Estimated Overlapping Debt.....	\$27,106,714
Ratios of Gross Debt to:	
2020 Certified Taxable Assessed Valuation	12.58%
2021 Preliminary Taxable Assessed Valuation	11.61%
Ratios of Gross Debt and Estimated Overlapping Debt to:	
2020 Certified Taxable Assessed Valuation.....	16.64%
2021 Preliminary Taxable Assessed Valuation	15.36%
2020 Debt Service Tax Rate	\$0.74
2020 Maintenance Tax Rate	<u>0.61</u>
2020 Total Tax Rate	\$1.35/\$100 A.V.
Average Annual Debt Service Requirements (2022-2048) of the Bonds (“Average Requirement”)	\$1,070,030
Maximum Annual Debt Service Requirement (2022) of the Bonds (“Maximum Requirement”).....	\$1,216,993
Tax Rates Required to Pay Average Requirement (2022-2048) at a 95% Collection Rate	
Based upon 2020 Certified Taxable Assessed Valuation	\$0.70/\$100 A.V.
Based upon 2021 Preliminary Taxable Assessed Valuation.....	\$0.64/\$100 A.V.
Tax Rates Required to Pay Maximum Requirement (2022) at a 95% Collection Rate	
Based upon 2020 Certified Taxable Assessed Valuation	\$0.79/\$100 A.V.
Based upon 2021 Preliminary Taxable Assessed Valuation.....	\$0.73/\$100 A.V.
Status of home construction as of April 13, 2021:	
Single-family residential – completed and occupied	550
Single-family residential – completed and unoccupied	<u>1</u>
Total	551

Estimated 2021 Population – 1,925 (e)

- (a) As certified by the Montgomery Central Appraisal District (the “Appraisal District”). See “TAX PROCEDURES.”
- (b) Provided by the Appraisal District as a preliminary indication of the 2021 taxable value (as of January 1, 2021). Such amount is subject to review and downward adjustment prior to certification. No tax will be levied on such amount until it is certified in the fall of 2021. See “TAX PROCEDURES.”
- (c) See “FINANCIAL STATEMENT—Outstanding Bonds.”
- (d) See “ESTIMATED OVERLAPPING DEBT AND TAX RATES STATEMENT.”
- (e) Based upon 3.5 persons per occupied home.

OFFICIAL STATEMENT

\$5,000,000

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 127 *(A political subdivision of the State of Texas located within Montgomery County)*

UNLIMITED TAX BONDS **SERIES 2021**

This Official Statement provides certain information in connection with the issuance by Montgomery County Municipal Utility District No. 127 (the “District”) of its \$5,000,000 Unlimited Tax Bonds, Series 2021 (the “Bonds”).

The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, an order authorizing the issuance of the Bonds (the “Bond Order”) adopted by the Board of Directors of the District (the “Board”), an order of the Texas Commission on Environmental Quality (the “Commission”) and an election held within the District.

This Official Statement includes descriptions, among others, of the Bonds and the Bond Order, and certain other information about the District, Imperial Promenade Inc., a Texas corporation (“Imperial Promenade”) and 830 Investors, Ltd., a Texas limited partnership (“830 Investors” and collectively with Imperial Promenade referred to herein as the “Developer”) and development activity within the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of such documents may be obtained from the District upon payment of the costs of duplication therefor from Smith, Murdaugh, Little & Bonham, L.L.P., Bond Counsel, 2727 Allen Parkway, Suite 1100, Houston, Texas 77019.

THE BONDS

Description

The Bonds are dated June 1, 2021, with interest payable each March 1 and September 1 (each an “Interest Payment Date”), beginning March 1, 2022 (nine months of interest), and mature on the dates and in the principal amounts and pay interest at the rates shown on the cover page hereof. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company (“DTC”) pursuant to the Book-Entry-Only System described herein. No physical delivery of the Bonds will be made to the owners thereof. Initially, principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See “Book-Entry-Only System” herein.

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

Book-Entry-Only System

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

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

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

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

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

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

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

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

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

Use of Certain Terms in Other Sections of this Official Statement

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

Registration, Transfer and Exchange

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

Paying Agent/Registrar

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

Source of Payment

The Bonds, when issued, will constitute valid and binding obligations of the District and are payable as to principal and interest from and are secured by the proceeds of a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. Tax proceeds, after deduction for collection costs, will be placed in the Debt Service Fund (as defined in the Bond Order) and used solely to pay principal of and interest on the Bonds, the Outstanding Bonds, and on any additional bonds issued by the District payable from taxes which may be levied. See "TAX DATA."

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

Funds

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

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

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

Redemption Provisions

Mandatory Redemption: The Bonds maturing on September 1 in each of the years 2029, 2031, 2033, 2035, 2037, 2039, 2043, and 2048 (the “Term Bonds”) shall be redeemed, at a price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption (the “Mandatory Redemption Date”), on September 1 in each of the years and in the principal amounts set forth in the following schedule (with each such scheduled principal amount reduced by the principal amount as may have been previously redeemed through the exercise of the District’s reserved right of optional redemption, as provided under “Optional Redemption” below):

\$350,000 Term Bonds Due September 1, 2029		\$350,000 Term Bonds Due September 1, 2031		\$350,000 Term Bonds Due September 1, 2033	
<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>	<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>	<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
2028	\$ 175,000	2030	\$ 175,000	2032	\$ 175,000
2029 (maturity)	175,000	2031 (maturity)	175,000	2033 (maturity)	175,000
\$350,000 Term Bonds Due September 1, 2035		\$350,000 Term Bonds Due September 1, 2037		\$350,000 Term Bonds Due September 1, 2039	
<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>	<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>	<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
2034	\$ 175,000	2036	\$ 175,000	2038	\$ 175,000
2035 (maturity)	175,000	2037 (maturity)	175,000	2039 (maturity)	175,000
\$700,000 Term Bonds Due September 1, 2043		\$1,150,000 Term Bonds Due September 1, 2048			
<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>	<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>		
2040	\$ 175,000	2044	\$ 175,000		
2041	175,000	2045	175,000		
2042	175,000	2046	175,000		
2043 (maturity)	175,000	2047	175,000		
		2048 (maturity)	450,000		

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

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

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

Authority for Issuance

At an election held within the District on November 4, 2008, the voters of the District authorized the issuance of a total of \$122,000,000 principal amount of unlimited tax bonds for purposes of acquiring or constructing water, sanitary sewer and drainage facilities, and after issuance of the Bonds, the District will have \$100,950,000 in principal amount of unlimited tax bonds authorized but unissued for water, sanitary sewer, and drainage facilities. See “Issuance of Additional Debt” below.

The Commission, pursuant to its order approving sale of the Bonds, has authorized the District to sell the Bonds for the purposes described in “THE SYSTEM—Use and Distribution of Bond Proceeds.”

The Bonds are issued by the District pursuant to the terms and conditions of the Bond Order, Article XVI, Section 59 of the Texas Constitution, and Chapters 49 and 54 of the Texas Water Code, as amended. Before the Bonds can be issued, the Attorney General of Texas must pass upon the legality of certain related matters. The Attorney General of Texas does not guarantee or pass upon the safety of the Bonds as an investment or upon the adequacy of the information contained in this Official Statement. See “LEGAL MATTERS—Legal Opinion.”

Issuance of Additional Debt

The District's voters have authorized the issuance of \$122,000,000 in principal amount of unlimited tax bonds for purposes of acquiring or constructing the water, sanitary sewer and drainage facilities to serve land within the District. The District could authorize additional amounts. After issuance of the Bonds, the District will have \$100,950,000 in principal amount of unlimited tax bonds authorized but unissued for water, sanitary sewer and drainage facilities. The Bond Order imposes no limitation on the amount of additional parity bonds which may be subsequently authorized for issuance by the District's voters or the amount ultimately issued by the District.

The District is authorized by statute to develop parks and recreational facilities, including the issuing of bonds payable from taxes for such purpose. On November 4, 2008, the voters authorized the issuance of a total of \$8,000,000 in principal amount of unlimited tax bonds for the purpose of developing parks and recreational facilities. Before the District could issue recreational facilities bonds payable from taxes, the following actions would be required: (a) approval of the park projects and bonds by the Commission; and (b) approval of the bonds by the Attorney General of Texas. If the District does issue recreational facilities bonds, the outstanding principal amount of such bonds may not exceed an amount equal to one percent of the value of the taxable property in the District. The District currently has \$8,000,000 in principal amount of unlimited tax bonds authorized but unissued for parks and recreational facilities. The District expects to issue unlimited tax bonds for parks and recreational facilities to provide funds with which to reimburse the Developer for recreational facilities constructed for the District, but has no immediate plans to do so. See “THE SYSTEM—Future Debt.”

Pursuant to Chapter 54 of the Water Code, a municipal utility district may petition the Commission for the power to issue bonds supported by property taxes to finance roads. Before the District could issue such bonds, the District would be required to receive a grant of such power from the Commission, authorization from the District's voters to issue such bonds, and approval of the bonds by the Attorney General of Texas. The District has not considered filing an application to the Commission for “road powers” nor calling such an election at this time.

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

Defeasance

The District may defease the Bonds pursuant to provisions of the Bond Order and discharge its obligations to the Registered Owners of any or all of the Bonds to pay principal of and interest on the Bonds in any manner permitted by law. Under current Texas law, such discharge may be accomplished as follows: (1) by paying or causing to pay principal and interest due on the Bonds (whether at maturity, redemption or otherwise) in accordance with the terms of the Bonds; (2) by depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of, premium, if any and all interest to accrue on the Bonds to maturity or redemption; or (3) by depositing with any place of payment (paying agent) of the Bonds or other obligations of the District payable with revenues from ad valorem taxes or both, or with a commercial bank or trust company designated in the proceedings authorizing the discharge, moneys or investments which, together with interest earned on or profits to be realized from such investments, will be sufficient to pay principal, interest or redemption price to maturity or to the date fixed for redemption of the Bonds provided that such deposits may be invested and reinvested only in (a) direct obligations of the United States of America, (b) non-callable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) non-callable obligations of a state or an agency or a county, municipality or other political subdivision of a state that have been refunded and that on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and which mature and /or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and /or redemption of the Bonds. Upon such payment or deposit, the Bonds shall no longer be regarded as outstanding and unpaid. However, if the maturity date on the Bonds shall not have then arrived, provision shall be made by the District for payment to the Registered Owners of the Bonds at the date of maturity or at a date fixed for redemption in full amount to which the Registered Owners would be entitled by way of principal, interest and redemption price to the date of such maturity or redemption as provided in the Bond Order, and further provided written notice thereof shall have been given as provided in the Bond Order.

Annexation

Under existing Texas law, since the District lies substantially within the extraterritorial jurisdiction of the City of Conroe (the “City”), the District must conform to a City consent ordinance. Generally, the District may be annexed by the City without the District’s consent, and the City cannot annex territory within the District unless it annexes the entire District; however, the City may not annex the District unless (i) such annexation has been approved by a majority of those voting in an election held for that purpose within the area to be annexed, and (ii) if the registered voters in the area to be annexed do not own more than 50 percent of the land in the area, a petition has been signed by more than 50 percent of the landowners consenting to the annexation.

If the District is annexed, the City will assume the District’s assets and obligations (including the Bonds) and dissolve the District. Annexation of territory by the City is a policy-making matter within the discretion of the Mayor and City Council of the City, and therefore, the District makes no representation that the City will ever annex the District and assume its debt. Moreover, no representation is made concerning the ability of the City to make debt service payments should annexation occur.

Consolidation

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

Strategic Partnership

Under Chapter 43 of the Texas Water Code the District may enter into a strategic partnership agreement with the City of Conroe wherein the District agrees to limited annexation by the City of the District for specific purposes. Such an agreement could include the imposition of certain sales and use taxes by the City on designated property within the District, the allocation of such revenue between the City and the District, and the provision of certain services by the City. The agreement may provide that the city is prohibited from a total annexation and dissolution of the District during the term of such agreement. The District has not entered into any discussions with the City regarding such an agreement and no representation can be made regarding the likelihood of the District and the City entering into such an agreement in the future.

Legal Investment and Eligibility to Secure Public Funds in Texas

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

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

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

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

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

Amendments

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

No Arbitrage

The District will certify as of the date the Bonds are delivered and paid for that, based upon all facts and estimates then known or reasonably expected to be in existence on the date the Bonds are delivered and paid for, the District reasonably expects that the proceeds of the Bonds will not be used in a manner that would cause the Bonds, or any portion of the Bonds, to be “arbitrage bonds” under the Internal Revenue Code of 1986, as amended (the “Code”), and the regulations prescribed thereunder. Furthermore, all officers, employees, and agents of the District have been authorized and directed to provide certifications of facts and estimates that are material to the reasonable expectations of the District as of the date the Bonds are delivered and paid for. In particular, all or any officers of the District are authorized to certify to the facts and circumstances and reasonable expectations of the District on the date the Bonds are delivered and paid for regarding the amount and use of the proceeds of the Bonds. Moreover, the District covenants in the Bond Order 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 that the Bonds shall not become “arbitrage bonds” under the Code and the regulations prescribed from time to time thereunder.

Registered Owners' Remedies

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

THE DISTRICT

General

Montgomery County Municipal Utility District No. 127 (the “District”) is a municipal utility district created by Order of the Texas Commission on Environmental Quality on August 22, 2008, under the provisions of Article XVI, Section 59, of the Texas Constitution. The District operates under provisions of Chapters 49 and 54 of the Texas Water Code, as amended, and other general statutes applicable to municipal utility districts. The District is subject to the continuing supervision of the Commission. The District is located wholly within the boundaries of the Conroe Independent School District. Substantially all of the District is within the extraterritorial jurisdiction of the City of Conroe.

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 sanitary sewer 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 also empowered to provide for the collection and disposal of solid waste, to provide street lighting and to establish, operate, and maintain firefighting facilities and/or parks and recreational facilities, independently or with one or more conservation and reclamation districts. Additionally, the District may, subject to certain limitations, develop and finance roads.

Description and Location

The District contains approximately 429 acres of land and is located in the southeastern portion of Montgomery County approximately 25 miles north of downtown Houston and approximately 15 miles south of the City of Conroe. The District lies approximately three miles east of Interstate Highway 45 (“IH 45”) north of Rayford Road. Access to the District is provided by two major thoroughfares, including the recently completed Imperial Promenade from Birnham Woods Drive to the Grand Parkway, and Birnham Woods Drive and one collector street, Guadalupe River Boulevard.

Land Use

The table below represents a detailed breakdown of the current acreage and development in the District.

<u>Single-Family Residential</u>	<u>Approximate Acres</u>	<u>Lots</u>
Falls at Imperial Oaks:		
Section 16	7	28
Section 17	18	71
Section 20(a)	17	27
Section 21	24	96
Section 22	12	49
Section 23	13	56
Section 24	23	76
Section 25	26	94
Section 27	<u>23</u>	<u>54</u>
Subtotal	163	551
<i>School Site (b)</i>	15	---
<i>Future Development</i>	33	---
<i>Commercial Acreage (c)</i>	80	---
<i>Non-Developable (d)</i>	<u>138</u>	<u>---</u>
Totals	429	551

- (a) Includes approximately 6 acres for a wastewater treatment plant site.
- (b) See “Status of Development—School Site” below.
- (c) Served with trunk utilities but no vertical improvements have been constructed with the exception of The Holcomb Family YMCA being constructed on approximately 10 acres.
- (d) Includes 120-acre recreational area described below under “Status of Development,” amenity lakes, easements, detention and drainage facilities, street right-of-way, and approximately 80 acres either in the 100-year flood plain, the Woodson’s Gully floodway or the San Jacinto River floodway.

Status of Development

Single-Family Residential: As of April 13, 2021, the District consisted of 550 completed occupied homes and 1 completed unoccupied home. Homes in the District range in price from approximately \$250,000 to \$450,000. The 2021 estimated population in the District based upon 3.5 persons per occupied single-family residence is 1,925.

School Site: Conroe Independent School District has constructed an elementary school on approximately 15 acres within the District. The school is not subject to ad valorem taxation.

Recreation Facilities: The District also contains parks and recreational facilities that were constructed by the Developer for the District pursuant to a Park Plan adopted and approved by the District. Facilities constructed for the District include landscaping, lighting, waterfalls, lakes, and walking/jogging trails. Lake Holcomb Recreation Area is located in the District and is comprised of a 120-acre recreational area with various amenities, including a 100-acre lake with a 2.5 mile nature trail around the lake, a fishing dock, pedestrian bridges and an additional recreational center called “The Retreat,” with a resort style pool, splash pad, playground, outdoor patio with shade arbors, covered pavilions, and pool house. The District expects to issue recreational facilities bonds to provide funds with which to reimburse the Developer for the parks and recreational facilities constructed for the District. See “THE SYSTEM—Future Debt.”

In addition, construction on Phase One of The Holcomb Family YMCA on approximately 10 acres in the District has commenced, which will include outdoor fitness facilities, a pavilion, soccer fields, and a parking lot, and is expected to be open and operational in October 2021. This facility is exempt from ad valorem taxation by the District.

Commercial Acreage: Approximately 80 acres are served with trunk utilities, but no commercial improvements have been constructed with the exception of The Holcomb Family YMCA being constructed on approximately 10 acres.

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

MANAGEMENT

Board of Directors

The District is governed by the Board of Directors, consisting of five (5) directors, which has control over and management supervision of all affairs of the District. Directors are elected to four-year staggered terms, and elections are held in May in even numbered years only. Two of the Directors reside within the District and three of the Directors own a small parcel of land within the District, subject to a deed of trust in favor of the Developer. The Directors and Officers of the District are listed below:

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Mike Fadden	President	May 2024
G.M. Byrd Larberg	Vice President	May 2024
Mary Smith	Secretary	May 2024
Suzanne Dunbar	Director	May 2022
Mark Russelburg	Director	May 2022

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

Tax Appraisal

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

Tax Assessor/Collector

The District's tax assessor/collector is Equi-Tax, Inc. (the “Tax Assessor/Collector”).

Bookkeeper

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

Operator

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

Engineer

The consulting engineer for the District in connection with the design and construction of certain District facilities is IDS Engineering Group (the “Engineer”).

Attorney

The District has engaged Smith, Murdaugh, Little & Bonham, L.L.P. as general counsel and as Bond Counsel in connection with the issuance of the Bonds.

Financial Advisor

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

Auditor

As required by the Texas Water Code, the District retains an independent auditor to audit the District’s financial statements annually, which audit is filed with the Commission. The District’s audited financial statements for the fiscal year ending May 31, 2020 have been prepared by McCall Gibson Swedlund Barfoot PLLC. The District has engaged McCall Gibson Swedlund Barfoot PLLC to prepare the audited financial statements for the fiscal year ended May 31, 2021. See “APPENDIX A” for a copy of the District’s May 31, 2020 audited financial statements.

THE DEVELOPER

Role of a Developer

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

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

Imperial Promenade Inc. and 830 Investors, Ltd.

The developer of the residential land within the District is Imperial Promenade Inc., a Texas corporation (“Imperial Promenade”), and the developer of the future commercial tracts of land is 830 Investors, Ltd., a Texas limited partnership (“830 Investors”) whose general partner is Jim/Judy Management, L.L.C., a Texas limited liability company. Imperial Promenade and 830 Investors are collectively referred to herein as the “Developer.” James R. Holcomb is the President of Imperial Promenade and the sole manager of the general partner of 830 Investors. With the consent of the District and pursuant to prefinancing contracts, the Developer has financed and, subject to certain conditions, is entitled to be reimbursed for the design and construction of certain water, sanitary sewer, drainage and recreational facilities.

James R. Holcomb has previously developed or is currently developing single family residential subdivisions in Imperial Oaks and Falls at Imperial Oaks (a subdivision in the neighboring MUD 115 (as hereinafter defined)), Riverstone Ranch, Cypress Mill Estates, Cypress Mill Park, West Oaks Village and Plantation at First Colony, all located in the Houston area, through other entities organized for the purpose of developing each such subdivision. The District cautions that the foregoing development experience was gained in different markets and under different circumstances than exist today, and such prior success is no guarantee that the Developer will be successful in the development of land in the District.

Additionally, the Developer has entered into a joint venture partnership, Grand Parkway & Imperial Promenade, LLC, to develop an approximately 37-acre tract of land in the District for commercial purposes.

THE SYSTEM

Regulation

Construction and operation of the District's water, sanitary sewer and storm drainage systems as they now exist or as they may be expanded from time-to-time is subject to regulatory jurisdiction of federal, state and local authorities. The Commission exercises continuing, supervisory authority over the District. Discharge of treated sewage into Texas waters is also subject to the regulatory authority of the Commission and the United States Environmental Protection Agency ("EPA"). Construction of all water, sanitary sewer and storm drainage facilities is subject to the regulatory authority of Montgomery County, Texas, the Commission and the EPA.

Shared Central Water Plant Facilities

Pursuant to a Fourth Amended and Restated Water Supply Agreement dated May 2015 (the "Water Supply Agreement") among the District, Montgomery County Municipal Utility District No. 99 ("MUD 99") and Montgomery County Municipal Utility District No. 115 ("MUD 115"), MUD 99 owns legal title to and operates the central water plant facilities shared among the District, MUD 99 and MUD 115. Water Plant No. 1 consists of a 900 gallons per minute ("gpm") well, 590,000 gpd San Jacinto River Authority ("SJRA") surface water feed, two 318,000 gallon ground storage tanks, two 15,000 gallon pressure tanks, booster pump capacity of 4,350 gpm and related appurtenant equipment. Water Plant No. 2 consists of a 1,200 gpm well, a 318,000 gallon ground storage tank, two 900 gpm booster pumps, a 15,000 gallon pressure tank, and related appurtenant equipment. According to the District Engineer, Water Plant No. 1 and Water Plant No. 2 ("Water Plants") have a combined capacity sufficient to serve approximately 3,750 equivalent single-family connections ("ESFCs").

The District's share of the Water Plants' capacity is 615 ESFCs and pursuant to the Water Supply Agreement, the District has a right to purchase additional capacity or upgrade the facilities, as needed, to serve its development. Currently, the District serves approximately 575 equivalent single-family connections in the District. See "San Jacinto River Authority GRP Agreement and Supplemental Agreement (Non-Mandatory Conversion to Surface Water)" herein.

The water distribution systems of the District, MUD 99 and MUD 115 are interconnected at multiple locations, and the combined water distribution systems serve as a single integrated system receiving water from the shared water plants. The three districts share the costs of operations and maintenance of the central water plant facilities as provided in the Water Supply Agreement.

The District, MUD 99 and MUD 115 are responsible for and bear the cost of maintenance and operation of the water distribution systems within their respective boundaries.

Wastewater Treatment

The District has constructed a 120,000 gallon per day ("gpd") wastewater treatment plant, which has capacity to serve 400 ESFCs. Currently, the District serves approximately 575 ESFCs. As of March 1, 2021, the plant was operating at 73% of the permitted capacity. Construction of an expansion from 120,000 gallons per day to 240,000 gallons per day is currently underway. After completion, the plant will have the capacity to serve 800 ESFCs.

100-Year Flood Plain

"Flood Insurance Rate Map" or "FIRM" means an official map of a community on which the Federal Emergency Management Agency (FEMA) has delineated the appropriate areas of flood hazards. The 1% chance of probable inundation, also known as the 100-year flood plain, is depicted on these maps. The "100-year flood plain" (or 1% chance of probable inundation) as shown on the FIRM is the estimated geographical area that would be flooded by a rain storm of such intensity to statistically have a one percent chance of occurring in any given year. Generally speaking, homes must be built above the 100-year flood plain in order to meet

local regulatory requirements and to be eligible for federal flood insurance. An engineering or regulatory determination that an area is above the 100-year flood plain is no assurance that homes built in such area will not be flooded. The District's drainage system has been designed and constructed to all current standards. According to the District's engineer, approximately 80 acres of land in the District are either within the 100-year flood plain or flood way as designated by the Federal Emergency Management Administration Insurance Rate Map for the area; however, such acreage may be developed if the areas are filled pursuant to a Federal Emergency Management Administration Letter of Map Revision based on Fill. The District has obtained one LOMR-F dated May 18, 2016 (Case No. 16-06-1305A) and has filed a Letter of Map Revision (Case No. 20-06-1594P) which is pending approval from FEMA. The current LOMR on file, once approved, will reduce the amount of floodplain to 69 acres. To date, there has been no development on the developable land within the flood plain. See "INVESTMENT CONSIDERATIONS-Severe Weather Events; Hurricane Harvey."

The National Weather Service recently completed a rainfall study known as NOAA Atlas 14, Volume 11 Precipitation-Frequency Atlas of the United States ("Atlas 14"). Floodplain boundaries within the District may be redrawn based on the Atlas 14 study based on a higher statistical rainfall amount, resulting in the application of more stringent floodplain regulations applying to a larger area and potentially leaving less developable property within the District. 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.

Lone Star Groundwater Conservation District

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

The Conservation District initially required persons and entities, including the District, MUD 99, and MUD 115 that pump groundwater from wells to apply for and obtain permits for the withdrawal of groundwater under terms and conditions provided in the Conservation District's rules. The Conservation District adopted an initial District Regulatory Plan which called for the reduction of groundwater withdrawal throughout Montgomery County to volumes that do not exceed the recharge capabilities of aquifers in the County to prevent the long term depletion of the aquifers.

Large water users, including the District, MUD 99, and MUD 115 were required to prepare and submit a two-part Water Resources Assessment Plan ("WRAP") that identified methods and plans for reduction of groundwater usage through the development of alternate water resources, including the design and construction of infrastructure facilities to purchase and transport surface water to affected areas within the County. The initial requirement and deadline for reduction of groundwater use by the District, MUD 99, and MUD 115 by 30% was January 1, 2016.

MUD 115 and MUD 99, and later by extension, the District, participated in a joint WRAP prepared by the San Jacinto River Authority as described below.

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

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

On February 5, 2019, the Conservation District issued its notice of impending regulatory changes to comply with that judgment. In addition, in March of 2019, the Conservation District adopted an amended Groundwater Management Plan and submitted the plan to the Texas Water Development Board for review and approval in accordance with the requirements of Chapter 36 of the Texas Water Code. In May of 2019, the Texas Water Development Board rejected the amended Groundwater Management Plan. The Conservation District appealed the rejection of the amended Groundwater Management Plan, and following mediation, the revised management plan was approved by the Texas Water Development Board on June 4, 2020. On September 9, 2020, the Conservation District adopted new rules that supersede the substantive requirements of the 2009 District Regulatory Plans in that such rules (a) no longer require a reduction in ground water pumpage and conversion to alternative source of water, and (b) no longer require participation in a groundwater reduction plan. Such new rules further provide, among other things, that the Conservation District may implement proportional reductions in groundwater pumpage in the future. The full impact of these matters on the District is not known at this time. Regulatory changes by the Conservation District may impact the District's production of groundwater from its wells. Regardless of the non-existence of the original regulations and uncertainty regarding future mandates (if any), the joint WRAP prepared by the SJRA is currently still in place.

The Conservation District currently bills permit holders \$0.085 per 1,000 gallons of water pumped from wells to finance the Conservation District's operations. This amount is subject to future increases.

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

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

SJRA offered to enter into a contract for groundwater reduction planning, alternative water supply, and related goods and services (the "GRP Contract") with all large water users in the county to achieve the goals for reduction of groundwater pumpage for the entire county. Approximately 147 large volume water users in Montgomery County, including the MUD 99 and MUD 115, and later by extension, the District (collectively the "Participants"), approved and entered into the GRP Contract. MUD 99 exercised its right to expand its service area to include the District.

Pursuant to the GRP Contract, SJRA developed, implemented and enforced a groundwater reduction plan ("GRP") covering all Participants to achieve and maintain compliance with the Conservation District requirements. The initial focus of the GRP was the design and construction of a surface water treatment and transmission system (the "Project") to be owned and operated by SJRA for the benefit of all Participants.

The SJRA designed, permitted, financed, constructed, owned, operated and maintained the Project, to be constructed in phases. A group compliance approach was to be utilized. Certain large volume Participants may be wholly-converted to treated surface water while other users may continue to use groundwater. This approach was expected to minimize overall Project cost, equalize costs for Participants and avoid geographic advantages and disadvantages.

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

The Participants are also required to pay well permit fees assessed by the Conservation District which currently bills permit holders \$0.085 per 1,000 of water pumped from wells.

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

SJRA issued \$554,555,358 principal amount of special project and water revenue bonds to finance the capital costs on the Project, and groundwater pumpage fees and water service fees will be used to cover costs of service on the bonds. Effective September 1, 2019 the rate is \$2.73 per 1,000 gallons of water pumped from wells. MUD 115, MUD 99 and the District pay the pumpage fees based upon the amount of water pumped from the District's wells each month. MUD 115, MUD 99 and the District pass these pumpage fees and Conservation District fees on to customers in the districts.

In 2016, the City of Conroe and the City of Magnolia advised the SJRA that they would not pay the rate increases that became effective September 1, 2016 of \$0.07 per thousand gallons for the Pumpage Fee and the Surface Water Fee. The Pumpage Fee and Surface Water Fee were further increased on subsequent occasions. The City of Conroe and the City of Magnolia have not paid more than the rates set in 2015. On August 31, 2016, the SJRA filed suit in the District Court of Travis County, Texas, pursuant to Chapter 1205 of the Texas Government Code, seeking an expedited declaratory judgment that (i) the SJRA is authorized to set rates for its GRP Participants pursuant to the procedures set forth in the GRP Contracts, (ii) the SJRA adopted its fiscal year 2017 Rate Order, including the setting of its fiscal year 2017 rates, in accordance with the procedures set forth in the GRP Contracts, (iii) the SJRA's fiscal year 2017 rates, the Rate Order, and the GRP Contract are legal and valid, and (iv) the City of Conroe's refusal to pay the fiscal year 2017 rate is a breach of its GRP Contract. The Cities of Conroe, Magnolia, and Splendora, Texas, along with two privately-owned water utilities, Quadvest, L.P. and Woodlands Oaks Utility, L.P. (collectively, the "Intervenors") have intervened in opposition to the SJRA's suit.

The Third Court of Appeals, Austin ruled in September 2018 that the suit was properly filed by the SJRA and should be sent back to the District Court for further proceedings on the first three declarations sought by the SJRA, as described above. The Third Court of Appeals ruled that the SJRA could not pursue the fourth declaration, as described above, under Chapter 1205 of the Texas Government Code. A separate suit would need to be filed to achieve such declaration. Since such ruling, the Intervenors filed a petition for review with the Texas Supreme Court, which was granted. In an opinion delivered on March 27, 2020, the Texas Supreme Court held that the SJRA can use the expedited Declaratory Judgment Act to determine whether the GRP contracts were validly executed, but claims regarding whether the SJRA complied with the terms of such contracts in establishing rates and changes to the GRP Participants (as well as claims regarding whether the Intervenors have breached the contract by withholding certain payments) will have to be litigated unless separate breach of contract actions, with venue likely lying in the District Court in Montgomery County. The EDJA suit has been remanded to the District Court for further proceedings. While the EDJA suit was pending before the Texas Supreme Court, Quadvest, L.P., Woodlands Oaks Utility, L.P., and certain other privately-owned water utilities filed suit against the Authority in District Court in Montgomery County, Texas, alleging breach of contract claims related to the GRP Fees (the "Rate Suit"). The Authority filed cross-claims against the Cities of Conroe, Magnolia, Texas, in the Rate Suit seeking to recover unpaid GRP Fees from such Cities. In response, the Cities of Conroe, Magnolia, Texas filed pleas arguing that immunity barred the Authority's claims. The District Court granted the pleas and the Authority has filed an appeal of the ruling with the Ninth Court of Appeals, Beaumont. The Authority has filed a separate rate suit against Quadvest, L.P. and Woodlands Oaks Utility, L.P. to recover unpaid GRP Fees from such utilities. Quadvest, L.P. and Woodlands Oaks Utility, L.P. have also filed a suit against the Authority in the U.S. District Court for the Southern District of Texas, Houston Division, alleging violations of federal antitrust law when it entered into the GRP Contracts. At this time, no evaluation can be made as to the outcome of this matter or its impact on the SJRA and the resultant impact on GRP Participants such as the District.

The District, MUD 115 and MUD 99 had not initially been scheduled to receive water from the first phase of the Project in 2016. However, the District, MUD 115 and MUD 99 requested that the SJRA provide surface water to the District, MUD 115 and MUD 99 in 2016 under the terms of the SJRA's early conversion policy. Pursuant to the terms of such policy, the SJRA would pay for the engineering and half of the line construction costs, while MUD 115 and the MUD 99, through advances from developers to be reimbursed by such districts, would pay the other half of the construction costs. The request was approved, and the SJRA entered into a Supplemental Agreement (Non-Mandatory Conversion of Surface Water) with MUD 99, MUD 115 and the respective developers. Pursuant to the terms of this agreement, the SJRA is obligated to provide up to 590,000 gallons per day of treated surface water to the District's Water Plant No. 1. MUD 99, on behalf of itself; MUD 115 and the District, will be required to take at least 253,000 gallons per day in this initial phase. MUD 115 financed the water delivery facilities, construction of which is complete. The District and MUD 99 will purchase capacity from MUD 115 as necessary to support their respective developments. Effective September 1, 2019, the rate for surface water fees was \$3.15 per 1,000 gallons of surface water delivered.

Use and Distribution of Bond Proceeds

The use and distribution of Bond proceeds is shown below. Of proceeds to be received from sale of the Bonds, \$3,523,058 is for construction costs, and \$1,476,942 is for nonconstruction costs. Surplus funds, if any, may be expended for any lawful purpose for which surplus construction funds may be used, if approved by the Commission, where required.

CONSTRUCTION COSTS

Water, Sewer and Drainage for Imperial Oaks Section 20.....	\$ 166,542
Water, Sewer and Drainage for Falls at Imperial Oaks Section 21 & Falls Lake Drive.....	1,766,706
Water, Sewer and Drainage for Falls at Imperial Oaks Section 22.....	236,325
Water, Sewer and Drainage for Falls at Imperial Oaks Section 23.....	240,000
Water, Sewer and Drainage for Birnham Woods Drive from Imperial Promenade to Elan.....	289,295
Clearing and Grubbing for Imperial Promenade Expansion.....	42,065
Clearing and Grubbing for Falls at Imperial Oaks Section 24.....	30,135
Materials Testing.....	34,183
Stormwater Pollution Prevention Planning.....	125,043
Engineering for Wastewater Treatment Plant Expansion.....	530,000
Engineering.....	412,764
Less: Surplus Funds Applied.....	<u>(350,000)</u>
Total Construction Costs	\$ 3,523,058

NON-CONSTRUCTION COSTS

Legal Fees.....	\$ 105,000
Financial Advisory Fees.....	90,000
Developer Interest.....	836,946
Bond Discount (a).....	149,462
Operational Costs.....	175,000
Bond Issuance Expenses.....	57,496
Bond Application Report.....	45,000
TCEQ Fee (0.25%).....	12,500
Attorney General Fee.....	5,000
Contingency (a).....	<u>539</u>
Total Non-Construction Costs	\$ 1,476,942

TOTAL BOND ISSUE

\$ 5,000,000

(a) The Commission approved a maximum Bond discount of 3.00%. Contingency represents the difference in the estimated and actual amount of Bond discount.

Future Debt

With the consent of the District, and pursuant to the prefinancing contracts, Imperial Promenade has financed the design and construction of the Falls at Imperial Oaks, Sections 24 through 25 and 27, as well as other improvements for which Imperial Promenade has not yet been reimbursed. As of April 1, 2021, Imperial Promenade has expended approximately \$11,355,000 for District water, sanitary sewer and drainage facilities, which costs are expected to be reimbursed to the Developer from proceeds from future issues of District bonds. Imperial Promenade has also expended approximately \$4,700,000 for District parks and recreational facilities, which costs are expected to be reimbursed to Imperial Promenade from proceeds from future issues of District bonds for recreational facilities. See “THE BONDS—Issuance of Additional Debt.” In addition, the District presently contains approximately 33 acres of developable land not presently served with water distribution, sanitary sewer and storm drainage facilities. It is anticipated that additional bonds will be issued to finance the construction of these facilities to serve the undeveloped acreage within the District. The District can make no representation that any additional development will occur within the District. According to the District Engineer, the District has adequate voted bonds to complete the current and planned land use projects.

BONDS AUTHORIZED BUT UNISSUED

<u>Date of Authorization</u>	<u>Purpose</u>	<u>Amount Authorized</u>	<u>Issued to Date</u>	<u>Amount Unissued</u>
11/07/2006	Water, Sewer and Drainage Facilities and Refunding	\$122,000,000	\$21,050,000*	\$100,950,000
11/06/2007	Recreational Facilities and Refunding Bonds	\$8,000,000	\$0	\$8,000,000

* Includes the Bonds.

FINANCIAL STATEMENT

2020 Certified Taxable Assessed Valuation	\$162,876,410	(a)
2021 Preliminary Taxable Assessed Valuation	\$176,458,826	(b)
Direct Debt:		
Outstanding Bonds (as of April 1, 2021).....	\$15,490,000	(c)
Plus: The Bonds	<u>5,000,000</u>	(d)
Gross Debt Outstanding.....	\$20,490,000	
Ratios of Gross Debt to:		
2020 Certified Taxable Assessed Valuation	12.58%	
2021 Preliminary Taxable Assessed Valuation	11.61%	

Area of District – 429 Acres
Estimated 2021 Population – 1,925 (e)

- (a) As certified by the Montgomery Central Appraisal District (the “Appraisal District”). See “TAX PROCEDURES.”
- (b) Provided by the Appraisal District as a preliminary indication of the 2021 taxable value (as of January 1, 2021). Such amount is subject to review and downward adjustment prior to certification. No tax will be levied on such amount until it is certified in the fall of 2021. See “TAX PROCEDURES.”
- (c) See “Outstanding Bonds” herein.
- (d) See “ESTIMATED OVERLAPPING DEBT AND TAX RATES STATEMENT.”
- (e) Based upon 3.5 persons per occupied home.

Cash and Investment Balances (unaudited as of April 20, 2021)

Capital Projects Fund	Cash and Temporary Investments	\$732,241 (a)
Operating Fund	Cash and Temporary Investments	\$892,600
Debt Service Fund	Cash and Temporary Investments	\$1,572,974 (b)

- (a) Approximately \$350,000 of the Capital Projects fund will be applied as surplus funds towards this bond issuance.
- (b) Includes funds for the September 1, 2021 debt service payment in the amount of \$656,771. Neither Texas law nor the Bond Order requires the District to maintain any minimum balance in the Debt Service Fund.

Outstanding Bonds (as of April 1, 2021)

Series	Original Principal Amount	Outstanding Bonds (as of 4/1/2021)
2016	\$ 2,750,000	\$ 2,545,000
2017	2,800,000	2,690,000
2018	3,000,000	2,895,000
2019	4,000,000	3,860,000
2020	<u>3,500,000</u>	<u>3,500,000</u>
Total	\$ 16,050,000	\$ 15,490,000

District Investment Policy

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

ESTIMATED OVERLAPPING DEBT AND TAX RATES STATEMENT

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

<u>Taxing Jurisdiction</u>	<u>Outstanding Bonds</u>	<u>As of</u>	<u>Percent</u>	<u>Overlapping Amount</u>
Montgomery County.....	\$486,675,000	03/31/21	0.23%	\$ 1,119,353
Conroe Independent School District.....	1,351,160,000	03/31/21	0.38%	5,134,408
Lone Star College System.....	518,505,000	03/31/21	0.07%	<u>362,954</u>
Total Estimated Overlapping Debt				\$ 6,616,714
The District's Total Direct Debt (a).....				<u>20,490,000</u>
Total Direct and Estimated Overlapping Debt.....				\$27,106,714

Direct and Estimated Overlapping Debt as a Percentage of:

2020 Certified Taxable Assessed Valuation of \$162,876,410	16.64%
2021 Preliminary Taxable Assessed Valuation of \$176,458,826.....	15.36%

(a) The Bonds and the Outstanding Bonds.

Overlapping Tax Rates for 2020

	<u>2020 Tax Rate per \$100 of Taxable Assessed Valuation</u>
Montgomery County.....	\$ 0.45900
Montgomery County Hospital District.....	0.05880
Montgomery County Emergency Services District No. 8.....	0.10000
Conroe Independent School District.....	1.21250
Lone Star College System.....	<u>0.10780</u>
Total Overlapping Tax Rate.....	\$ 1.93810
The District.....	<u>1.35000</u>
Total Tax Rate.....	\$ 3.28810

TAX DATA

Tax Collections

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

Tax Year	Taxable Assessed Valuation	Tax Rate	Total Tax Levy	Total Collections as of March 31, 2021 (a)	
				Amount	Percent
2016	\$ 15,208,118	\$ 1.35	\$ 205,310	\$ 205,310	100.00%
2017	39,921,370	1.35	538,939	538,939	100.00%
2018	67,391,902	1.35	909,791	909,791	100.00%
2019	129,362,391	1.35	1,746,392	1,739,589	99.61%
2020	162,876,410	1.35	2,199,265	2,164,547	98.42%

(a) Unaudited.

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

Tax Rate Distribution

	2020	2019	2018	2017	2016
Debt Service	\$ 0.74	\$ 0.75	\$ 0.80	\$ 0.75	\$ -
Maintenance and Operations	0.61	0.60	0.55	0.60	1.35
Total	\$ 1.35	\$ 1.35	\$ 1.35	\$ 1.35	\$ 1.35

Tax Rate Limitations

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

Debt Service Tax

The Board covenants in the Bond Order to levy and assess, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax adequate to provide funds to pay the principal of and interest on the Bonds. The District levied a debt service tax for 2020 at the rate of \$0.74 per \$100 assessed valuation. See "Tax Rate Distribution" above.

Maintenance and Operations Tax

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for maintenance of the District's improvements, if such maintenance tax is authorized by the District's voters. At an election held November 4, 2008, the Board was authorized to levy such a maintenance tax in an unlimited rate in accordance with the constitution and laws of the state of Texas. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds and any additional tax bonds which may be issued in the future. The District levied a maintenance tax for 2020 at the rate of \$0.61 per \$100 assessed valuation. See "Tax Rate Distribution" above.

Tax Exemptions

As discussed in the section titled "TAX PROCEDURES" herein, certain property in the District may be exempt from taxation by the District. The District does not exempt any percentage of the market value of any residential homesteads from taxation. For 2021, the District has adopted a \$10,000 exemption for persons who are 65 or older and/or disabled. The Developer has executed a Waiver of Special Appraisal, waiving its right to claim any agriculture or open space exemptions, or any other type of exemption or valuation, for the property it owns within the District that would reduce the assessed value of such land below its market value for purposes of ad valorem taxation by the District. Such waiver is binding for a period of thirty years.

Additional Penalties

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

Principal Taxpayers

The following list of principal taxpayers was provided by the District’s Tax Assessor/Collector based upon the 2020 tax roll which reflects ownership at January 1, 2020. A principal taxpayer list related to the 2021 Preliminary Taxable Assessed Valuation of \$176,458,826, which is subject to review and downward adjustment prior to certification, is not available from the Appraisal District.

<u>Taxpayer</u>	<u>Type of Property</u>	<u>2020 Certified Taxable Assessed Valuation</u>	<u>% of 2020 Certified Taxable Assessed Valuation</u>
Grand Parkway & Imperial Promenade (a)	Land	\$ 4,839,610	2.97%
Individual	Residence	470,400	0.29%
830 Investors Ltd. (a)	Land	468,760	0.29%
Individual	Residence	467,740	0.29%
Individual	Residence	450,940	0.28%
Individual	Residence	446,740	0.27%
Individual	Residence	446,060	0.27%
Weekley Homes LLC	Land & Improvements	440,639	0.27%
Individual	Residence	435,170	0.27%
Individual	Residence	433,150	0.27%
Total		\$ 8,899,209	5.46%

(a) See “THE DEVELOPER.”

Summary of Assessed Valuation

The following summary of the 2020, 2019 and 2018 Certified Taxable Assessed Valuation is provided by the District's Tax Assessor/Collector based on information contained in the 2020, 2019 and 2018 tax rolls of the District. A breakdown of the 2021 Preliminary Taxable Assessed Valuation, which is subject to review and downward revision prior to certification, is not available from the Appraisal District. Information in this summary may differ slightly from the assessed valuations shown herein due to differences in dates of data.

	<u>2020 Certified Taxable Assessed Valuation</u>	<u>2019 Certified Taxable Assessed Valuation</u>	<u>2018 Certified Taxable Assessed Valuation</u>
Land	\$ 24,641,060	\$ 23,277,180	\$ 11,294,660
Improvements	148,994,080	115,949,240	68,153,420
Personal Property	845,016	876,274	1,008,011
Exemptions	(11,603,746)	(10,740,303)	(13,064,189)
Total	<u>\$ 162,876,410</u>	<u>\$ 129,362,391</u>	<u>\$ 67,391,902</u>

Tax Adequacy for Debt Service

The calculations shown below assume, solely for purposes of illustration, no increase or decrease in assessed valuation over the 2020 Certified Taxable Assessed Valuation of \$162,876,410, and the 2021 Preliminary Taxable Assessed Valuation, which is subject to review and downward adjustment prior to certification, of \$176,458,826 and a debt service tax rate necessary to pay the District’s average annual debt service requirements on the District’s Outstanding Bonds and the Bonds. See “INVESTMENT CONSIDERATIONS—Impact on District Tax Rates.”

Average Annual Debt Service Requirement (2022-2048).....	\$1,070,030
\$0.70 Tax Rate on the 2020 Certified Taxable Assessed Valuation.....	\$1,083,128
\$0.64 Tax Rate on the 2021 Preliminary Taxable Assessed Valuation.....	\$1,072,870
Maximum Annual Debt Service Requirement (2022).....	\$1,216,993
\$0.79 Tax Rate on the 2020 Certified Taxable Assessed Valuation.....	\$1,222,387
\$0.73 Tax Rate on the 2021 Preliminary Taxable Assessed Valuation.....	\$1,223,742

No representations or suggestions are made that the 2021 Preliminary Taxable Assessed Valuation, which is subject to review and downward revision prior to certification, provided by the Appraisal District for the District will be certified as taxable value by the Appraisal District, and no person should rely upon such amount or its inclusion herein as assurance of its attainment. See “TAX PROCEDURES.”

TAX PROCEDURES

Authority to Levy Taxes

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

Tax Code and County-Wide Appraisal District

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

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

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; certain goods, wares and merchandise in transit; farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years or older and of certain disabled persons to the extent deemed advisable by

the Board. The District has adopted a residential homestead exemption in the amount of \$10,000 for persons age 65 and older and disabled persons. Additionally, the District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between \$5,000 and \$12,000 depending on the disability rating of the veteran. Subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. See "TAX DATA."

Partially disabled veterans or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. The surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. The surviving spouse of a first responder who was killed or fatally injured in the line of duty is, subject to certain conditions, also entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and, subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

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

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

Tax Abatement

Montgomery County or the City of Conroe may designate all or part of the area within the District as a reinvestment zone. Thereafter, Montgomery County, the District, and the City of Conroe (after annexation of the District), under certain circumstances, may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the District, for a period of up to ten (10) years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with the terms of the tax abatement. Each taxing jurisdiction has discretion to determine terms for its tax abatement agreements without regard to the terms approved by the other taxing jurisdictions.

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Generally, assessments under the Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Tax Code. In determining market value, either the replacement cost or the income or the market data method of valuation may be used, whichever is appropriate. Nevertheless, certain land may be appraised at less than market value under the Tax Code. Increases in the appraised value of residence homesteads are limited by the Texas Constitution to 10 percent annually regardless of the market value of the property.

The Tax Code permits land designated for agricultural or timber land use to be appraised at its value based on the land's capacity to produce agricultural products or, with respect to timber land, the value based upon accepted income capitalization methods. The Tax Code permits under certain circumstances that residential real property inventory held by a person in the trade or business be valued at the price all of such property would bring if sold as a unit to a purchaser who would continue the business. Landowners wishing to avail themselves of the agricultural, timber land or residential real property appraisal must apply for such appraisal, and the Appraisal District is required to act on each claimant's application individually. If a claimant receives the agricultural or timber land appraisal on land and later changes the land use or sells the land to an unqualified owner, an additional tax is imposed on the land equal to the difference between the taxes imposed on the land for each of the three years preceding the year in which the change of use occurs that the land was appraised as agricultural or timber land and the tax that would have been imposed had the land been taxed on the basis on market value in each of those years, plus interest at an annual rate of five percent (5%) calculated from the dates on which the differences would have become due. Provisions of the Tax Code are complex and are not fully summarized here.

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

The Property Tax Code provides for a temporary exemption from ad valorem taxation of a portion of the appraised value of certain property that is at least 15% damaged by a disaster and located within an area declared to be a disaster area by the governor of the State of Texas. This temporary exemption is automatic if the disaster is declared prior to a taxing unit, such as the District, adopting its tax rate for the tax year. A taxing unit, such as the District, may authorize the exemption at its discretion if the disaster is declared after the taxing unit has adopted its tax rate for the tax year. The amount of the exemption is based on the percentage of damage and is prorated based on the date of the disaster. Upon receipt of an application submitted within the eligible timeframe by a person who qualifies for a temporary exemption under the Property Tax Code, the Appraisal District is required to complete a damage assessment and assign a damage assessment rating to determine the amount of the exemption. The temporary exemption amounts established in the Property Tax Code range from 15% for property less than 30% damaged to 100% for property that is a total loss. Any such temporary exemption granted for disaster-damaged property expires on January 1 of the first year in which the property is reappraised.

District and Taxpayer Remedies

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

Levy and Collection of Taxes

The District is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. The rate of taxation is set by the Board of Directors, after the legally required notice has been given to owners of property within the District, based upon: a) the valuation of property within the District as of the preceding January 1, and b) the amount required to be raised for debt service, maintenance purposes, and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent if not paid before February 1 of the year following the year in which imposed. However, a person who is 65 years of age or older or disabled is entitled by law to pay current taxes on his residential

homestead in installments or to receive a deferral or abatement of delinquent taxes without penalty during the time he owns or occupies his property as his residential homestead. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. A delinquent tax on personal property incurs an additional penalty, in an amount established by the District and a delinquent tax attorney, 60 days after the date the taxes become delinquent. The delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, which may be rejected by taxing units. The District's tax collector is required to enter into an installment payment agreement with any person who is delinquent on the payment of tax on a residence homestead for payment of tax, penalties and interest, if the person requests an installment agreement in writing and has not entered into an installment agreement with the collector in the preceding 24 months. The installment agreement must provide for payments to be made in equal monthly installments and must extend for a period of at least 12 months and no more than 36 months. Additionally, the owner of a residential homestead property who is (i) sixty-five (65) years of age or older, (ii) disabled, or (iii) a disabled veteran, is entitled by law to pay current taxes on a residential homestead in installments without penalty or to defer the payment of taxes during the time of ownership. In the instance of tax deferral, a tax lien remains on the property and interest continue to accrue during the period of deferral.

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

Rollback of Operation and Maintenance Tax Rate

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 is described for each classification below. Debt service and contract tax rates cannot be reduced by a rollback election held within any of the districts described below.

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

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

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

The District: A determination as to a district's status as a Low Tax Rate District, Developed District or Developing District will be made on an annual basis, at the time a district sets its tax rate, beginning with the 2020 tax rate. The District cannot give any assurances as to what its classification will be at any point in time or whether the District's future tax rates will result in a total tax rate that will reclassify the District into a new classification and new rollback election calculation. For tax year 2020, the Board designated the District as a "Developing District."

District's Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State of Texas and each local taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of such other taxing units. See "ESTIMATED OVERLAPPING DEBT AND TAX RATES STATEMENT." A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

At any time after taxes on property become delinquent, among other collection methods available, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both, subject to the restrictions on residential homesteads described above under "Levy and Collection of Taxes". In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the cost of suit and sale, by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights (a taxpayer may redeem property within six (6) months for commercial property and two (2) years for residential and all other types of property after the purchaser's deed issued at the foreclosure sale is filed in the county records) or by bankruptcy proceedings which restrict the collection of taxpayer debts. The District's ability to foreclose its tax lien or collect penalties or interest on delinquent taxes may be limited on property owned by a financial institution which is under receivership by the Federal Deposit Insurance Corporation pursuant to the Federal Deposit Insurance Act, 12 U.S.C. 1825, as amended. See "INVESTMENT CONSIDERATIONS."

WATER AND SEWER OPERATIONS

General

The Bonds and the Outstanding Bonds are payable from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District. Net revenues, if any, derived from the operation of the District's water and sewer operations are not pledged to the payment of the Bonds but are available for any lawful purpose including payment of debt service on the Bonds, at the discretion and upon action of the Board. It is not anticipated that any significant revenues will be available for the payment of debt service on the Bonds.

Waterworks and Sewer System Operating Statement

The following statement sets forth in condensed form the historical results of operation of the District's General Operating Fund. Accounting principles customarily employed in the determination of net revenues have been observed and, in all instances, exclude depreciation. Such summary is based upon information obtained from the District's audited financial statements for the fiscal years ended 2017 through 2020 and an unaudited summary from the District's bookkeeper for the period ended March 31, 2021. Reference is made to such statements for further and complete information.

	6/1/2020 to 3/31/2021 (a) (unaudited)	Fiscal Year Ended May 31			
		2020	2019	2018	2017
Revenues					
Property Taxes	\$ 973,853	\$ 769,970	\$ 370,380	\$ 252,163	\$ 189,652
Water Service	121,681	164,957	91,368	70,404	38,744
Wastewater Service	178,350	166,845	152,413	97,726	56,693
Conservation District/ Water Authority Fees	204,345	224,289	145,512	109,131	50,843
Penalty and Interest	3,355	6,249	4,035	3,431	6,383
Tap Connection and Inspection Fees	675	72,772	184,995	151,425	709,660
Investment Income	326	649	390	441	475
Other	66,890	6,716	7,407	16,051	2,950
Total Revenues	\$ 1,549,475	\$ 1,412,447	\$ 956,500	\$ 700,772	\$ 1,055,400
Expenditures					
Professional Fees	\$ 96,066	\$ 79,193	\$ 130,654	\$ 110,127	\$ 27,257
Contracted Services	23,973	133,807	95,799	63,066	42,852
Purchased Water Services	296,583	316,874 (f)	188,690 (f)	157,109 (f)	79,200
Purchased Wastewater Services	-	-	-	-	17,220
Utilities	63,493	93,305	83,135	67,265	34,499
Repairs and Maintenance	443,369	523,635	294,793	220,644	327,693
Lease	-	-	-	37,600	-
Other	153,816	230,324	258,849	178,739	155,828
Capital Outlay (d)	-	8,580	21,816	479,490	24,525
Total Expenditures	\$ 1,077,300	\$ 1,385,718	\$ 1,073,736	\$ 1,314,040	\$ 709,074
Net Revenues	\$ 472,175	\$ 26,729	\$ (117,236)	\$ (613,268)	\$ 346,326
Other Sources (Interfund Transfer)	\$ 45,000 (b)	\$ 175,000 (c)	\$ 50,000 (e)	\$ 479,490 (c)	\$ 25,000 (c)
Fund Balance (Beginning of Year)	\$ 375,824	\$ 174,095	\$ 241,331	\$ 375,109	\$ 3,783
Fund Balance (End of Year)	\$ 892,999	\$ 375,824	\$ 174,095	\$ 241,331	\$ 375,109

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

(b) Transfer from the Capital Projects Fund.

(c) Developer advance.

(d) Capital outlay is for purchase of 6.67% of the capacity in the water plant.

(e) Transfer from Capital Projects Fund.

(f) Includes portion of previous years payments outstanding. As of the date of the Preliminary Official Statement, all payments are current.

DEBT SERVICE REQUIREMENTS

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

Year	Outstanding Bonds Debt Service Requirements	Plus: Debt Service on the Bonds			Total Debt Service Requirements
		Principal	Interest	Total	
2021	\$ 918,334				\$ 918,334
2022	893,711	\$ 175,000	\$ 148,281	\$ 323,281	1,216,993
2023	883,255	175,000	111,625	286,625	1,169,880
2024	887,559	175,000	105,500	280,500	1,168,059
2025	876,928	175,000	100,250	275,250	1,152,178
2026	868,689	175,000	93,250	268,250	1,136,939
2027	877,105	175,000	86,250	261,250	1,138,355
2028	874,730	175,000	82,750	257,750	1,132,480
2029	871,984	175,000	79,250	254,250	1,126,234
2030	873,691	175,000	75,750	250,750	1,124,441
2031	869,074	175,000	72,250	247,250	1,116,324
2032	863,710	175,000	68,750	243,750	1,107,460
2033	867,516	175,000	65,250	240,250	1,107,766
2034	860,441	175,000	61,750	236,750	1,097,191
2035	852,724	175,000	58,250	233,250	1,085,974
2036	854,014	175,000	54,750	229,750	1,083,764
2037	849,443	175,000	51,250	226,250	1,075,693
2038	838,980	175,000	47,750	222,750	1,061,730
2039	838,015	175,000	44,250	219,250	1,057,265
2040	836,273	175,000	40,750	215,750	1,052,023
2041	838,750	175,000	37,031	212,031	1,050,781
2042	840,350	175,000	33,313	208,313	1,048,663
2043	835,900	175,000	29,594	204,594	1,040,494
2044	835,363	175,000	25,875	200,875	1,036,238
2045	848,913	175,000	21,938	196,938	1,045,850
2046	848,050	175,000	18,000	193,000	1,041,050
2047	767,813	175,000	14,063	189,063	956,875
2048	-	450,000	10,125	460,125	460,125
Total	\$ 23,171,312	\$ 5,000,000	\$ 1,637,844	\$ 6,637,844	\$ 29,809,155

Maximum Annual Debt Service Requirement (2022).....	\$1,216,993
Average Annual Debt Service Requirement (2022-2048).....	\$1,070,030

INVESTMENT CONSIDERATIONS

General

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

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.

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 volatility attributed to COVID-19 concerns. Texas may be particularly at risk from any global slowdown, given the prevalence of international trade in the state and the risk of contraction in the oil and gas industry and spillover effects into other industries.

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

While the potential impact of the Pandemic on the District cannot be quantified at this time, the continued outbreak of 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 partially 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 Volatility on the Houston Area

The recent volatility in oil prices in the U.S. and globally, which at times has 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 Houston area has, in the past, been particularly affected by adverse conditions in the oil and gas industry, and such conditions and their spillover effects into other industries could result in declines in the demand for residential and commercial property in the Houston area and could reduce or negatively affect property values within the District. As previously stated, the Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds as well as the District's share of operations and maintenance expenses payable from ad valorem taxes.

Severe Weather Events; Hurricane Harvey

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

According to Municipal Operations & Consulting, Inc. (the “Operator”), the District’s water and sewer system did not sustain any material damage and there was no interruption of water and sewer service as a result of Hurricane Harvey. Further, to the knowledge of the District, no homes within the District experienced structural flooding or other material damage as a result of Hurricane Harvey.

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

Specific Flood Type Risks

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

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

Economic Factors and Interest Rates

A substantial percentage of the taxable value of the District results from the current market value of commercial acreage and single-family residences. The market value of such properties is related to general economic conditions in Houston, the State of Texas and the nation. Demand for commercial tracts of this type and the construction of improvements thereon can be significantly affected by factors such as interest rates, credit availability (see “Credit Markets and Liquidity in the Financial Markets” below), construction costs and the prosperity and demographic characteristics of the urban center toward which the marketing of such tracts is directed. Decreased levels of construction activity would tend to restrict the growth of property values in the District or could adversely impact such values.

Credit Markets and Liquidity in the Financial Markets

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

Competition

The demand for and construction of commercial improvements in the District, which is approximately 25 miles from downtown Houston, could be affected by competition from other developments in the northern portion of the Houston area market.

The District can give no assurance that building and marketing programs in the District by the Developer will be implemented or, if implemented, will be successful.

Landowner Obligation to the District

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

Impact on District Tax Rates

Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of District property owners to pay their taxes. The 2020 Certified Taxable Assessed Valuation of the District (see "FINANCIAL STATEMENT") is \$162,876,410. After issuance of the Bonds, the maximum annual debt service requirement will be \$1,216,993 (2022) and the average annual debt service requirement will be \$1,070,030 (2022-2048). Assuming no increase or decrease from the 2020 Certified Taxable Assessed Valuation, a tax rate of \$0.79 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the maximum annual debt service requirement and a tax rate of \$0.70 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the average annual debt service requirement. See "DEBT SERVICE REQUIREMENTS." The 2021 Preliminary Taxable Assessed Valuation within the District is \$176,458,826. Assuming no increase or decrease from the 2021 Preliminary Taxable Assessed Valuation and a 95% collection rate, tax rates of \$0.73 and \$0.64 per \$100 assessed valuation would be necessary to pay the maximum annual requirement and the average annual requirement, respectively. Although calculations have been made regarding average and maximum tax rates necessary to pay the debt service on the Bonds and the Outstanding Bonds based upon the 2020 Certified Taxable Assessed Valuation and the 2021 Preliminary Taxable Assessed Valuation, the District can make no representations regarding the future level of taxable assessed valuation within the District. Increases in the tax rate may be required in the event the District's taxable assessed valuation does not continue to increase or in the event major taxpayers do not pay their District taxes timely. Increases in taxable values depend primarily on the continuing construction and sale of homes and other taxable improvements within the District.

Future Debt

The District reserves in the Bond Order the right to issue the remaining \$100,950,000 principal amount of authorized but unissued unlimited tax bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities. The District also has \$8,000,000 principal amount of authorized and unissued unlimited tax bonds for the purpose of developing parks and recreational facilities. The District may issue additional bonds approved by District voters in future elections. The District may also issue refunding bonds. See "THE BONDS—Issuance of Additional Debt" and "THE SYSTEM." The issuance of such obligations may adversely affect the investment security of the Bonds. The District does not employ any formula with regard to assessed valuations or tax collections or otherwise to limit the amount of bonds which may be issued; however, the principal amount of bonds issued to finance parks may not exceed 1% of the District's certified value. Any bonds issued by the District, however, must be approved by the Attorney General of Texas and the Board of the District and any bonds issued to acquire or construct water, sanitary sewer and drainage facilities and recreational facilities must be approved by the Commission.

Tax Collections Limitations

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

Registered Owners' Remedies and Bankruptcy Limitations

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

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

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

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

A district may not be forced into bankruptcy involuntarily.

Risk Factors Related to the Purchase of Municipal Bond Insurance

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

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

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

Continuing Compliance with Certain Covenants

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

Marketability

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

Environmental Regulation and Air Quality

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

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

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

Air Quality Issues: Air quality control measures required by the United States Environmental Protection Agency (the “EPA”) and the Texas Commission on Environmental Quality (the “TCEQ”) may impact new industrial, commercial and residential development in the Houston area. Under the Clean Air Act (“CAA”) Amendments of 1990, the eight-county Houston-Galveston-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) public water supply systems, (2) waste water discharges from treatment facilities, (3) storm water discharges, and (4) wetlands dredge and fill activities. Each of these is addressed below:

Pursuant to the federal Safe Drinking Water Act (“SDWA”) and Environmental Protection Agency’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.

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 on June 22, 2020, and is the subject of further litigation.

Due to ongoing rulemaking activity, as well as 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.

Operations of Utility Districts are also potentially subject to stormwater discharge permitting requirements under the Clean Water Act and EPA and TCEQ regulations. The TCEQ issued a general permit for stormwater discharges associated with industrial activities (which was amended and reissued on July 13, 2016, effective August 14, 2016) and a general permit for stormwater discharges associated with small municipal separate storm sewer systems (which was issued on August 13, 2007 and was amended and reissued on December 11, 2013 and again on January 24, 2019). Utility Districts in certain urbanized areas are also required to develop and implement stormwater pollution prevention plans and stormwater management plans. The District could incur substantial costs to develop and implement such plans as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff. Failure to comply with these requirements may result in the imposition of administrative, civil, and criminal penalties as well as injunctive relief under the Clean Water Act or the Texas Water Code. A small portion of the District is located in the Woodlands Urbanized Area, but the population within the portion of the District in that area is less than 1,000. The District is therefore entitled to a waiver, and on June 19, 2018, the TCEQ approved such waiver. A new MS4 general permit was released in 2019 and the District has applied for a waiver under the new general permit. The District is currently awaiting approval of the waiver request.

MUNICIPAL BOND RATING

It is expected that S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC, ("S&P") will assign its municipal bond rating of "AA" (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Build America Mutual Assurance Company. The District is not aware of any rating assigned to the Bonds other than the insured rating of S&P.

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 revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

MUNICIPAL BOND INSURANCE

Municipal Bond Insurance Policy

Concurrently with the issuance of the Bonds, Build America Mutual Assurance Company ("BAM") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as APPENDIX B to this Official Statement.

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

Build America Mutual Assurance Company

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: www.buildamerica.com.

BAM is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York and in particular Articles 41 and 69 of the New York Insurance Law.

BAM's financial strength is rated "AA/Stable" by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"). An explanation of the significance of the rating and current reports may be obtained from S&P at www.standardandpoors.com. The rating of BAM should be evaluated independently. The rating reflects the S&P's current assessment of the creditworthiness of BAM and its ability to pay claims on its policies of insurance. The above rating is not a recommendation to buy, sell or hold the Bonds, and such rating is subject to revision or withdrawal at any time by S&P, including withdrawal initiated at the request of BAM in its sole discretion. Any downward revision or withdrawal of the above rating may have an adverse effect on the market price of the Bonds. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the Bonds 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 Policy), and BAM does not guarantee the market price or liquidity of the Bonds, nor does it guarantee that the rating on the Bonds will not be revised or withdrawn.

Capitalization of BAM

BAM's total admitted assets, total liabilities, and total capital and surplus, as of March 31, 2021 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$477.7 million, \$156.4 million and \$321.3 million, respectively.

BAM is party to a first loss reinsurance treaty that provides first loss protection up to a maximum of 15% of the par amount outstanding for each policy issued by BAM, subject to certain limitations and restrictions.

BAM's most recent Statutory Annual Statement, which has been filed with the New York State Insurance Department and posted on BAM's website at www.buildamerica.com, is incorporated herein by reference and may be obtained, without charge, upon request to BAM at its address provided above (Attention: Finance Department). Future financial statements will similarly be made available when published.

BAM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM 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 BAM, supplied by BAM and presented under the heading "MUNICIPAL BOND INSURANCE."

Additional Information Available from BAM

Credit Insights Videos: For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM's analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM's website at www.buildamerica.com/videos. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Credit Profiles: Prior to the pricing of bonds that BAM has been selected to insure, BAM may prepare a pre-sale Credit Profile for those bonds. These pre-sale Credit Profiles provide information about the sector designation (e.g. general obligation, sales tax); a preliminary summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. Subsequent to closing, for any offering that includes bonds insured by BAM, any pre-sale Credit Profile will be updated and superseded by a final Credit Profile to include information about the gross par insured by CUSIP, maturity and coupon. BAM pre-sale and final Credit Profiles are easily accessible on BAM's website at www.buildamerica.com/credit-profiles. BAM will produce a Credit Profile for all bonds insured by BAM, whether or not a pre-sale Credit Profile has been prepared for such bonds. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Disclaimers: The Credit Profiles and the Credit Insights videos and the information contained therein are not recommendations to purchase, hold or sell securities or to make any investment decisions. Credit-related and other analyses and statements in the Credit Profiles and the Credit Insights videos are statements of opinion as of the date expressed, and BAM assumes no responsibility to update the content of such material. The Credit Profiles and Credit Insight videos are prepared by BAM; they have not been reviewed or approved by the issuer of or the underwriter for the Bonds, and the issuer and underwriter assume no responsibility for their content.

BAM receives compensation (an insurance premium) for the insurance that it is providing with respect to the Bonds. Neither BAM nor any affiliate of BAM has purchased, or committed to purchase, any of the Bonds, whether at the initial offering or otherwise.

LEGAL MATTERS

Legal Opinion

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

Legal Review

In its capacity as Bond Counsel, Smith, Murdaugh, Little & Bonham, L.L.P. has reviewed the information appearing in this Official Statement under the captions “THE BONDS” (except for “Book-Entry-Only System”), “TAX PROCEDURES,” “THE DISTRICT—General,” “LEGAL MATTERS,” “TAX MATTERS,” and “CONTINUING DISCLOSURE OF INFORMATION” to determine whether such information fairly summarizes the procedures, law and documents referred to therein. Bond Counsel has not, however, independently verified any of the other factual information contained in this Official Statement nor has it conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of any of the information contained herein. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered, and therefore, such fees are contingent on the sale and delivery of the Bonds. Bond Counsel acts as general counsel for the District on matters other than the issuance of bonds.

No-Litigation Certificate

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

No Material Adverse Change

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

TAX MATTERS

Opinion

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

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

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

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

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

Federal Income Tax Accounting Treatment of Original Discount Bonds

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

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

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

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

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

Federal Income Tax Accounting Treatment of Premium Bonds

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

Collateral Federal Income Tax Consequences

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

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

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

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

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

Future and Proposed Legislation

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

State, Local and Foreign Taxes

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

Qualified Tax-Exempt Obligations for Financial Institutions

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

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

SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Bonds, the District accepted the bid resulting in the lowest net interest cost, which bid was tendered by SAMCO Capital Markets, Inc. (the “Initial Purchaser”) bearing the interest rates shown on the cover page hereof, at a price of \$4,850,538.50, representing 97.0108% of the principal amount thereof plus accrued interest to the date of delivery which resulted in a net effective interest rate of 2.388647% as calculated pursuant to Chapter 1204 of the Texas Government Code.

Prices and Marketability

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

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

Securities Laws

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

PREPARATION OF OFFICIAL STATEMENT

Sources and Compilation of Information

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

Financial Advisor

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

"THE DISTRICT" and "INVESTMENT CONSIDERATIONS—Severe Weather Events; Hurricane Harvey" - IDS Engineering Group ("Engineer") and Records of the District ("Records"); "THE DEVELOPER" – Imperial Promenade Inc. and 830 Investors, Ltd.; "THE SYSTEM" - Engineer; "BONDS AUTHORIZED BUT UNISSUED" - Records; "FINANCIAL STATEMENT" - Montgomery Central Appraisal District and Equi-Tax, Inc., Tax Assessor/Collector; "ESTIMATED OVERLAPPING DEBT AND TAX RATES STATEMENT" - Municipal Advisory Council of Texas and Financial Advisor; "TAX DATA" – Equi-Tax, Inc.; "MANAGEMENT" - District Directors; "WATER AND SEWER OPERATIONS" - Records; "DEBT SERVICE REQUIREMENTS" - Financial Advisor; "THE BONDS" (except for "Book-Entry-Only System" subsection), "TAX PROCEDURES," "LEGAL MATTERS," "TAX MATTERS" and "CONTINUING DISCLOSURE OF INFORMATION" - Smith, Murdaugh, Little & Bonham, L.L.P.

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

Consultants

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

Auditor: The District's audited financial statements for the year ended May 31, 2020, were prepared by McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountant. See "APPENDIX A" for a copy of the District's May 31, 2020, audited financial statements.

Engineer: The information contained in this Official Statement relating to engineering matters and to the description of the System and, in particular that information included in the sections entitled "THE DISTRICT" and "THE SYSTEM," has been provided by IDS Engineering Group, and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

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

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

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

Updating the Official Statement

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

Certification of Official Statement

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

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

The District will provide annually to the MSRB certain updated financial information and operating data. The information to be updated includes the quantitative financial information and operating data with respect to the District of the general type included in this Official Statement under the headings “FINANCIAL STATEMENT,” “THE SYSTEM,” “TAX DATA,” “WATER AND SEWER OPERATIONS” and “DEBT SERVICE REQUIREMENTS” (most of which information is contained in the District’s annual audit report and supplemental schedules) and in APPENDIX A. The District will update and provide this information to the MSRB within six (6) months after the end of each fiscal year ending in or after 2021.

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

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

Specified Event Notices

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

Availability of Information from the MSRB

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

Limitations and Amendments

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

The District may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if but only if (1) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering made hereby in compliance with SEC Rule 15c2-12, taking into account any amendments or interpretations of SEC Rule 15c2-12 to the date of such amendment, as well as such changed circumstances, and (2) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the Registered Owners and Beneficial Owners of the Bonds. If the District so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under “Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating so provided.

Compliance With Prior Undertakings

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

MISCELLANEOUS

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

This Official Statement was approved by the Board of Directors of Montgomery County Municipal Utility District No. 127, as of the date shown on the cover page.

/s/ Mike Fadden
President, Board of Directors

ATTEST:

/s/ Mary Smith
Secretary, Board of Directors

AERIAL PHOTOGRAPH
(As of April 2021)

**MONTGOMERY COUNTY MUNICIPAL
UTILITY DISTRICT No. 127**



GRAND PKWY.



PHOTOGRAPHS OF THE DISTRICT
(As of April 2021)













APPENDIX A

District Audited Financial Statements for the fiscal year ended May 31, 2020

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 127

MONTGOMERY COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

MAY 31, 2020

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 127

MONTGOMERY COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

MAY 31, 2020

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Montgomery County Municipal
Utility District No. 127
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. 127 (the "District"), as of and for the year ended May 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of May 31, 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

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

September 15, 2020

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 127
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MAY 31, 2020**

Management's discussion and analysis of Montgomery County Municipal Utility District No. 127's (the "District") financial performance provides an overview of the District's financial activities for the year ended May 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 other supplementary information in addition to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

FUND FINANCIAL STATEMENTS

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

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 127
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MAY 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") and other supplementary information. 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 by \$3,935,737 as of May 31, 2020.

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

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 127
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MAY 31, 2020**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

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

	<u>Summary of Changes in the Statement of Net Position</u>		
	<u>2020</u>	<u>2019</u>	<u>Change Positive (Negative)</u>
Current and Other Assets	\$ 2,226,181	\$ 1,438,644	\$ 787,537
Capital Assets (Net of Accumulated Depreciation)	<u>18,773,261</u>	<u>17,818,521</u>	<u>954,740</u>
Total Assets	<u>\$ 20,999,442</u>	<u>\$ 19,257,165</u>	<u>\$ 1,742,277</u>
Due to Developer	\$ 12,261,856	\$ 13,824,714	\$ 1,562,858
Long -Term Liabilities	11,984,293	8,310,000	(3,674,293)
Other Liabilities	<u>689,030</u>	<u>454,103</u>	<u>(234,927)</u>
Total Liabilities	<u>\$ 24,935,179</u>	<u>\$ 22,588,817</u>	<u>\$ (2,346,362)</u>
Net Position:			
Net Investment in Capital Assets	\$ (5,095,923)	\$ (4,003,806)	\$ (1,092,117)
Restricted	1,041,053	600,991	440,062
Unrestricted	<u>119,133</u>	<u>71,163</u>	<u>47,970</u>
Total Net Position	<u>\$ (3,935,737)</u>	<u>\$ (3,331,652)</u>	<u>\$ (604,085)</u>

The following table provides a summary of the District's operations for the year ended May 31, 2020, and May 31, 2019. The District's net position decreased by \$604,085 during the year ended May 31, 2020.

	<u>Summary of Changes in the Statement of Activities</u>		
	<u>2020</u>	<u>2019</u>	<u>Change Positive (Negative)</u>
Revenues:			
Property Taxes	\$ 1,746,040	\$ 909,762	\$ 836,278
Charges for Services	641,182	582,578	58,604
Other Revenues	<u>10,822</u>	<u>9,994</u>	<u>828</u>
Total Revenues	<u>\$ 2,398,044</u>	<u>\$ 1,502,334</u>	<u>\$ 895,710</u>
Expenses for Services	<u>3,002,129</u>	<u>1,972,907</u>	<u>(1,029,222)</u>
Change in Net Position	\$ (604,085)	\$ (470,573)	\$ (133,512)
Net Position, Beginning of Year	<u>(3,331,652)</u>	<u>(2,861,079)</u>	<u>(470,573)</u>
Net Position, End of Year	<u>\$ (3,935,737)</u>	<u>\$ (3,331,652)</u>	<u>\$ (604,085)</u>

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 127
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MAY 31, 2020**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of May 31, 2020, were \$1,978,470, an increase of \$698,087 from the prior year.

The General Fund fund balance increased by \$201,729, primarily due to property tax and service revenues exceeding the costs of operating, repairing, and maintaining the District's facilities.

The Debt Service Fund fund balance increased by \$459,570, primarily due to the issuance of new debt and the structure of the outstanding debt of the District.

The Capital Projects Fund fund balance increased by \$36,788, primarily due to the issuance of new Series 2019 bonds.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors annually adopts an unappropriated budget for the General Fund. The budget was not amended during the current fiscal year. Actual revenues were \$382,947 more than budgeted revenues primarily due to more property tax and service revenue than anticipated. Actual expenditures were more than budgeted expenditures by \$495,868, due to an overall increase in District operations. The District also received \$175,000 in unbudgeted developer advances during the year.

CAPITAL ASSETS

Capital assets as of May 31, 2020, total \$18,773,261 (net of accumulated depreciation) and include land and land improvements, construction in progress, and the water, wastewater and drainage system.

	Net of Accumulated Depreciation		Change Positive (Negative)
	2020	2019	
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 160,954	\$ 160,954	\$
Construction in Progress	198,278	146,798	51,480
Capital Assets, Net of Accumulated Depreciation:			
Water System	3,131,656	2,533,387	598,269
Wastewater System	5,079,375	5,052,442	26,933
Drainage System	10,202,998	9,924,940	278,058
Total Net Capital Assets	<u>\$ 18,773,261</u>	<u>\$ 17,818,521</u>	<u>\$ 954,740</u>

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 127
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MAY 31, 2020**

LONG-TERM DEBT ACTIVITY

As of May 31, 2020, the District had total bond debt payable of \$12,310,000. The changes in the debt position of the District during the fiscal year ended May 31, 2020, are summarized as follows:

Bond Debt Payable, June 1, 2019	\$ 8,485,000
Add: Bond Sale - Series 2019 Bonds	4,000,000
Less: Bond Principal Paid	<u>175,000</u>
Bond Debt Payable, May 31, 2020	<u>\$ 12,310,000</u>

The District’s bonds do not have an underlying rating, and the Series 2016, Series 2017 and Series 2018 bonds do not have an insured rating. The Series 2019 bonds carry an “AA” rating by virtue of bond insurance issued by Build America Mutual Assurance Co.

As of May 31, 2020, the District has also recorded an amount due to the Developer of \$12,261,856. This amount relates to construction projects and operating advances that the Developer has funded on behalf of the District as of May 31, 2020. The District anticipates reimbursing the Developer for these costs from future bond proceeds.

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The adopted budget for fiscal year 2021 projects a General Fund fund balance increase of \$574,750. Revenues are budgeted to be \$1,563,000, while expenditures are budgeted to be \$988,250.

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. 127, c/o Smith, Murdaugh, Little & Bonham, L.L.P., 2727 Allen Parkway, Suite 1100, Houston, Texas 77019.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 127
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
MAY 31, 2020

	General Fund	Debt Service Fund
ASSETS		
Cash	\$ 479,420	\$ 1,196,557
Receivables:		
Property Taxes	9,391	11,882
Penalty and Interest on Delinquent Taxes		
Service Accounts	88,828	
Due from Other Funds	62,454	
Prepaid Costs	9,476	
Capital Assets (Net of Accumulated Depreciation):		
Land		
Construction in Progress		
Water, Wastewater and Drainage System		
TOTAL ASSETS	\$ 649,569	\$ 1,208,439

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

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 382,782	\$ 2,058,759	\$	\$ 2,058,759
	21,273		21,273
	88,828	2,302	2,302
60,800	123,254	(123,254)	88,828
45,543	55,019		55,019
		160,954	160,954
		198,278	198,278
		<u>18,414,029</u>	<u>18,414,029</u>
<u>\$ 489,125</u>	<u>\$ 2,347,133</u>	<u>\$ 18,652,309</u>	<u>\$ 20,999,442</u>

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 127
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
MAY 31, 2020

	General Fund	Debt Service Fund
LIABILITIES		
Accounts Payable	\$ 98,750	\$
Accrued Interest Payable		
Due to Other Governmental Units	50,504	
Due to Developers		
Due to Other Funds	60,800	62,454
Due to Taxpayers		3,422
Security Deposits	54,300	
Long-Term Liabilities:		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
TOTAL LIABILITIES	\$ 264,354	\$ 65,876
DEFERRED INFLOWS OF RESOURCES		
Property Taxes	\$ 9,391	\$ 11,882
FUND BALANCES		
Nonspendable -		
Prepaid Costs	\$ 9,476	\$
Restricted for:		
Debt Service		1,130,681
Authorized Construction		
Unassigned	366,348	
TOTAL FUND BALANCES	\$ 375,824	\$ 1,130,681
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 649,569	\$ 1,208,439
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
\$ 17,160	\$ 115,910	\$ 41,082	\$ 156,992
		103,812	103,812
	50,504		50,504
		12,261,856	12,261,856
	123,254	(123,254)	
	3,422		3,422
	54,300		54,300
		320,000	320,000
		<u>11,984,293</u>	<u>11,984,293</u>
<u>\$ 17,160</u>	<u>\$ 347,390</u>	<u>\$ 24,587,789</u>	<u>\$ 24,935,179</u>
<u>\$ - 0 -</u>	<u>\$ 21,273</u>	<u>\$ (21,273)</u>	<u>\$ - 0 -</u>
\$	\$ 9,476	\$ (9,476)	\$
	1,130,681	(1,130,681)	
471,965	471,965	(471,965)	
	<u>366,348</u>	<u>(366,348)</u>	
<u>\$ 471,965</u>	<u>\$ 1,978,470</u>	<u>\$ (1,978,470)</u>	<u>\$ - 0 -</u>
<u>\$ 489,125</u>	<u>\$ 2,347,133</u>		
		\$ (5,095,923)	\$ (5,095,923)
		1,041,053	1,041,053
		<u>119,133</u>	<u>119,133</u>
		<u>\$ (3,935,737)</u>	<u>\$ (3,935,737)</u>

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 127
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
MAY 31, 2020

Total Fund Balances - Governmental Funds \$ 1,978,470

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds. 18,773,261

Deferred inflows of resources related to property tax revenues and interest receivable on delinquent taxes for the 2019 and prior tax levies became part of recognized revenue in the governmental activities of the District. 23,575

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

Due to Developer	\$ (12,261,856)	
Creation Costs, Fees and Expenses	(41,082)	
Accrued Interest Payable	(103,812)	
Bonds Payable Within One Year	(320,000)	
Bonds Payable After One Year	<u>(11,984,293)</u>	<u>(24,711,043)</u>

Total Net Position - Governmental Activities \$ (3,935,737)

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

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MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 127
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED MAY 31, 2020

	General Fund	Debt Service Fund
REVENUES		
Property Taxes	\$ 769,970	\$ 962,999
Water Service	164,957	
Wastewater Service	166,845	
Conservation District/Water Authority Fees	224,289	
Penalty and Interest	6,249	3,768
Tap Connection and Inspection Fees	72,772	
Investment Revenues	649	2,552
Miscellaneous Revenues	6,716	
TOTAL REVENUES	<u>\$ 1,412,447</u>	<u>\$ 969,319</u>
EXPENDITURES/EXPENSES		
Service Operations:		
Professional Fees	\$ 79,193	\$ 78
Contracted Services	133,807	27,056
Purchased Water Service	316,874	
Utilities	93,305	
Repairs and Maintenance	523,635	
Creation and Operating Costs		
Developer Interest		
Depreciation		
Other	230,324	4,355
Capital Outlay	8,580	
Debt Service:		
Bond Principal		175,000
Bond Interest		362,879
Bond Issuance Costs		
TOTAL EXPENDITURES/EXPENSES	<u>\$ 1,385,718</u>	<u>\$ 569,368</u>
EXCESS (DEFICIENCY) OF REVENUES		
OVER (UNDER) EXPENDITURES	<u>\$ 26,729</u>	<u>\$ 399,951</u>
OTHER FINANCING SOURCES		
Proceeds from Sale of Bonds	\$	\$ 59,619
Bond Discount		
Developer Contributions	175,000	
TOTAL OTHER FINANCING SOURCES	<u>\$ 175,000</u>	<u>\$ 59,619</u>
NET CHANGE IN FUND BALANCES	\$ 201,729	\$ 459,570
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION -		
JUNE 1, 2019	<u>174,095</u>	<u>671,111</u>
FUND BALANCES/NET POSITION -		
MAY 31, 2020	<u>\$ 375,824</u>	<u>\$ 1,130,681</u>

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 1,732,969	\$ 13,071	\$ 1,746,040
	164,957		164,957
	166,845		166,845
	224,289		224,289
	10,017	2,302	12,319
	72,772		72,772
905	4,106		4,106
	6,716		6,716
<u>\$ 905</u>	<u>\$ 2,382,671</u>	<u>\$ 15,373</u>	<u>\$ 2,398,044</u>
\$	\$ 79,271	\$	\$ 79,271
	160,863		160,863
	316,874		316,874
	93,305		93,305
	523,635		523,635
163,287	163,287	(65,192)	98,095
291,950	291,950		291,950
		455,052	455,052
216	234,895		234,895
3,086,860	3,095,440	(3,095,440)	
	175,000	(175,000)	
	362,879	29,005	391,884
356,305	356,305		356,305
<u>\$ 3,898,618</u>	<u>\$ 5,853,704</u>	<u>\$ (2,851,575)</u>	<u>\$ 3,002,129</u>
<u>\$ (3,897,713)</u>	<u>\$ (3,471,033)</u>	<u>\$ 2,866,948</u>	<u>\$ (604,085)</u>
\$ 3,940,381	\$ 4,000,000	\$ (4,000,000)	\$ -
(5,880)	(5,880)	5,880	
	175,000	(175,000)	
<u>\$ 3,934,501</u>	<u>\$ 4,169,120</u>	<u>\$ (4,169,120)</u>	<u>\$ -0-</u>
\$ 36,788	\$ 698,087	\$ (698,087)	\$
		(604,085)	(604,085)
435,177	1,280,383	(4,612,035)	(3,331,652)
<u>\$ 471,965</u>	<u>\$ 1,978,470</u>	<u>\$ (5,914,207)</u>	<u>\$ (3,935,737)</u>

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

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 127
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MAY 31, 2020**

Net Change in Fund Balances - Governmental Funds \$ 698,087

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

Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied. 13,071

Governmental funds report penalty and interest revenue on property taxes when collected. However, in the Statement of Activities, revenue is recorded when penalties and interest are assessed. 2,302

Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities. (455,052)

Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected. 3,095,440

In the Statement of Activities, certain creation costs, legal fees and expenses from inception are recorded as expenditures and are recorded as a liability in the Statement of Net Position. 65,192

Governmental funds report bond issuance costs as expenditures and bond discounts and bond premiums as other financing sources/uses in the year paid. However, in the Statement of Net Position, the bond issuance costs, bond discounts, and bond premiums are amortized over the life of the bonds and the current year amortized portion is recorded in the Statement of Activities. 5,707

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. 175,000

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. (28,832)

Governmental funds report bond proceeds as other financing sources. However, issued bonds increase long-term liabilities in the Statement of Net Position. (4,000,000)

Governmental funds report developer advances as other financing sources. However, in the Statement of Net Position, developer advances, net any amount paid to the developer, are recorded as a liability. (175,000)

Change in Net Position - Governmental Activities \$ (604,085)

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 127
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2020

NOTE 1. CREATION OF DISTRICT

Montgomery County Municipal Utility District No. 127 (the “District”) was created effective August 22, 2008, by an Order of the Texas Commission on Environmental Quality (the “Commission”). Pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, sanitary sewer service, storm sewer drainage, irrigation, solid waste collection and disposal, including recycling, and to construct parks and recreational facilities for the residents of the District. The District is also empowered to contract for or employ its own peace officers with powers to make arrests and to establish, operate and maintain a fire department to perform all fire-fighting activities within the District. The Board of Directors held its first meeting on August 25, 2008, and sold its first series of bonds on November 17, 2016.

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

The District has entered into an agreement with Montgomery County Municipal Utility District No. 99 (“District No. 99”) and Montgomery County Municipal Utility District No. 115 (“District No. 115”) for water service through a joint water plant. District No. 99 has oversight over the water plant. Additional disclosure concerning this agreement is provided in Note 8. The water plant’s information is included in the financial statements for District No. 99. Copies of the financial statements can be obtained from the District’s auditor.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 127
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2020

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation

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

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

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

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

Government-Wide Financial Statements

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

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 127
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2020

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide Financial Statements (Continued)

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

Fund Financial Statements

As discussed above, the District's fund financial statements are combined with the government-wide financial statements. The fund financial statements include a Governmental Funds Balance Sheet and a Governmental Funds 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 resources not required to be accounted for in another fund, customer service revenues, operating costs and general expenditures.

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

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

Basis of Accounting

The District uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both "measurable and available." Measurable means the amount can be determined. Available means collectable within the current period or soon enough thereafter to pay current liabilities. The District considers revenues reported in the governmental funds to be available if they are collected 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 revenue include taxes collected during the year and taxes collected after year-end, which were considered available to defray the expenditures of the current year. Deferred inflows of resources related to property tax revenues are those taxes which the District does not reasonably expect to be collected soon enough in the subsequent period to finance current expenditures.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 127
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2020

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis. At May 31, 2020, the Debt Service Fund owed the General Fund \$62,454 for maintenance tax collections and is the result of a timing difference between collections and transfers between funds. At May 31, 2020, the General Fund owed the Capital Projects Fund \$60,800 for bond related costs that were over funded by the Capital Projects Fund.

Service Accounts Receivable

The District provides for uncollectible accounts receivable through the allowance method of accounting. Under this method a provision for uncollectible accounts is charged to bad debt expense, and the allowance account is increased based on past collection history and management’s evaluation of accounts receivable. All amounts considered uncollectible are charged against the allowance account, and recoveries of previously charged off accounts are added to the account. At May 31, 2020, the District had no allowance for doubtful accounts.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their acquisition value on the date donated. Repairs and maintenance are recorded as expenditures in the governmental fund incurred and as expenses 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 of two years or more. Depreciation is calculated on each class of depreciable property using no salvage value and the straight-line method of depreciation. Estimated useful lives are as follows:

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 127
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2020

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 not amended. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund presents the original budget amounts compared to the actual amounts of revenues and expenditures for the current year.

Pensions

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

Measurement Focus

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

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

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

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

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

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 127
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2020

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

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

Unassigned: all other spendable amounts in the General Fund.

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

Accounting Estimates

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

Recently Issued Accounting Pronouncements

In June 2018, GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, the purpose of which is (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Under GASB Statement No. 89, the cost of assets capitalized and depreciated will no longer include an interest component. Developer interest will instead be shown separately as an expenditure in the fund it was paid from (not combined with capital outlay) and as an expense in the government-wide financial statements. GASB Statement No. 89 is effective for fiscal years beginning after December 15, 2019, though early application is encouraged, and the requirements of this standard are to be applied prospectively. Management has chosen to early implement GASB Statement No. 89 as of and for the fiscal year ended May 31, 2020.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 127
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2020

NOTE 3. LONG-TERM DEBT

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

	June 1, 2019	Additions	Retirements	May 31, 2020
Bonds Payable	\$ 8,485,000	\$ 4,000,000	\$ 175,000	\$ 12,310,000
Unamortized Discounts		(5,880)	(173)	(5,707)
Total Long-Term Liabilities	\$ 8,485,000	\$ 3,994,120	\$ 174,827	\$ 12,304,293
		Amount Due Within One Year		\$ 320,000
		Amount Due After One Year		11,984,293
		Total Long-Term Liabilities		\$ 12,304,293

On August 15, 2019, the District issued \$4,000,000 of Unlimited Tax Bonds, Series 2019, with interest rates ranging from 2.00% to 4.50%. The net proceeds of \$3,696,978 (after payment of underwriter fees and other bond related costs) were deposited with the District's investment accounts to finance construction costs, reimburse operating advances, and to pay for accrued bond interest and subsequent bond issue costs.

	Series 2016	Series 2017	Series 2018
Amount Outstanding – May 31, 2020	\$ 2,615,000	\$ 2,745,000	\$ 2,950,000
Interest Rates	2.00% - 3.75%	2.75% - 4.00%	2.25% - 4.00%
Maturity Dates – Serially Beginning/Ending	September 1, 2020/2042	September 1, 2020/2044	September 1, 2020/2045
Interest Payment Dates	March 1/ September 1	March 1/ September 1	March 1/ September 1
Callable Dates	September 1, 2023 (1)	September 1, 2023 (1)	September 1, 2024 (1)

- (1) Or any date thereafter as a whole or in part, at par plus interest accrued to the date of redemption. Series 2016 term bonds maturing September 1, 2042 are subject to mandatory redemption beginning September 1, 2037. Series 2017 term bonds maturing September 1 of 2034, 2036, 2039 and 2044 are subject to mandatory redemption beginning September 1 of 2033, 2035, 2037 and 2040, respectively. Series 2018 term bonds maturing September 1 of 2029, 2031, 2033, 2035, 2037, 2039, 2041 and 2045 are subject to mandatory redemption beginning September 1 of 2028, 2030, 2032, 2034, 2036, 2038, 2040 and 2042, respectively.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 127
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2020

NOTE 3. LONG-TERM DEBT (Continued)

	Series 2019
Amount Outstanding – May 31, 2020	\$ 4,000,000
Interest Rates	2.00% - 4.50%
Maturity Dates – Serially Beginning/Ending	September 1, 2020/2046
Interest Payment Dates	March 1/ September 1
Callable Dates	September 1, 2024 (2)

- (2) Or any date thereafter as a whole or in part, at par plus interest accrued to the date of redemption. Series 2019 term bonds maturing September 1, 2044 and 2046 are subject to mandatory redemption beginning September 1, 2043 and 2045, respectively.

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

Fiscal Year	Principal	Interest	Total
2021	\$ 320,000	\$ 410,017	\$ 730,017
2022	335,000	399,111	734,111
2023	340,000	387,437	727,437
2024	345,000	375,327	720,327
2025	365,000	363,134	728,134
2026-2030	1,960,000	1,656,801	3,616,801
2031-2035	2,270,000	1,343,904	3,613,904
2036-2040	2,615,000	929,172	3,544,172
2041-2045	3,040,000	417,455	3,457,455
2046-2047	720,000	17,600	737,600
	\$ 12,310,000	\$ 6,299,958	\$ 18,609,958

The bonds are payable from the proceeds of an ad valorem tax levied upon all property subject to taxation within the District sufficient to pay the principal and interest on said bonds. As of May 31, 2020, the District had authorized but unissued tax and revenue bonds of \$109,450,000 and authorized but unissued park bonds of \$8,000,000.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 127
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2020

NOTE 3. LONG-TERM DEBT (Continued)

During the year ended May 31, 2020, the District levied an ad valorem debt service tax rate of \$0.75 per \$100 of assessed valuation, which resulted in a tax levy of \$970,043 on the adjusted taxable valuation of \$129,329,745 for the 2019 tax year. The bond orders require the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. See Note 7 for the maintenance tax levy.

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 are levied around October/November, are due upon receipt and are delinquent the following February 1. Penalty and interest attach thereafter.

NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS

The bond orders state that the District is required to provide to certain information repositories continuing disclosure of annual financial information and operating data with respect to the District. The information, along with the audited annual financial statements, is of the general type included in the annual audit report, and must be filed within six months after the end of each fiscal year of the District.

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

In accordance with the bond orders for the Series 2018 and Series 2019 Bonds, a portion of the bond proceeds was deposited into the Debt Service Fund and reserved for the payment of bond interest during the construction period. This bond interest reserve is reduced as the interest is paid. Transactions for the current year are summarized as follows:

Bond Interest Reserve – June 1, 2019	\$	5,693
Add: Series 2019 Bond Interest Received		59,619
Less: Bond Interest Paid		<u>65,312</u>
Bond Interest Reserve – May 31, 2020	\$	<u><u>-0-</u></u>

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 127
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2020

NOTE 5. DEPOSITS AND INVESTMENTS

Deposits

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

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District’s deposits was \$2,058,759 and the bank balance was \$2,364,916. Of the bank balance, \$544,844 was covered by federal depository insurance and the remaining was covered by pledged collateral held by a third party in the District’s name.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet at May 31, 2020, as listed below:

	Cash
General Fund	\$ 479,420
Debt Service Fund	1,196,557
Capital Projects Fund	382,782
Total Deposits	\$ 2,058,759

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.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 127
NOTES TO THE FINANCIAL STATEMENTS
MAY 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.

As of May 31, 2020, the District had no investments.

Restrictions

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

All cash and investments of the Capital Projects Fund are restricted for the purchase or rehabilitation of capital assets.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 127
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2020

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended May 31, 2020:

	June 1, 2019	Increases	Decreases	May 31, 2020
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 160,954	\$	\$	\$ 160,954
Construction in Progress	<u>146,798</u>	<u>51,480</u>	<u></u>	<u>198,278</u>
Total Capital Assets Not Being Depreciated	<u>\$ 307,752</u>	<u>\$ 51,480</u>	<u>\$ - 0 -</u>	<u>\$ 359,232</u>
Capital Assets Subject to Depreciation				
Water System	\$ 2,671,880	\$ 671,077	\$	\$ 3,342,957
Wastewater System	5,296,946	165,369		5,462,315
Drainage System	<u>10,877,034</u>	<u>521,866</u>	<u></u>	<u>11,398,900</u>
Total Capital Assets Subject to Depreciation	<u>\$ 18,845,860</u>	<u>\$ 1,358,312</u>	<u>\$ - 0 -</u>	<u>\$ 20,204,172</u>
Accumulated Depreciation				
Water System	\$ 138,493	\$ 72,808	\$	\$ 211,301
Wastewater System	244,504	138,436		382,940
Drainage System	<u>952,094</u>	<u>243,808</u>	<u></u>	<u>1,195,902</u>
Total Accumulated Depreciation	<u>\$ 1,335,091</u>	<u>\$ 455,052</u>	<u>\$ - 0 -</u>	<u>\$ 1,790,143</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 17,510,769</u>	<u>\$ 903,260</u>	<u>\$ - 0 -</u>	<u>\$ 18,414,029</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 17,818,521</u>	<u>\$ 954,740</u>	<u>\$ - 0 -</u>	<u>\$ 18,773,261</u>

In prior fiscal years, the District conveyed the paving of the Imperial Promenade Extension and Birnam Woods Drive from Imperial Promenade to Elan Boulevard to Montgomery County in the amounts of \$175,805 and \$933,686, respectively.

NOTE 7. MAINTENANCE TAX

On November 4, 2008, the voters of the District approved the levy and collection of a maintenance tax in an unlimited amount per \$100 of assessed valuation of taxable property within the District. The maintenance tax is to be used by the General Fund to pay expenditures of operating the District's waterworks and wastewater system. During the year ended May 31, 2020, the District levied an ad valorem maintenance tax rate of \$0.60 per \$100 of assessed valuation, which resulted in a tax levy of \$776,035 on the adjusted taxable valuation of \$129,329,745 for the 2019 tax year.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 127
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2020

NOTE 8. WATER SUPPLY AGREEMENTS

District No. 99 entered into a water supply agreement, effective September 20, 2005, with Land Development Company, Ltd., the Developer within District No. 99, and 525 Investors, Ltd. 525 Investors, Ltd. subsequently assigned their participation in the agreement to District No. 115. On November 1, 2008, District No. 99 and its developer, now 2005 Imperial Oaks, Ltd., entered into the First Amended and Restated Water Supply Agreement (the "Agreement") with District No. 115 and its developer, now Imperial Oaks Development Corp. The Agreement supersedes the previous agreement dated September 20, 2005. This Agreement outlines how the parties participate in the construction, operation and maintenance of the water plant facilities. District No. 99 holds legal title to and operates the water plant facilities; however, each district holds equitable title to reserved capacity in the water plant facilities. The term of the Agreement is 40 years.

Effective July 24, 2012, District No. 99 and District No. 115 approved the Second Amended and Restated Agreement. On December 17, 2013, District No. 99 and District No. 115 approved the Third Amended and Restated Water Supply Agreement. On May 7, 2015, District No. 99, District No. 115 and the District approved the Fourth Amended and Restated Agreement whereby the District was added as a party to the agreement. The District purchased 6.67% of the capacity in the water plant facilities for \$146,894 in a prior year. The districts agreed to pay for the operation and maintenance of the water plant facilities. Costs of the water plant are categorized as fixed costs and variable costs. The districts are billed monthly for their fixed costs based upon their pro-rata share of the capacity in the water plant facilities. The districts are also billed monthly for their share of the variable costs. Each district's variable cost for the billing period is calculated by multiplying the total variable costs incurred by a fraction whose numerator equals the total metered flow of water to each district during the billing period, and whose denominator is the total metered pumpage from the water plant during the billing period. In the event the total metered flow to all district's customers is less than the metered pumpage from the water plant in a billing period, the remaining amount will be pro-rated among the districts in proportion to each district's fixed expenses in the same billing period. In addition, the District and District No. 115 have agreed to pay District No. 99 an overhead fee equal to 10% of their respective variable costs. During the current fiscal year, the District purchased \$518,826 of additional capacity in the water plant from District No. 115, bringing the District's purchased capacity in the water plant up to 15.00%.

Currently, each district's respective share in the capacity in the water plant facilities is as follows:

District No. 99	16.00%
District No. 115	67.60
The District	<u>16.40</u>
Total	<u>100.00%</u>

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 127
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2020

NOTE 8. WATER SUPPLY AGREEMENTS (Continued)

During the year ended May 31, 2020, the District's share of the water plant's expenditures was \$316,874. District No. 99 and District No. 115 have also made an advance for operations of the water plant facilities. Total operating advances from all participants is \$17,500. District No 99's share is \$7,500 while District No. 115's share is \$10,000.

Summary financial activities of the water plant as of May 31, 2020, and for the year then ended are as follows:

Total Assets	\$ 206,641
Total Liabilities	<u>206,641</u>
Total Fund Balance	<u>\$ -0-</u>
Total Revenues	\$ 1,282,043
Total Expenses	<u>1,282,043</u>
Change in Fund Balance	\$ -0-
Fund Balance – June 1, 2019	<u>-0-</u>
Fund Balance – May 31, 2020	<u>\$ -0-</u>

On June 5, 2014, the District entered into an emergency water supply agreement with Montgomery County Municipal Utility District No. 88 ("District No. 88"). During an emergency, the price to be paid for water by either district is the rate per 1,000 gallons furnished by the supplying party to residential customers using 10,000 gallons per month. If the supplying party purchases all or a portion of the water supplied during such emergency from a third party, the receiving party shall pay the supplying party a rate per 1,000 gallons equal to the rate paid by the supplying party, if the rate is greater than the rate above. If fees are imposed by a regional water authority or groundwater conservation district, the rate shall be increased by the fee imposed. The term of the agreement is 20 years, and will automatically renew for successive one-year periods unless notice of intent not to renew is given at least 180 days prior to the end of the initial or renewal term.

On October 1, 2017, the District entered into an emergency water supply agreement with Montgomery County Municipal Utility District No. 105 ("District No. 105"). During an emergency, the price to be paid by the receiving party to the supplying party for water furnished under this agreement will be \$1.50 per 1,000 gallons of water used, unless the supplying party was required to use standby or generator power, in which case the price will be \$2.50 per 1,000 gallons of water used. The term of the agreement is 20 years, and will automatically renew for successive one-year periods unless notice of intent not to renew is given at least 180 days prior to the end of the initial or renewal term.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 127
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2020

NOTE 9. UNREIMBURSED COSTS

The District has executed reimbursement agreements with Developers within the District. The agreements call for the Developers to fund costs associated with water, wastewater and drainage facilities until such time as the District can sell bonds.

As of May 31, 2020, the Developers within the District indicated that approximately \$12,036,856 has been expended on behalf of the District in relation to the agreements for water, wastewater and drainage projects that have been completed and \$225,000 has been advanced for District operations. This liability has been recorded in the Statement of Net Position. The following is a summary of the due to developer transactions for the fiscal year ending May 31, 2020:

Due to Developers, June 1, 2019	\$	13,824,714
Add: Current Year Additions		1,014,486
Less: Current Year Payments		<u>(2,577,344)</u>
Due to Developers, May 31, 2020	\$	<u>12,261,856</u>

NOTE 10. RISK MANAGEMENT

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

NOTE 11. LONE STAR GROUNDWATER CONSERVATION DISTRICT

The District is located within the boundaries of the Lone Star Groundwater Conservation District (the "Conservation District"). The Conservation District was created under Article 16, Section 59 of the Texas Constitution by House Bill 1842 (the "Act"), as passed by the 77th Texas Legislature, in 2001. The Act empowers the Conservation District for purposes including the acquisition and provision of surface water and groundwater for residential, commercial, industrial, agricultural, and other uses, the reduction of groundwater withdrawals, the conservation, preservation, protection, recharge, and prevention of waste of groundwater, and of groundwater reservoirs or their subdivisions, and the control of subsidence caused by withdrawal of water from those groundwater reservoirs or their subdivisions. The Conservation District is overseeing that its participants comply with subsidence district pumpage requirements. The District is required to convert its water supply to surface water over a period of time.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 127
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2020

NOTE 11. LONE STAR GROUNDWATER CONSERVATION DISTRICT (Continued)

A nine-member board of directors governs the Conservation District. The directors serve staggered four-year terms. Each director must qualify to serve as director in the manner provided by Section 49.055 of the Water Code.

The Conservation District charges production fees based on the amount of water authorized by permit to be withdrawn from a well. This fee enables the Conservation District to fulfill its purpose and regulatory functions. The current permit fee is \$0.085 per 1,000 gallons of water pumped from each well. During the current fiscal year, the water plant operated by District No. 99 recorded an expenditure of \$15,130 pertaining to these fees.

NOTE 12. SAN JACINTO RIVER AUTHORITY

On June 22, 2010, District No. 99 entered into a Contract for Groundwater Reduction Planning, Alternative Water Supply, and Related Goods and Services with the San Jacinto River Authority (the "Authority"). District No. 99 and the Authority operate within the boundaries of the Lone Star Groundwater Conservation District (the "Conservation District"). See Note 11. The Authority has developed supplies of surface water that, when taken together with groundwater withdrawals to be permitted by the Conservation District, are reasonably believed to be adequate to satisfy the total water demands of Montgomery County. A surface water treatment and transmission system (the "Project") is proposed to be designed, constructed, operated, and maintained by the Authority in order to provide phased treatment, transmission, and delivery of the Authority's surface water to regulated users for blending with groundwater supplies, so that regulated users may continue to pump groundwater. The Authority will develop a Groundwater Reduction Plan (the "GRP") for all participants. The Authority charges two fees, currently \$2.73 per 1,000 gallons based on the amount of groundwater used and \$3.15 per 1,000 gallons based on the amount of surface water used. These fees enable the Authority to achieve, maintain and implement the GRP. The terms of this contract expire on December 31, 2045. During the current fiscal year, the water plant operated by District No. 99 recorded expenditures of \$967,195 in relation to this contract.

On April 24, 2014, District No. 99 and District No. 115, along with each districts' Developers, entered into the Supplemental Agreement ("Non-Mandatory Conversion to Surface Water") with the Authority. This agreement outlines the design and construction of the facilities in two separate phases. In accordance with the provisions related to Phase I, District No. 115 will advance \$294,000 to District No. 99 for the initial payment required to the Authority for the design of Phase I. Additional payments will be required as the design progresses and when the actual construction contract is awarded. Upon completion of Phase I, the Authority will be obligated to provide up to 590,000 gallons per day of treated surface water to the water plant shared with District No. 115 and District No. 99 will be required to take at least 253,000 gallons per day.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 127
NOTES TO THE FINANCIAL STATEMENTS
MAY 31, 2020

NOTE 13. SUBSEQUENT EVENT - BOND SALE

On July 21, 2020, the District issued \$3,500,000 of Unlimited Tax Bonds, Series 2020, with interest rates ranging from 2.125% to 4.625% and a final maturity date of September 1, 2044. Proceeds from the bond issuance will be used to reimburse the developer for construction related costs as well as operating advances and pay for interest and bond issuance costs.

NOTE 14. 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. 127

REQUIRED SUPPLEMENTARY INFORMATION

MAY 31, 2020

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 127
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED MAY 31, 2020

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Property Taxes	\$ 600,000	\$ 769,970	\$ 169,970
Water Service	75,000	164,957	89,957
Wastewater Service	95,000	166,845	71,845
Conservation District/Water Authority Fees	105,000	224,289	119,289
Penalty and Interest	4,000	6,249	2,249
Tap Connection and Inspection Fees	150,000	72,772	(77,228)
Investment Revenues	500	649	149
Miscellaneous Revenues	<u> </u>	<u>6,716</u>	<u>6,716</u>
TOTAL REVENUES	<u>\$ 1,029,500</u>	<u>\$ 1,412,447</u>	<u>\$ 382,947</u>
EXPENDITURES			
Service Operations:			
Professional Fees	\$ 70,000	\$ 79,193	\$ (9,193)
Contracted Services	67,600	133,807	(66,207)
Purchased Water Service	130,000	316,874	(186,874)
Utilities	65,000	93,305	(28,305)
Repairs and Maintenance	420,000	523,635	(103,635)
Other	137,250	230,324	(93,074)
Capital Outlay	<u> </u>	<u>8,580</u>	<u>(8,580)</u>
TOTAL EXPENDITURES	<u>\$ 889,850</u>	<u>\$ 1,385,718</u>	<u>\$ (495,868)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ 139,650</u>	<u>\$ 26,729</u>	<u>\$ (112,921)</u>
OTHER FINANCING SOURCES			
Developer Contributions	<u>\$ -0-</u>	<u>\$ 175,000</u>	<u>\$ 175,000</u>
NET CHANGE IN FUND BALANCE	\$ 139,650	\$ 201,729	\$ 62,079
FUND BALANCE - JUNE 1, 2019	<u>174,095</u>	<u>174,095</u>	<u> </u>
FUND BALANCE - MAY 31, 2020	<u>\$ 313,745</u>	<u>\$ 375,824</u>	<u>\$ 62,079</u>

The accompanying independent auditor's report.

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MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 127

SUPPLEMENTARY INFORMATION REQUIRED BY THE

WATER DISTRICT FINANCIAL MANAGEMENT GUIDE

MAY 31, 2020

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 127
SERVICES AND RATES
FOR THE YEAR ENDED MAY 31, 2020**

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

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

2. RETAIL SERVICE PROVIDERS

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

Based on the rate order effective March 20, 2018.

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1,000 Gallons over Minimum Use</u>	<u>Usage Levels</u>
WATER:	\$15.00	6,000	N	\$1.25	6,001 to 16,000
				\$1.50	16,001 to 26,000
				\$1.75	26,001 to 36,000
				\$2.00	Over 36,001
WASTEWATER:	\$29.00	6,000	N	\$1.25	Over 6,001
SURCHARGE:					
Water Conservation					
District Fees		\$0.085 per 1,000 gallons, plus a 10% administrative fee			
San Jacinto River					
Authority Fee		\$3.15 per 1,000 gallons, plus a 10% administrative fee			

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

Total monthly charges per 10,000 gallons usage: Water: \$20.00 Wastewater: \$34.00 Surcharge: \$35.59 Total: \$89.59

See accompanying independent auditor's report.

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 127
SERVICES AND RATES
FOR THE YEAR ENDED MAY 31, 2020**

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered	_____	_____	x 1.0	_____
≤ ³ / ₄ "	<u>463</u>	<u>459</u>	x 1.0	<u>459</u>
1"	<u>95</u>	<u>95</u>	x 2.5	<u>238</u>
1½"	<u>1</u>	<u>1</u>	x 5.0	<u>5</u>
2"	<u>1</u>	<u>1</u>	x 8.0	<u>8</u>
3"	_____	_____	x 15.0	_____
4"	<u>1</u>	<u>1</u>	x 25.0	<u>25</u>
6"	_____	_____	x 50.0	_____
8"	_____	_____	x 80.0	_____
10"	_____	_____	x 115.0	_____
Total Water Connections	<u><u>561</u></u>	<u><u>557</u></u>		<u><u>735</u></u>
Total Wastewater Connections	<u><u>554</u></u>	<u><u>550</u></u>	x 1.0	<u><u>550</u></u>

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

Water Accountability Ratio: *
(Gallons billed and sold/Gallons
pumped and purchased)

Gallons pumped in system: *

Gallons billed to customers: 78,767,000

* The District receives its water supply from the joint water plant operated by District No. 99, see Note 8. During the current fiscal year, the water system pumped 284,142,000 gallons of water into the system and purchased 83,212,000 and 20,360,000 gallons of water from the San Jacinto River Authority and Rayford Road, respectively. District No. 115 billed its customers for 200,685,000 gallons of water usage. District No. 99 billed its customers for 62,602,000 gallons of water usage.

See accompanying independent auditor's report.

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 127
SERVICES AND RATES
FOR THE YEAR ENDED MAY 31, 2020**

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

Does the District have Debt Service standby fees? Yes No

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

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes No

County or Counties in which District is located:

Montgomery County, Texas

Is the District located within a city?

Entirely Partly Not at all

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

Entirely Partly Not at all

ETJ in which the District is located:

City of Conroe, Texas

Are Board Members appointed by an office outside the District?

Yes No

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 127
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED MAY 31, 2020

PROFESSIONAL FEES:	
Auditing	\$ 11,000
Engineering	47,198
Legal	<u>20,995</u>
TOTAL PROFESSIONAL FEES	<u>\$ 79,193</u>
PURCHASED SERVICES FOR RESALE -	
Purchased Water Service	<u>\$ 316,874</u>
CONTRACTED SERVICES:	
Bookkeeping	\$ 12,994
Operations and Billing	<u>21,078</u>
TOTAL CONTRACTED SERVICES	<u>\$ 34,072</u>
UTILITIES	<u>\$ 93,305</u>
REPAIRS AND MAINTENANCE	<u>\$ 523,635</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 5,400
Election Costs	3,500
Insurance	17,101
Office Supplies and Postage	26,872
Payroll Taxes	814
Travel and Meetings	<u>1,833</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 55,520</u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 127
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED MAY 31, 2020

CAPITAL OUTLAY	<u>\$ 8,580</u>
TAP CONNECTIONS	<u>\$ 30,450</u>
SOLID WASTE DISPOSAL	<u>\$ 99,735</u>
OTHER EXPENDITURES:	
Chemicals	\$ 37,157
Laboratory Fees	18,562
Sludge Hauling	71,439
Permit Fees	1,460
Reconnection Fees	1,735
Inspection Fees	12,290
Regulatory Assessment	<u>1,711</u>
TOTAL OTHER EXPENDITURES	<u>\$ 144,354</u>
TOTAL EXPENDITURES	<u>\$ 1,385,718</u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 127
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED MAY 31, 2020

	Maintenance Taxes		Debt Service Taxes	
TAXES RECEIVABLE -				
JUNE 1, 2019	\$ 3,342		\$ 4,860	
Adjustments to Beginning				
Balance	<u>(16)</u>	\$ 3,326	<u>(22)</u>	\$ 4,838
Original 2019 Tax Levy	\$ 745,427		\$ 931,783	
Adjustment to 2019 Tax Levy	<u>30,608</u>	<u>776,035</u>	<u>38,260</u>	<u>970,043</u>
TOTAL TO BE				
ACCOUNTED FOR		\$ 779,361		\$ 974,881
TAX COLLECTIONS:				
Prior Years	\$ 2,622		\$ 3,814	
Current Year	<u>767,348</u>	<u>769,970</u>	<u>959,185</u>	<u>962,999</u>
TAXES RECEIVABLE -				
MAY 31, 2020		<u>\$ 9,391</u>		<u>\$ 11,882</u>
TAXES RECEIVABLE BY				
YEAR:				
2019		\$ 8,687		\$ 10,858
2018		<u>704</u>		<u>1,024</u>
TOTAL		<u>\$ 9,391</u>		<u>\$ 11,882</u>

See accompanying independent auditor's report.

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 127
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED MAY 31, 2020**

	2019	2018	2017	2016
PROPERTY VALUATIONS:				
Land	\$ 23,391,730	\$ 11,787,520	\$ 7,516,690	\$ 3,928,760
Improvements	115,949,230	68,153,410	32,678,740	11,458,160
Personal Property	699,759	515,131	294,668	64,386
Exemptions	<u>(10,710,974)</u>	<u>(13,054,189)</u>	<u>(558,748)</u>	<u>(243,188)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 129,329,745</u>	<u>\$ 67,401,872</u>	<u>\$ 39,931,350</u>	<u>\$ 15,208,118</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.75	\$ 0.80	\$ 0.75	\$ 0.00
Maintenance	<u>0.60</u>	<u>0.55</u>	<u>0.60</u>	<u>1.35</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 1.35</u>	<u>\$ 1.35</u>	<u>\$ 1.35</u>	<u>\$ 1.35</u>
ADJUSTED TAX LEVY*	<u>\$ 1,746,078</u>	<u>\$ 909,897</u>	<u>\$ 593,073</u>	<u>\$ 205,310</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>98.88 %</u>	<u>99.81 %</u>	<u>100.00 %</u>	<u>100.00 %</u>

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

Maintenance Tax – Maximum tax rate in an unlimited amount per \$100 of assessed valuation approved by voters on November 4, 2008.

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 127
LONG-TERM DEBT SERVICE REQUIREMENTS
FOR THE YEAR ENDED MAY 31, 2020

S E R I E S - 2 0 1 6

Due During Fiscal Years Ending May 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2021	\$ 70,000	\$ 88,244	\$ 158,244
2022	75,000	86,419	161,419
2023	75,000	84,169	159,169
2024	80,000	81,843	161,843
2025	85,000	79,369	164,369
2026	85,000	76,819	161,819
2027	90,000	74,194	164,194
2028	95,000	71,419	166,419
2029	95,000	68,568	163,568
2030	100,000	65,581	165,581
2031	105,000	62,313	167,313
2032	110,000	58,750	168,750
2033	115,000	54,881	169,881
2034	120,000	50,768	170,768
2035	125,000	46,481	171,481
2036	130,000	41,938	171,938
2037	135,000	37,134	172,134
2038	140,000	32,063	172,063
2039	145,000	26,719	171,719
2040	150,000	21,188	171,188
2041	155,000	15,469	170,469
2042	165,000	9,468	174,468
2043	170,000	3,188	173,188
2044			
2045			
2046			
2047			
	<u>\$ 2,615,000</u>	<u>\$ 1,236,985</u>	<u>\$ 3,851,985</u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 127
LONG-TERM DEBT SERVICE REQUIREMENTS
FOR THE YEAR ENDED MAY 31, 2020

S E R I E S - 2 0 1 7

Due During Fiscal Years Ending May 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2021	\$ 55,000	\$ 99,447	\$ 154,447
2022	65,000	97,797	162,797
2023	65,000	96,010	161,010
2024	65,000	94,222	159,222
2025	75,000	92,297	167,297
2026	75,000	90,141	165,141
2027	75,000	87,891	162,891
2028	85,000	85,438	170,438
2029	85,000	82,729	167,729
2030	85,000	79,913	164,913
2031	95,000	76,840	171,840
2032	95,000	73,515	168,515
2033	95,000	70,107	165,107
2034	100,000	66,511	166,511
2035	100,000	62,760	162,760
2036	100,000	58,961	158,961
2037	110,000	54,918	164,918
2038	110,000	50,600	160,600
2039	110,000	46,200	156,200
2040	120,000	41,600	161,600
2041	120,000	36,800	156,800
2042	120,000	32,000	152,000
2043	130,000	27,000	157,000
2044	300,000	18,400	318,400
2045	310,000	6,200	316,200
2046			
2047			
	<u>\$ 2,745,000</u>	<u>\$ 1,628,297</u>	<u>\$ 4,373,297</u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 127
LONG-TERM DEBT SERVICE REQUIREMENTS
FOR THE YEAR ENDED MAY 31, 2020

S E R I E S - 2 0 1 8

Due During Fiscal Years Ending May 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2021	\$ 55,000	\$ 106,239	\$ 161,239
2022	55,000	104,933	159,933
2023	60,000	103,420	163,420
2024	60,000	101,725	161,725
2025	65,000	99,880	164,880
2026	70,000	97,820	167,820
2027	70,000	95,615	165,615
2028	75,000	93,258	168,258
2029	80,000	90,700	170,700
2030	85,000	87,978	172,978
2031	85,000	85,130	170,130
2032	90,000	82,155	172,155
2033	95,000	78,963	173,963
2034	100,000	75,550	175,550
2035	105,000	71,910	176,910
2036	110,000	68,040	178,040
2037	115,000	63,933	178,933
2038	125,000	59,493	184,493
2039	130,000	54,710	184,710
2040	135,000	49,675	184,675
2041	140,000	44,380	184,380
2042	150,000	38,725	188,725
2043	155,000	32,700	187,700
2044	165,000	26,300	191,300
2045	175,000	19,500	194,500
2046	400,000	8,000	408,000
2047			
	<u>\$ 2,950,000</u>	<u>\$ 1,840,732</u>	<u>\$ 4,790,732</u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 127
LONG-TERM DEBT SERVICE REQUIREMENTS
FOR THE YEAR ENDED MAY 31, 2020

S E R I E S - 2 0 1 9

Due During Fiscal Years Ending May 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2021	\$ 140,000	\$ 116,087	\$ 256,087
2022	140,000	109,962	249,962
2023	140,000	103,838	243,838
2024	140,000	97,537	237,537
2025	140,000	91,588	231,588
2026	140,000	87,387	227,387
2027	140,000	84,588	224,588
2028	140,000	81,787	221,787
2029	145,000	78,938	223,938
2030	145,000	76,037	221,037
2031	145,000	72,866	217,866
2032	145,000	69,331	214,331
2033	145,000	65,616	210,616
2034	150,000	61,744	211,744
2035	150,000	57,713	207,713
2036	150,000	53,400	203,400
2037	150,000	48,900	198,900
2038	150,000	44,400	194,400
2039	150,000	39,900	189,900
2040	150,000	35,400	185,400
2041	155,000	30,825	185,825
2042	155,000	26,175	181,175
2043	155,000	21,525	176,525
2044	160,000	16,800	176,800
2045	160,000	12,000	172,000
2046	160,000	7,200	167,200
2047	160,000	2,400	162,400
	<u>\$ 4,000,000</u>	<u>\$ 1,593,944</u>	<u>\$ 5,593,944</u>

See accompanying independent auditor's report.

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 127
LONG-TERM DEBT SERVICE REQUIREMENTS
FOR THE YEAR ENDED MAY 31, 2020**

ANNUAL REQUIREMENTS
FOR ALL SERIES

Due During Fiscal Years Ending May 31	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2021	\$ 320,000	\$ 410,017	\$ 730,017
2022	335,000	399,111	734,111
2023	340,000	387,437	727,437
2024	345,000	375,327	720,327
2025	365,000	363,134	728,134
2026	370,000	352,167	722,167
2027	375,000	342,288	717,288
2028	395,000	331,902	726,902
2029	405,000	320,935	725,935
2030	415,000	309,509	724,509
2031	430,000	297,149	727,149
2032	440,000	283,751	723,751
2033	450,000	269,567	719,567
2034	470,000	254,573	724,573
2035	480,000	238,864	718,864
2036	490,000	222,339	712,339
2037	510,000	204,885	714,885
2038	525,000	186,556	711,556
2039	535,000	167,529	702,529
2040	555,000	147,863	702,863
2041	570,000	127,474	697,474
2042	590,000	106,368	696,368
2043	610,000	84,413	694,413
2044	625,000	61,500	686,500
2045	645,000	37,700	682,700
2047	560,000	15,200	575,200
	<u>160,000</u>	<u>2,400</u>	<u>162,400</u>
	<u>\$ 12,310,000</u>	<u>\$ 6,299,958</u>	<u>\$ 18,609,958</u>

See accompanying independent auditor's report.

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MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 127
CHANGE IN LONG-TERM DEBT
FOR THE YEAR ENDED MAY 31, 2020

Description	Original Bonds Issued	Bonds Outstanding June 1, 2019
Montgomery County Municipal Utility District No. 127 Unlimited Tax Bonds - Series 2016	\$ 2,750,000	\$ 2,685,000
Montgomery County Municipal Utility District No. 127 Unlimited Tax Bonds - Series 2017	2,800,000	2,800,000
Montgomery County Municipal Utility District No. 127 Unlimited Tax Bonds - Series 2018	3,000,000	3,000,000
Montgomery County Municipal Utility District No. 127 Unlimited Tax Bonds - Series 2019	<u>4,000,000</u>	<u> </u>
TOTAL	<u><u>\$ 12,550,000</u></u>	<u><u>\$ 8,485,000</u></u>

Bond Authority:	<u>Tax Bonds</u>	<u>Refunding Bonds</u>	<u>Park Bonds</u>
Amount Authorized by Voters	\$ 122,000,000	\$	\$ 8,000,000
Amount Issued	<u>12,550,000</u>	<u> </u>	<u> </u>
Remaining to be Issued	<u>\$ 109,450,000</u>	<u>\$ - 0 -</u>	<u>\$ 8,000,000</u>

*

Debt Service Fund cash balances as of May 31, 2020: \$ 1,196,557

Average annual debt service payment (principal and interest) for remaining term
of all debt: \$ 689,258

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

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

See accompanying independent auditor's report.

<u>Current Year Transactions</u>				
<u>Bonds Sold</u>	<u>Retirements</u>		<u>Bonds Outstanding May 31, 2020</u>	<u>Paying Agent</u>
	<u>Principal</u>	<u>Interest</u>		
\$ - 0 -	\$ 70,000	\$ 89,644	\$ 2,615,000	Bank of New York Dallas, TX
	55,000	100,960	2,745,000	Bank of New York Dallas, TX
	50,000	107,357	2,950,000	Bank of New York Dallas, TX
<u>4,000,000</u>		<u>64,918</u>	<u>4,000,000</u>	Bank of New York Dallas, TX
<u>\$ 4,000,000</u>	<u>\$ 175,000</u>	<u>\$ 362,879</u>	<u>\$ 12,310,000</u>	

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 127
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND – FIVE YEARS

	Amounts		
	2020	2019	2018
REVENUES			
Property Taxes	\$ 769,970	\$ 370,380	\$ 252,163
Water Service	164,957	91,368	70,404
Wastewater Service	166,845	152,413	97,726
Conservation District/Water Authority Fees	224,289	145,512	109,131
Penalty and Interest	6,249	4,035	3,431
Tap Connection and Inspection Fees	72,772	184,995	151,425
Investment Revenues	649	390	441
Miscellaneous Revenues	6,716	7,407	16,051
TOTAL REVENUES	<u>\$ 1,412,447</u>	<u>\$ 956,500</u>	<u>\$ 700,772</u>
EXPENDITURES			
Professional Fees	\$ 79,193	\$ 130,654	\$ 110,127
Contracted Services	133,807	95,799	63,066
Purchased Water Service	316,874	188,690	157,109
Purchased Wastewater Service			
Utilities	93,305	83,135	67,265
Repairs and Maintenance	523,635	294,793	220,644
Lease			37,600
Other	230,324	258,849	178,739
Capital Outlay	8,580	21,816	479,490
TOTAL EXPENDITURES	<u>\$ 1,385,718</u>	<u>\$ 1,073,736</u>	<u>\$ 1,314,040</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ 26,729</u>	<u>\$ (117,236)</u>	<u>\$ (613,268)</u>
OTHER FINANCING SOURCES			
Developer Contributions	<u>\$ 175,000</u>	<u>\$ 50,000</u>	<u>\$ 479,490</u>
NET CHANGE IN FUND BALANCE	\$ 201,729	\$ (67,236)	\$ (133,778)
BEGINNING FUND BALANCE	<u>174,095</u>	<u>241,331</u>	<u>375,109</u>
ENDING FUND BALANCE	<u>\$ 375,824</u>	<u>\$ 174,095</u>	<u>\$ 241,331</u>

See accompanying independent auditor's report.

		Percentage of Total Revenue				
2017	2016	2020	2019	2018	2017	2016
\$ 189,652	\$ 23,725	54.5 %	38.8 %	36.0 %	18.0 %	16.3 %
38,744	9,663	11.7	9.6	10.0	3.7	6.6
56,693	14,096	11.8	15.9	13.9	5.4	9.7
50,843	10,675	15.9	15.2	15.6	4.8	7.3
6,383	399	0.4	0.4	0.5	0.6	0.3
709,660	83,935	5.2	19.3	21.6	67.2	57.7
475	120			0.1		0.1
2,950	2,938	0.5	0.8	2.3	0.3	2.0
<u>\$ 1,055,400</u>	<u>\$ 145,551</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 27,257	\$	5.6 %	13.7 %	15.7 %	2.6 %	%
42,852	18,643	9.4 %	10.0	9.0	4.1	12.8
79,200	30,195	22.4	19.7	22.4	7.5	20.7
17,220	10,332				1.6	7.1
34,499	15,247	6.6	8.7	9.6	3.3	10.5
327,693	64,513	37.1	30.8	31.5	31.0	44.3
				5.4		
155,828	82,492	16.3	27.1	25.5	14.8	56.7
24,525	146,894	0.6	2.3	68.4	2.3	100.9
<u>\$ 709,074</u>	<u>\$ 368,316</u>	<u>98.0 %</u>	<u>112.3 %</u>	<u>187.5 %</u>	<u>67.2 %</u>	<u>253.0 %</u>
\$ 346,326	\$ (222,765)	<u>2.0 %</u>	<u>(12.3) %</u>	<u>(87.5) %</u>	<u>32.8 %</u>	<u>(153.0) %</u>
<u>\$ 25,000</u>	<u>\$ 191,894</u>					
\$ 371,326	\$ (30,871)					
<u>3,783</u>	<u>34,654</u>					
<u>\$ 375,109</u>	<u>\$ 3,783</u>					

See accompanying independent auditor's report.

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 127
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND – FIVE YEARS

	Amounts		
	2020	2019	2018
REVENUES			
Property Taxes	\$ 962,999	\$ 538,117	\$ 295,631
Penalty and Interest	3,768	4,255	6,133
Interest on Investments	<u>2,552</u>	<u>1,340</u>	<u>692</u>
TOTAL REVENUES	<u>\$ 969,319</u>	<u>\$ 543,712</u>	<u>\$ 302,456</u>
EXPENDITURES			
Tax Collection Expenditures	\$ 24,884	\$ 19,482	\$ 14,869
Other	4,355	3,289	12,805
Debt Service Principal	175,000	65,000	
Debt Service Interest and Fees	<u>365,129</u>	<u>242,176</u>	<u>129,690</u>
TOTAL EXPENDITURES	<u>\$ 569,368</u>	<u>\$ 329,947</u>	<u>\$ 157,364</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ 399,951</u>	<u>\$ 213,765</u>	<u>\$ 145,092</u>
OTHER FINANCING SOURCES (USES)			
Long-Term Debt Issued	<u>\$ 59,619</u>	<u>\$ 53,659</u>	<u>\$ 101,716</u>
NET CHANGE IN FUND BALANCE	\$ 459,570	\$ 267,424	\$ 246,808
BEGINNING FUND BALANCE	<u>671,111</u>	<u>403,687</u>	<u>156,879</u>
ENDING FUND BALANCE	<u>\$ 1,130,681</u>	<u>\$ 671,111</u>	<u>\$ 403,687</u>
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>557</u>	<u>519</u>	<u>351</u>
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	<u>550</u>	<u>517</u>	<u>345</u>

See accompanying independent auditor's report.

		Percentage of Total Revenue				
2017	2016	2020	2019	2018	2017	2016
\$	\$	99.3 %	99.0 %	97.8 %	%	%
156		0.4	0.8	2.0		
<u>156</u>		<u>0.3</u>	<u>0.2</u>	<u>0.2</u>	<u>100.0</u>	
\$ 156	\$ - 0 -	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	
\$	\$	2.6 %	3.6 %	4.9 %	%	%
90		0.4	0.6	4.2	57.7	
26,475		18.0	12.0	42.9	16,971.2	
<u>26,475</u>		<u>37.7</u>	<u>44.5</u>	<u>42.9</u>	<u>16,971.2</u>	
\$ 26,565	\$ - 0 -	<u>58.7 %</u>	<u>60.7 %</u>	<u>52.0 %</u>	<u>17,028.9 %</u>	
\$ (26,409)	\$ - 0 -	<u>41.3 %</u>	<u>39.3 %</u>	<u>48.0 %</u>	<u>(16,928.9) %</u>	
\$ 183,288	\$					
\$ 156,879	\$ - 0 -					
<u>156,879</u>	<u>- 0 -</u>					
<u>213</u>	<u>113</u>					
<u>212</u>	<u>113</u>					

See accompanying independent auditor's report.

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 127
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
MAY 31, 2020**

District Mailing Address - Montgomery County Municipal Utility District No. 127
c/o Smith, Murdaugh, Little & Bonham, L.L.P.
2727 Allen Parkway, Suite 1100
Houston, TX 77019

District Telephone Number - (713) 652-6500

Board Members	Term of Office (Elected or Appointed)	Fees of Office for the year ended May 31, 2020	Expense reimbursements for the year ended May 31, 2020	Title
Mike Fadden	05/20-05/24 (Elected)	\$ 1,050	\$ 400	President
G. M. Byrd Larberg	05/20-05/24 (Elected)	\$ 450	\$ 172	Vice President
Mary Smith	05/20-05/24 (Elected)	\$ 1,200	\$ 458	Secretary
Suzanne W. Dunbar	05/18-05/22 (Elected)	\$ 1,350	\$ 515	Director
Mark Russelburg	05/18-05/22 (Elected)	\$ 1,350	\$ 515	Director

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

The submission date of the most recent District Registration Form: July 2, 2019

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 fiscal year.

See accompanying independent auditor's report.

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 127
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
MAY 31, 2020**

Consultants:	<u>Date Hired</u>	<u>Fees for the year ended May 31, 2020</u>	<u>Title</u>
Smith, Murdaugh, Little & Bonham, L.L.P.	08/25/08	\$ 42,539 \$ 86,382 \$ 78	Attorney Bond Related Tax Attorney
McCall Gibson Swedlund Barfoot PLLC	05/09/16	\$ 11,000 \$ 7,000	Auditor Bond Related
Myrtle Cruz, Inc.	10/21/08	\$ 14,119 \$ 3,000	Bookkeeper Bond Related
IDS Engineering Group	08/25/08	\$ 98,678 \$ 77,569	Engineer Bond Related
Masterson Advisors LLC	05/15/18	\$ 81,671	Financial Advisor
Bill Russell	10/21/08	\$ -0-	Investment Officer
Municipal Operations & Consulting	10/21/08	\$ 233,986	Operator
Equi-Tax, Inc.	10/21/08	\$ 12,874	Tax Assessor/ Collector

See accompanying independent auditor's report.

APPENDIX B

Specimen Municipal Bond Insurance Policy



BAM

**MUNICIPAL BOND
INSURANCE POLICY**

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

BONDS: \$ _____ in aggregate principal
amount of [NAME OF TRANSACTION]
[and maturing on]

Effective Date: _____

Risk Premium: \$ _____
Member Surplus Contribution: \$ _____
Total Insurance Payment: \$ _____

BUILD AMERICA MUTUAL ASSURANCE COMPANY (“BAM”), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the “Trustee”) or paying agent (the “Paying Agent”) for the Bonds named above (as set forth in the documentation providing for the issuance and securing of the Bonds), for the benefit of the Owners or, at the election of BAM, 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 first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner’s right to receive payment of such 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 BAM. 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 BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner’s right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

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 (as defined herein) 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 BAM 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 made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. “Notice” means delivery to BAM of a notice of claim and certificate, by certified mail, email or telecopy as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or 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, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

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

To the fullest extent permitted by applicable law, BAM 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 BAM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy. This Policy may not be canceled or revoked.

This Policy sets forth in full the undertaking of BAM 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, 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. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

In witness whereof, BUILD AMERICA MUTUAL ASSURANCE COMPANY has caused this Policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

SPECIAL MEMBER

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

1 World Financial Center, 27th floor

200 Liberty Street

New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN