

OFFICIAL STATEMENT DATED OCTOBER 21, 2021

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

The Bonds have been designated as “qualified tax-exempt obligations” for financial institutions. See “TAX MATTERS – Qualified Tax-Exempt Obligations.”

NEW ISSUE – Book Entry Only

S&P Global Ratings (AGM Insured) “AA”
See “MUNICIPAL BOND INSURANCE” and “RATINGS.”

\$5,400,000

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 132

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

UNLIMITED TAX BONDS

SERIES 2021

Dated: November 1, 2021

Due: September 1, as shown on inside cover

The \$5,400,000 Unlimited Tax Bonds, Series 2021 (the “Bonds”), are obligations of Montgomery County Municipal Utility District No. 132 (the “District”) and are not obligations of the State of Texas; Montgomery County, Texas; the City of Conroe, Texas; or any political subdivision or entity other than the District. Neither the full faith and credit nor the taxing power of the State of Texas; Montgomery County, Texas; the City of Conroe, Texas; nor any entity other than the District is pledged to the payment of the principal of or the interest on the Bonds.

Principal of the Bonds is payable upon presentation at the principal payment office of the paying agent/registrar, initially, Zions Bancorporation, National Association, Houston, Texas (the “Paying Agent/Registrar”). Interest accrues from November 1, 2021, and is payable March 1, 2022, and on each September 1 and March 1 thereafter (each an “Interest Payment Date”) until the earlier of maturity or redemption. The Bonds are fully registered bonds in principal denominations of \$5,000 or any integral multiple thereof.

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, in turn, will 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.”

See “MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL REOFFERING YIELDS AND CUSIPS” on inside cover.

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



The Bonds are the second series of unlimited tax bonds issued by the District, and, when issued, will constitute valid and binding obligations of the District payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District. See “THE BONDS – Source of Payment.” Investment in the Bonds is subject to special risk factors as described herein. Prospective purchasers should review this entire Official Statement, including particularly the section of this Official Statement entitled “RISK FACTORS,” before making an investment decision. See “RISK FACTORS.”

The Bonds are offered, when, as and if issued by the District and accepted by the initial purchaser of the Bonds (the “Initial Purchaser”), subject, among other things, to the approval of the Attorney General of Texas and of Sanford Kuhl Hagan Kugle Parker Kahn LLP, Bond Counsel. Delivery of the Bonds through the facilities of DTC is expected on or about November 17, 2021.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL REOFFERING YIELDS AND CUSIPS

\$5,400,000 Unlimited Tax Bonds, Series 2021

\$2,410,000 Serial Bonds

Maturity (September 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP No. 61372L (b)	Maturity (September 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP No. 61372L (b)
2022	\$ 200,000	3.000%	0.400%	BA2	2029 (c)	\$ 210,000	2.000%	1.600%	BH7
2023	170,000	3.000%	0.550%	BB0	2030 (c)	215,000	2.500%	1.700%	BJ3
2024	175,000	3.000%	0.700%	BC8	2031 (c)	215,000	2.500%	1.850%	BK0
2025	185,000	3.000%	0.850%	BD6	2032 (c)	215,000	2.500%	2.000%	BL8
2026	190,000	3.000%	1.000%	BE4	****	****	****	****	****
2027 (c)	200,000	2.000%	1.200%	BF1	2035 (c)	225,000	2.375%	2.550%	BP9
2028 (c)	210,000	2.000%	1.400%	BG9					

\$2,990,000 Term Bonds

\$450,000 Term Bonds due September 1, 2034 (c) (d), Interest Rate: 2.250% (Price: \$97.276) (a), CUSIP No. 61372L BN4 (b)

\$2,540,000 Term Bonds due September 1, 2045 (c) (d), Interest Rate: 2.625% (Price: \$97.825) (a), CUSIP No. 61372L BZ7 (b)

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- (a) Information with respect to the initial reoffering yields of the Bonds is the responsibility of the Initial Purchaser. Initial reoffering yields represent the initial offering price, which may be changed for subsequent purchasers. The initial yield indicated above represents the lower of the yields resulting when priced to maturity or to the first call date. Accrued interest from November 1, 2021, is to be added to the price.
- (b) CUSIP numbers have been assigned to the Bonds by CUSIP Global Services, managed by S&P Global Market Intelligence LLC on behalf of the American Bankers Association, and are included solely for the convenience of the owners of the Bonds.
- (c) Bonds maturing on September 1, 2027, and thereafter shall be subject to redemption and payment at the option of the District, in whole, or from time to time in part, on September 1, 2026, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. See "THE BONDS - Redemption Provisions - *Optional Redemption*."
- (d) Subject to mandatory redemption by lot or other customary method of random selection on September 1 in the years and in the amounts set forth herein under "THE BONDS - Redemption of the Bonds - *Mandatory Redemption*."

USE OF INFORMATION IN OFFICIAL STATEMENT

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

This Official Statement does not constitute, and is not authorized by the District for use in connection with, an offer to sell or the solicitation of any 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, audits, and engineering and other related reports set forth in the 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 Sanford Kuhl Hagan Kugle Parker Kahn LLP, 1980 Post Oak Boulevard, Suite 1380, Houston, Texas 77056, financial advisor to the District.

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

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

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 final official statement for any purposes.

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SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Bonds, the District has accepted the bid of SAMCO Capital Markets, Inc. (the "Initial Purchaser") to purchase the Bonds at the interest rates shown on the inside cover page of this Official Statement at a price of 97.169052% of par plus accrued interest to date of delivery, resulting in a net effective interest rate of 2.764231%, as calculated pursuant to Chapter 1204, Texas Government Code, as amended. No assurance can be given that any trading market will be developed for the Bonds after their sale by the District to the Initial Purchaser. The District has no control over the price at which the Bonds are subsequently sold, and the initial yields at which the Bonds are priced and reoffered are established by, and are the sole responsibility of, the Initial Purchaser.

Prices and Marketability

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

Subject to certain restrictions described in the Official Notice of Sale, the prices and other terms with respect to the offering and sale of the Bonds may be changed from time to 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 WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The District has no control over trading of the Bonds in the secondary market. Moreover, there is no guarantee that a secondary market will be made in the Bonds. In such a secondary market, the difference between the bid and asked price of 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 United States Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities laws of any other jurisdiction. The District assumes no responsibility for registration of the Bonds under the securities laws of any other jurisdiction in which the Bonds may be offered, sold, or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdictions.

MUNICIPAL BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, AGM will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as "APPENDIX B."

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

Assured Guaranty Municipal Corp.

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

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

Current Financial Strength Ratings

On October 20, 2021, KBRA announced it had affirmed AGM’s insurance financial strength rating of “AA+” (stable outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

On July 8, 2021, S&P announced it had affirmed AGM’s financial strength rating of “AA” (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

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

For more information regarding AGM’s financial strength ratings and the risks relating thereto, see AGL’s Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

Capitalization of AGM

At June 30, 2021:

- The policyholders’ surplus of AGM was approximately \$2,943 million.
- The contingency reserve of AGM was approximately \$947 million.
- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately \$2,137 million. Such amount includes (i) 100% of the net unearned premium reserve and deferred ceding commission income of AGM, and (ii) the net unearned premium reserves and net deferred ceding commissions of AGM’s wholly owned subsidiaries Assured Guaranty UK Limited (“AGUK”) and Assured Guaranty (Europe) SA (“AGE”).

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

Merger of Municipal Assurance Corp. (“MAC”) into AGM

On April 1, 2021, MAC was merged into AGM, with AGM as the surviving company. Prior to that merger transaction, MAC was an indirect subsidiary of AGM (which indirectly owned 60.7% of MAC) and AGM’s

affiliate, Assured Guaranty Corp., a Maryland-domiciled insurance company (“AGC”) (which indirectly owned 39.3% of MAC). In connection with the merger transaction, AGM and AGC each reassumed the remaining outstanding par they ceded to MAC in 2013, and AGC sold its indirect share of MAC to AGM. All of MAC's direct insured par exposures have become insured obligations of AGM.

Incorporation of Certain Documents by Reference

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

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2020 (filed by AGL with the SEC on February 26, 2021);
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2021 (filed by AGL with the SEC on May 7, 2021); and
- (iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2021 (filed by AGL with the SEC on August 6, 2021).

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

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

Miscellaneous Matters

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

RATINGS

The Bonds have received an insured rating of “AA” from S&P solely in reliance upon the issuance of the municipal bond insurance policy by AGM at the time of delivery of the Bonds. An explanation of the ratings of S&P may only be obtained from S&P. S&P is located at 55 Water Street, New York, New York 10041, telephone number (212) 208-8000 and has engaged in providing ratings for corporate bonds since 1923 and municipal bonds since 1940. Long-term debt ratings assigned by S&P reflect its analysis of the overall level of credit risk involved in financings. At present, S&P assigns long-term debt ratings with symbols “AAA” (the highest rating) through “D” (the lowest rating). The ratings express only the view of S&P at the time the ratings are given. Furthermore, a security rating is not a recommendation to buy, sell or hold securities. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by S&P, if in its judgment, circumstances so warrant.

The District is not aware of any rating assigned to the Bonds other than the ratings of S&P as described above.

OFFICIAL STATEMENT SUMMARY

The following material is qualified in its entirety by the more detailed information and financial statements appearing elsewhere in this Official Statement. The offering of the Bonds to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this summary from this Official Statement or to otherwise use it without the entire Official Statement.

THE BONDS

The District.....	Montgomery County Municipal Utility District No. 132 (the "District"), a political subdivision of the State of Texas, is located in Montgomery County, Texas. See "THE DISTRICT."
The Bonds.....	The District is issuing \$5,400,000 Unlimited Tax Bonds, Series 2021 (the "Bonds"). The Bonds are dated November 1, 2021, and mature on September 1 in the years and amounts set forth on the inside cover page hereof. Interest accrues from November 1, 2021, at the rates per annum set forth on the inside cover page and is payable on March 1, 2022, and on each September 1 and March 1 thereafter until maturity or earlier redemption. The Bonds are offered in fully registered form in integral multiples of \$5,000 for any one maturity. See "THE BONDS."
Redemption Provisions	<p>Bonds maturing on and after September 1, 2027, are subject to redemption, in whole or from time to time in part, at the option of the District on September 1, 2026, and on any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date of redemption. See "THE BONDS – Redemption Provisions – <i>Optional Redemption</i>."</p> <p>The Bonds that mature on September 1 in the years 2034 and 2045 are term bonds that are subject to mandatory redemption provisions set out herein under "THE BONDS – Redemption Provisions – <i>Mandatory Redemption</i>."</p>
Source of Payment	Principal and interest on the Bonds are payable from the proceeds of a continuing direct annual ad valorem tax levied upon all taxable property within the District without legal limitation as to rate or amount. The Bonds are obligations solely of the District and are not obligations of the State of Texas; Montgomery County, Texas; the City of Conroe, Texas; or any other political subdivision or entity other than the District. See "THE BONDS – Source of Payment."
Payment Record.....	The District has not defaulted on the timely payment of interest on its bonded indebtedness.
Outstanding Bonds	The District has previously issued one series of unlimited tax bonds as follows: \$5,990,000 Unlimited Tax Bonds, Series 2019. As November 1, 2021, \$5,825,000 of such principal amount will remain outstanding (the "Outstanding Bonds").
Authority for Issuance.....	Voters of the District have authorized the District's issuance of \$69,500,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing water, sewer, and drainage facilities serving the District; \$12,000,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing parks and recreational facilities in the District; \$26,700,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing a road system to serve the District; and various principal amounts for the refunding of bonds issued by the District.

The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution and the general laws of the State of Texas, including particularly Chapters 49 and 54 of the Texas Water Code, as amended; an election held within the District on May 10, 2014; an order adopted by the Board of Directors of the District on the date of sale of the Bonds (the “Bond Order”); and an order of the Texas Commission on Environmental Quality (“TCEQ”). See “THE BONDS – Authority for Issuance.”

Short-Term Debt.....	In connection with the Bonds, the District has issued its \$2,531,000 Bond Anticipation Note, Series 2021, dated August 19, 2021 (the “BAN”), for the partial reimbursement of costs as set forth below. The BAN accrues interest at a rate of 0.860% per year and matures on February 18, 2022.
Use of Proceeds	Proceeds of the Bonds will be used to redeem the BAN, the proceeds of which were used to reimburse the Developers for a portion of the costs to construct certain water supply, sanitary sewer, and drainage facilities serving the District. Proceeds from the Bonds will also be used to reimburse the Developers for expenditures that were not reimbursed by the BAN, reimburse the Developers for costs related to the creation and operation of the District, to pay developer interest, to pay six (6) months of capitalized interest on the Bonds, and, among other items, to pay costs of issuance of the BAN and the Bonds. See “THE BONDS – Use and Distribution of Bond Proceeds.”
Municipal Bond Insurance	Assured Guaranty Municipal Corp. (“AGM”). See “MUNICIPAL BOND INSURANCE.”
Ratings	S&P Global Ratings (AGM Insured): “AA.” See “RATINGS.”
Bond Counsel	Sanford Kuhl Hagan Kugle Parker Kahn LLP, Houston, Texas.
Disclosure Counsel	McCall, Parkhurst & Horton L.L.P., Houston, Texas.
Financial Advisor.....	Robert W. Baird & Co. Incorporated, Houston, Texas.

THE DISTRICT

Description.....	The District comprises 383.201 total acres and is situated entirely within the boundaries of Montgomery County, Texas, the City of Conroe, Texas, and Conroe Independent School District. See “THE DISTRICT.”
Location.....	<p>The District is located wholly within the city limits of the City of Conroe, Texas, and consists of four different non-contiguous subdivisions:</p> <p>Wedgewood Falls (approximately 58.3 acres) is located approximately 3.75 miles northwest of the City of Conroe Central Business District and 2 miles west of Interstate 45, near the intersection of Farm Road 3083 and State Highway 105.</p> <p>Wedgewood Forest (approximately 111.4 acres) is located approximately 4.25 miles northwest of the City of Conroe Central Business District and 2.5 miles west of Interstate 45, near the intersection of Indian Hills Drive and State Highway 105.</p> <p>Cayden Creek (approximately 48.89 acres) is located approximately 2.0 miles southwest of the City of Conroe Central Business District</p>

and 1.25 miles west of Interstate 45, near the intersection of Gladstell Street and Sergeant Holcomb Boulevard.

Madison Bend (approximately 104.4 acres) is approximately 3.0 miles northwest of the City of Conroe Central Business District and approximately 1.25 miles southwest of the intersection of Interstate 45 and N Farm to Market Road 3083.

Developer and Principal Landowner.....Wedgewood Forest, Ltd., a Texas limited partnership, dba Land Tejas ("Land Tejas"), is the developer of approximately 111.4 acres within the District, being marketed as Wedgewood Forest. KB Home Lone Star Inc. ("KB Home Lone Star"), a Texas corporation and an indirect wholly owned subsidiary of KB Home, a Delaware corporation, the stock of which is publicly traded company on the New York Stock Exchange under the ticker symbol "KBH" is the developer of approximately 107.2 acres within the District, being marketed as Wedgewood Falls and Cayden Creek. For more information, visit www.kbhome.com. Madison Bend, Ltd., a Texas limited partnership, dba Academy Development ("Academy", and together with Land Tejas and KB Home Lone Star, the "Developers"), is the developer of approximately 104.4 acres in the District, being marketed as Madison Bend. See "PRINCIPAL LANDOWNERS/DEVELOPERS."

Development within the District.....To date, approximately 323.00 acres within the District have been developed as 1,097 single-family lots in the following single-family residential subdivisions: Wedgewood Falls, Sections, 1, 2, and 3, Cayden Creek Sections 1, 2, 3 and 4, Wedgewood Forest Sections 1, 2, 3 and 4, and Madison Bend, Sections 1 and 2. As of September 1, 2021, development within the District consisted of approximately 651 completed homes, approximately 99 homes under construction, and approximately 347 vacant, developed lots. The remainder of the land within the District includes approximately 60.2 undevelopable acres. See "DEVELOPMENT OF THE DISTRICT – Status of Development within the District."

HomebuildersHomebuilders active in the District include: KB Home, Colina Homes, Anglia Homes, DH Homes, and Legend Homes. New homes being marketed in the District range in price from approximately \$200,000 to over \$323,000 and in size from approximately 1,300 square feet to over 3,200 square feet. See "DEVELOPMENT OF THE DISTRICT – Homebuilders."

Hurricane Harvey.....The Houston area, including Montgomery County, Texas, experienced historic levels of rainfall and widespread flooding following landfall of Hurricane Harvey on August 25, 2017. According to the Engineer (herein defined), Hurricane Harvey caused no damage to the District's water, sanitary sewer and drainage facilities. Further, to the best knowledge of the Developers and the Engineer, no homes in the District experienced structural flooding or other material damage. The District is located near the Texas Gulf Coast and, as it has in the past, could be impacted by high winds and flooding caused by a hurricane, tornado, tropical storm, or other adverse weather event. See "RISK FACTORS – Hurricane Harvey" and "– Potential Impact of Natural Disaster."

INFECTIOUS DISEASE OUTLOOK – COVID-19

Infectious Disease Outlook – COVID-19 In March 2020, the World Health Organization and the President of the United States separately declared the outbreak of a respiratory disease caused by a novel coronavirus ("COVID-19") to be a public health emergency. On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in Texas because of the effects of COVID-19. Subsequently, in response to a rise in COVID-19 infections in Texas and pursuant to the Chapter 418 of the Texas Government Code, the Governor issued a number of executive orders intended to help limit the spread of COVID-19 and mitigate injury and the loss of life, including limitations imposed on business operations, social gatherings, and other activities.

Over the ensuing year, COVID-19 negatively affected commerce, travel and businesses locally and globally, and negatively affected economic growth worldwide and within Texas. Following the widespread release and distribution of various COVID-19 vaccines in 2021 and a decrease in active COVID-19 cases generally in the United States, state governments (including Texas) began to lift business and social limitations associated with COVID-19. Beginning in March 2021, the Governor issued various executive orders, which, among other things, rescinded and superseded prior executive orders and provide that there are currently no COVID-19 related operating limits for any business or other establishment. The Governor retains the right to impose additional restrictions on activities if needed to mitigate the effects of COVID-19. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at <https://gov.texas.gov/>. Neither the information on, nor accessed through, such website of the Governor is incorporated by reference into this Official Statement.

With the easing or removal of associated governmental restrictions, economic activity has increased. However, there are no assurances that such increased economic activity will continue or continue at the same rate, especially if there are future outbreaks of COVID-19, or increased numbers resulting in the County becoming an "area with high hospitalizations." The District has not experienced any decrease in property values, unusual tax delinquencies, or interruptions to service as a result of COVID-19; however the District cannot predict the long-term economic effect of COVID-19 or a similar virus on its operations, financial condition, or rating should there be a reversal of economic activity and re-imposition of restrictions.

RISK FACTORS

THE BONDS ARE SUBJECT TO CERTAIN RISK FACTORS. PROSPECTIVE PURCHASERS SHOULD REVIEW THIS ENTIRE OFFICIAL STATEMENT, INCLUDING PARTICULARLY THE SECTION OF THIS OFFICIAL STATEMENT ENTITLED "RISK FACTORS," BEFORE MAKING AN INVESTMENT DECISION.

SELECTED FINANCIAL INFORMATION
(UNAUDITED)

2021 Taxable Assessed Valuation.....	\$140,401,372	(a)
Direct Debt		
The Bonds	\$ 5,400,000	
The Outstanding Bonds.....	<u>\$ 5,825,000</u>	
Total.....	\$ 11,225,000	
Estimated Overlapping Debt.....	<u>\$ 10,352,447</u>	(b)
Total Direct and Estimated Overlapping Debt	\$ 21,577,447	(b)
Direct Debt Ratio:		
As a Percentage of the 2021 Taxable Assessed Valuation.....	7.99	%
Direct and Estimated Overlapping Debt Ratio:		
As a Percentage of the 2021 Taxable Assessed Valuation.....	15.37	%
Debt Service Fund Balance (as of September 8, 2021)	\$ 316,701	(c)
Operating Fund Balance (as of September 8, 2021)	\$ 606,427	
Capital Projects Fund Balance (as of September 8, 2021)	\$ 17,635	
2021 Tax Rate		
Debt Service	\$ 0.48	
Maintenance and Operations	<u>\$ 0.22</u>	
Total.....	\$ 0.70	
Average Annual Debt Service Requirement (2022-2045)	\$ 627,953	(d)
Maximum Annual Debt Service Requirement (2041).....	\$ 651,850	(d)
Debt Service Tax Rate per \$100 of Assessed Valuation Required to Pay Average Annual Debt Service Requirement (2022-2045) at 95% Tax Collections:		
Based on the 2021 Taxable Assessed Valuation.....	\$ 0.48	
Debt Service Tax Rate per \$100 of Assessed Valuation Required to Pay Maximum Annual Debt Service Requirement (2041) at 95% Tax Collections:		
Based on the 2021 Taxable Assessed Valuation.....	\$ 0.49	

-
- (a) Represents the assessed valuation of all taxable property in the District as of January 1, 2021, provided by the Montgomery Central Appraisal District (the "Appraisal District"). Such value includes \$4,507,734 of uncertified value, which is 80% of the total taxable value associated with properties that remain under protest as of certification. See "TAX DATA" and "TAXING PROCEDURES."
- (b) See "DISTRICT DEBT – Direct and Estimated Overlapping Debt Statement."
- (c) At the time of closing of the Bonds, accrued interest on the Bonds to the date of delivery and six (6) months of capitalized interest on the Bonds will be deposited into the District's Debt Service Fund (herein defined). Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the Debt Service Fund.
- (d) Includes the Bonds and the Outstanding Bonds. See "DISTRICT DEBT – Debt Service Requirement Schedule."

\$5,400,000
MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 132
UNLIMITED TAX BONDS
SERIES 2021

This Official Statement of Montgomery County Municipal Utility District No. 132 (the “District”) is provided to furnish information with respect to the issuance by the District of its \$5,400,000 Unlimited Tax Bonds, Series 2021 (the “Bonds”).

The Bonds are issued pursuant to (i) Article XVI, Section 59 of the Texas Constitution and the general laws of the State of Texas, including particularly Chapters 49 and 54 of the Texas Water Code, as amended; (ii) an election held within the District on May 10, 2014; (iii) an order adopted by the Board of Directors of the District on the date of sale of the Bonds (the “Bond Order”); and (iv) an order of the Texas Commission on Environmental Quality (“TCEQ”).

This Official Statement includes descriptions of the Bonds, the Developers (herein defined), the Bond Order, and certain information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from Sanford Kuhl Hagan Kugle Parker Kahn LLP, 1980 Post Oak Boulevard, Suite 1380, Houston, Texas 77056, upon payment of the costs of duplication therefor. Certain capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Bond Order, except as otherwise indicated herein.

RISK FACTORS

General

The Bonds, which are obligations of the District and not obligations of the State of Texas; Montgomery County, Texas; the City of Conroe, Texas; or any political subdivision other than the District, will be secured by a continuing, direct, annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. Therefore, the ultimate security for payment of the principal of and interest on the Bonds depends upon the ability of the District to collect from the property owners within the District taxes levied against all taxable property located within the District, or, in the event taxes are not collected and foreclosure proceedings are instituted by the District, upon the value of the taxable property with respect to taxes levied by the District and by other taxing authorities. The District makes no representations that over the life of the Bonds the property within the District will maintain a value sufficient to justify continued payment of taxes by the property owners. The potential increase in taxable valuation of District property is directly related to the economics of the residential housing industry, not only due to general economic conditions, but also due to the particular factors discussed below. See “DEVELOPMENT OF THE DISTRICT,” “TAX DATA,” and “TAXING PROCEDURES.”

Factors Affecting Taxable Values and Tax Payments

Economic Factors: The rate of development within the District is directly related to the vitality of the single-family housing industry in the Houston metropolitan area. New single-family construction can be significantly affected by factors such as interest rates, construction costs, and consumer demand. Decreased levels of such construction activity would restrict the growth of property values in the District. The District cannot predict the pace or magnitude of any future development in the District.

Competition: The demand for and construction of taxable improvements in the District could be affected by competition from other developments near the District. In addition to competition for new single-family home sales from other developments, there are numerous previously-owned single-family homes in more established commercial centers and neighborhoods closer to the City of Houston, Texas, that are for sale. Such existing developments could represent additional competition for new development proposed to be constructed within the District.

The competitive position of the Developers (herein defined) in the sale of land, and the sale or leasing of residences is affected by most of the factors discussed in this section. Such a competitive position is directly related to the growth and maintenance of taxable values in the District and tax revenues to be received by the District. The District can give no assurance that building and marketing programs in the District by the Developers will be implemented or, if implemented, will be successful.

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

Dependence on Principal Taxpayers: The ability of any principal landowner to make full and timely payments of taxes levied against its property by the District and similar taxing authorities will directly affect the District's ability to meet its debt-service obligations. As illustrated in this Official Statement under the caption "TAX DATA – Principal Taxpayers," as of January 1, 2021, the District's principal taxpayers owned property located within the District the aggregate taxable assessed valuation of which comprised approximately 13.30% of the District's total assessed valuation. See "PRINCIPAL LANDOWNERS/DEVELOPERS."

In the event that the Developers, any other taxpayer, or any combination of taxpayers, should default in the payment of taxes in an amount which exceeds the District's Debt Service Fund (herein defined) surplus, the ability of the District to make timely payment of debt service on the Bonds will be dependent on its ability to enforce and liquidate its tax liens, which is a time-consuming process. Failure to recover or borrow funds in a timely fashion could result in an excessive District tax rate. The District is not required by law or the Bond Order to maintain any specified amount of surplus in its Debt Service Fund. See "TAX DATA – Principal Taxpayers" and "TAXING PROCEDURES – Levy and Collection of Taxes."

Maximum Impact on District Tax Rates: Assuming no further development or home construction, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of property owners to pay their taxes. The taxable assessed valuation as of January 1, 2021, of all taxable property located within the District is \$135,893,638. See "TAX DATA."

After issuance of the Bonds, the maximum annual debt service requirement on the Bonds (2041) is \$651,850, and the average annual debt service requirement on the Bonds (2022–2045) is \$627,953. Assuming no decrease to the District's taxable assessed valuation as of January 1, 2021, tax rates of \$0.49 and \$0.48 per \$100 of taxable assessed valuation at a 95% tax collection rate would be necessary to pay the maximum annual debt service requirement and the average annual debt service requirement, respectively.

The District can make no representation that the taxable property values in the District will increase in the future or will maintain a value sufficient to support the proposed District tax rate or to justify continued payment of taxes by property owners. For the 2021 tax year, the District levied a maintenance and operation tax rate of \$0.22 per \$100 of assessed valuation and a debt service tax rate of \$0.48.

Infectious Disease Outlook – COVID-19

In March 2020, the World Health Organization and the President of the United States separately declared the outbreak of a respiratory disease caused by a novel coronavirus ("COVID-19") to be a public health emergency. On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in Texas because of the effects of COVID-19. Subsequently, in response to a rise in COVID-19 infections in Texas and pursuant to the Chapter 418 of the Texas Government Code, the Governor issued a number of executive orders intended to help limit the spread of COVID-19 and mitigate injury and the loss of life, including limitations imposed on business operations, social gatherings, and other activities.

Over the ensuing year, COVID-19 negatively affected commerce, travel and businesses locally and globally, and negatively affected economic growth worldwide and within Texas. Following the widespread release and

distribution of various COVID-19 vaccines in 2021 and a decrease in active COVID-19 cases generally in the United States, state governments (including Texas) began to lift business and social limitations associated with COVID-19. Beginning in March 2021, the Governor issued various executive orders, which, among other things, rescinded and superseded prior executive orders and provide that there are currently no COVID-19 related operating limits for any business or other establishment. The Governor retains the right to impose additional restrictions on activities if needed to mitigate the effects of COVID-19. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at <https://gov.texas.gov/>. Neither the information on, nor accessed through, such website of the Governor is incorporated by reference into this Official Statement.

With the easing or removal of associated governmental restrictions, economic activity has increased. However, there are no assurances that such increased economic activity will continue or continue at the same rate, especially if there are future outbreaks of COVID-19. The District has not experienced any decrease in property values, unusual tax delinquencies, or interruptions to service as a result of COVID-19; however the District cannot predict the long-term economic effect of COVID-19 or a similar virus on its operations, financial condition, or rating should there be a reversal of economic activity and re-imposition of restrictions.

Tax Collection and Foreclosure Remedies

The District has the right to seek judicial foreclosure on a tax lien, but such remedy may prove to be costly and time consuming and, since the future market or resale market, if any, of the taxable real property within the District is uncertain, there can be no assurance that such property could be sold and delinquent taxes paid. See "TAXING PROCEDURES."

Limitation to Registered Owners' Remedies

In the event of default in the payment of principal of or interest on the Bonds, the Registered Owners (herein defined) have the right to seek a writ of mandamus, requiring the District to levy adequate taxes each year to make such payments. Except for mandamus, the Bond Order does not specifically provide for remedies to protect and enforce the interest 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.

Bankruptcy Limitation to Registered Owners' Rights

The enforceability of the rights and remedies of registered owners of the Bonds may be limited by laws relating to bankruptcy, reorganization, or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. Subject to the requirements of Texas law discussed below, a political subdivision such as the District may voluntarily file a petition for relief from creditors under Chapter 9 of the U.S. Bankruptcy Code, 11 USC Sections 901–946. The filing of such petition would automatically stay the enforcement of Registered Owners' remedies, including mandamus and the foreclosure of tax liens upon property within the District discussed above. The automatic stay would remain in effect until the federal bankruptcy judge hearing the case dismisses the petition, enters an order granting relief from the stay or otherwise allows creditors to proceed against the petitioning political subdivision. A political subdivision, such as the District, may qualify as a debtor eligible to proceed in a Chapter 9 case only if it (1) is generally authorized to file for federal bankruptcy protection by applicable state law, (2) is insolvent or unable to meet its debts as they mature, (3) desires to effect a plan to adjust such debts, and (4) has either obtained the agreement of or has negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiations are impracticable. Under Texas law, a municipal utility district, such as the District, must obtain the approval of the TCEQ as a condition to seeking relief under the U.S. Bankruptcy Code. The TCEQ is required to investigate the financial condition of a financially troubled district and authorize such district to proceed under federal bankruptcy law only if such district has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

Notwithstanding noncompliance by a district with Texas law requirements, a district could file a voluntary bankruptcy petition under Chapter 9, thereby 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 determining the decision of whether to grant the petitioning district relief from its creditors. While such a

decision might be applicable, the concomitant delay and loss of remedies to the Registered Owners could potentially and adversely impair the value of the Registered Owners' claims.

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

A municipal utility district cannot be placed into bankruptcy involuntarily.

Marketability

The District has no understanding with the initial purchaser of the Bonds (the "Initial Purchaser") regarding the reoffering yields or prices of the Bonds (other than the hold-the-offering-price rule restrictions described in the Official Notice of Sale) 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 for 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 more generally bought, sold or traded in the secondary market. See "SALE AND DISTRIBUTION OF THE BONDS."

Future Debt

At an election held within the District on May 10, 2014, voters of the District authorized the District's issuance of: \$69,500,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing water, sewer, and drainage facilities to serve the District (the "Utility System"); \$104,250,000 principal amount of unlimited tax bonds for the purpose of refunding bonds issued by the District for the Utility System; \$12,000,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing parks and recreational facilities serving the District; \$18,000,000 principal amount of unlimited tax bonds for the purpose of refunding bonds issued by the District for parks and recreational facilities; \$26,700,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing a road system to serve the District (the "Road System"); and \$40,050,000 principal amount of unlimited tax bonds for the purpose of refunding bonds issued by the District for the Road System.

The Bonds represent the second series of bonds issued by the District and the second issuance of bonds for construction of the Utility System. After issuance of the Bonds, the following principal amounts of unlimited tax bonds will remain authorized but unissued: \$58,110,000 for the Utility System; \$104,250,000 for refunding bonds issued for the Utility System; \$12,000,000 for parks and recreational facilities; \$18,000,000 for refunding of bonds issued by the District for parks and recreational facilities; \$26,700,000 for the Road System; and \$40,050,000 for the refunding of bonds issued for the Road System. The District may also issue any additional bonds as may hereafter be approved by both the Board of Directors and voters of the District as well as certain additional bonds, revenue bonds, special project bonds, and other obligations as described in the Bond Order. See "THE BONDS – Issuance of Additional Debt."

The District's issuance of the remaining \$58,110,000 unlimited tax bonds for the Utility System and the \$12,000,000 unlimited tax bonds authorized for park and recreational improvements shall be subject to approval by the TCEQ.

According to the Developers, following the issuance of the Bonds, the District will owe the Developers approximately \$20,512,584 for their expenditures to construct the Utility System, approximately \$11,104,563 for expenditures to construct parks and recreational facilities in the District, and approximately \$1,032,723 for expenditures to construct the Road System. If additional bonds are issued in the future and property values have not increased proportionately, such issuance may increase gross debt-to-property-valuation ratios and thereby adversely affect the investment quality or security of the Bonds.

Approval of the Bonds

The Attorney General of Texas must approve the legality of the Bonds prior to their delivery. The Attorney General of Texas, however, does not pass upon or guarantee the safety of the Bonds as an investment or the adequacy or accuracy of the information contained in this Official Statement.

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 of the District to comply with such covenants on a continuous basis prior to maturity of the Bonds could result in interest on the Bonds becoming taxable retroactively to the date of original issuance. See “TAX MATTERS.”

Environmental and Air Quality Regulations

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

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

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

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

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

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

ruling, the TCEQ developed a formal request that the HGB Area be redesignated to attainment under the 1997 Ozone Standards. The TCEQ Commissioners adopted the request and maintenance plan for the 1997 one-hour and eight-hour standards on December 12, 2018. On May 16, 2019, the EPA proposed a determination that the HGB Area has met the redesignation criteria and continues to attain the 1997 one-hour and eight-hour standards, the termination of the anti-backsliding obligations, and approval of the proposed maintenance plan.

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

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

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

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

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

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

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

The District is subject to the TCEQ's General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the "MS4 Permit"), which was issued by the TCEQ on January 24, 2019. The MS4 Permit authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems. The District has applied for coverage under the MS4 Permit and is awaiting final approval from the TCEQ. In order to maintain compliance with the MS4 Permit, the District continues to develop, implement, and maintain the required 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. Costs associated with these compliance activities could be substantial in the future.

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

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

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

On January 23, 2020, the EPA and USACE released the Navigable Waters Protection Rule ("NWPR"), which contains a new definition of "waters of the United States." The stated purpose of the NWPR is to restore and maintain the integrity of the nation's waters by maintaining federal authority over the waters Congress has determined should be regulated by the federal government, while preserving the states' primary authority over land and water resources. The new definition outlines four categories of waters that are considered "waters of the United States," and thus federally regulated under the CWA: (i) territorial seas and traditional navigable waters; (ii) perennial and intermittent tributaries to territorial seas and traditional navigable waters; (iii) certain lakes, ponds, and impoundments of jurisdictional waters; and (iv) wetlands adjacent to jurisdictional waters. The new rule also identifies certain specific categories that are not "waters of the United States," and therefore not federally regulated under the CWA: (a) groundwater; (b) ephemeral features that flow only in direct response to precipitation; (c) diffuse stormwater runoff and directional sheet flow over upland; (d) certain ditches; (e) prior converted cropland; (f) certain artificially irrigated areas; (g) certain artificial lakes and ponds; (h) certain water-filled depressions and certain pits; (i) certain stormwater control features; (j) certain groundwater recharge, water reuse, and wastewater recycling structures; and (k) waste treatment systems. The NWPR became effective June 22, 2020 and is currently the subject of ongoing litigation.

In June and July of 2021, the EPA and USACE announced plans to further revise the definition of "waters of the United States." On August 30, 2021, the United States District Court for the District of Arizona issued an order vacating the NWPR while the EPA and USACE make plans to replace it. In light of this order, the EPA and the USACE announced that they have halted implementation of the NWPR and are interpreting "waters of the United States" consistent with the pre-2015 regulatory regime until further notice while continuing to move forward with the rulemakings announced in June of 2021. Due to existing and possible future litigation and regulatory action, 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.

Recent Extreme Weather Events/Hurricane Harvey

The greater Houston area, including the District, is subject to occasional severe weather events, including tropical storms, hurricanes, tornadoes, flooding, and other natural disasters. 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.

On August 25, 2017, Hurricane Harvey made landfall on the Texas Gulf Coast. The Houston area, including Montgomery County, Texas, sustained widespread rain damage and flooding as a result of Hurricane Harvey's landfall, and historic levels of rainfall during the succeeding four days. According to the Engineer, the District's water, sanitary sewer, and drainage facilities sustained no damage as a result of Hurricane Harvey. Furthermore, according to the Developers and the Engineer, there were no homes in the District that experienced flooding or structural damage.

The District cannot predict the effect that additional extreme weather events may have upon the District and the Gulf Coast. Additional extreme weather events have the potential to cause damage within the District and along the Gulf Coast generally that could have a negative effect on taxable assessed valuations in the District and the economy of the District and the region. See "TAXING PROCEDURES – Valuation of Property for Taxation."

If a future weather event or natural disaster significantly damaged taxable property within the District, the assessed value of property within the District could be substantially reduced, which could result in a decrease in tax revenues and/or necessitate an increase in 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

The District may be subject to the following types of flood 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.

Proposed Legislation

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

2021 Legislative Session

The 87th Texas Legislature convened on January 12, 2021, and adjourned on May 31, 2021. The Governor called a special session on June 8, 2021, a second special session on August 7, 2021, and a third special session on September 20, 2021. The Governor may call one or more additional special sessions following the Regular Session. During this time, the Texas Legislature may enact laws that materially change taxing procedures or

statutory authority related thereto. The District can make no representation regarding the actions the Texas Legislature may take.

THE BONDS

General

The following is a description of some of the terms and conditions of the Bonds, which is qualified in its entirety by reference to the Bond Order. A copy of the Bond Order may be obtained from the District upon written request made to Sanford Kuhl Hagan Kugle Parker Kahn LLP, 1980 Post Oak Boulevard, Suite 1380, Houston, Texas 77056.

The Bonds are dated November 1, 2021, with interest payable on March 1, 2022, and each September 1 and March 1 thereafter (each an “Interest Payment Date”) until the earlier of maturity or redemption. The Bonds are fully registered bonds maturing on September 1 of the years shown on the inside cover page of this Official Statement. Principal of the Bonds will be payable to the Registered Owners at maturity or redemption upon presentation at the principal payment office of the paying agent/registrar, initially, Zions Bancorporation, National Association, Houston, Texas (the “Paying Agent/Registrar”). Interest on the Bonds will be payable by check, dated as of the Interest Payment Date, and mailed by the Paying Agent/Registrar to Registered Owners as shown on the records of the Paying Agent/Registrar at the close of business on the 15th calendar day of the month next preceding the Interest Payment Date (the “Record Date”) or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and a Registered Owner at the risk and expense of such Registered Owner.

Book-Entry-Only System

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company, New York, New York (“DTC”), while the Bonds are registered in its nominee name. The information in this section concerning DTC and the book-entry-only system has been provided by DTC for use in disclosure documents such as this Official Statement. The District and the Financial Advisor believe the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

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

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

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC.

DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is 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", together with any Direct Participant, the "Participants"). DTC has a rating of AA+ from S&P Global Ratings. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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 purchase 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-only 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 Issue 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).

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

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

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

The information in the section concerning DTC and DTC's book-entry-only 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 form, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the book-entry-only system, and (ii) except as described above, notices that are to be given to Registered Owners under the Bond Order will be given only to DTC.

Successor Paying Agent/Registrar

Provision is made in the Bond Order for replacing the Paying Agent/Registrar. If the District replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar's records to the successor Paying Agent/Registrar, and the successor Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the District shall be a commercial bank; a trust company organized under the laws of the State of Texas; or other entity duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Bonds.

Registration, Transfer and Exchange

In the event the book-entry-only system is discontinued, the Bonds are transferable only on the bond register kept by the Paying Agent/Registrar upon surrender at the corporate trust office of the Paying Agent/Registrar in Houston, Texas. A Bond may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. At any time after the date of initial delivery, any Bond may be transferred upon its presentation and surrender at the designated offices of the Paying Agent/Registrar, duly endorsed for transfer or accompanied by an assignment duly executed by the Registered Owner. The Bonds are exchangeable upon presentation at the designated office(s) of the Paying Agent/Registrar, for an equal principal amount of Bonds of the same maturity in authorized denominations. To the extent possible, new Bonds issued in exchange or transfer of Bonds will be delivered to the Registered Owner or assignee of the Registered Owner within not more than three (3) business days after the receipt by the Paying Agent/Registrar of the request in proper form to transfer or exchange the Bonds. New Bonds registered and delivered in an exchange or transfer shall be in the denomination of \$5,000 in principal amount for a Bond, or any integral multiple thereof for any one maturity and shall bear interest at the same rate and be for a like aggregate principal or maturity amount as the Bond or Bonds surrendered for exchange or transfer. Neither the Paying Agent/Registrar nor the District is required to issue, transfer, or exchange any Bond during a period beginning at the opening of business on a Record Date and ending at the close of business on the next succeeding Interest Payment Date or to transfer or exchange any Bond selected for redemption, in whole or in part, beginning fifteen (15) calendar days prior to, and ending on the date of the mailing of notice of redemption, or where such redemption is scheduled to occur within thirty (30) calendar days. No service charge will be made for any transfer or exchange, but the District or the Paying Agent/Registrar may require payment of a sum sufficient to cover any tax or governmental charge payable in connection therewith.

Funds

The Bond Order creates a fund for debt service on the Bonds (the "Debt Service Fund"). Accrued interest on the Bonds as well as six (6) months of capitalized interest on the Bonds will be deposited from the proceeds from sale of the Bonds into the Debt Service Fund. The Debt Service Fund, which constitutes a trust fund for the benefit of the owners of the Bonds and any additional unlimited tax bonds issued by the District, is to be kept separate from all other funds of the District, and is to be used for payment of debt service on the Bonds and any of the District's duly authorized additional bonds payable in whole or part from taxes. Amounts on deposit in the Debt Service Fund may also be used to pay the fees and expenses of the Paying Agent/Registrar, to defray the expenses of assessing and collecting taxes levied for payment of interest on and principal of the Bonds and

any additional bonds payable in whole or in part from taxes, and to pay any tax anticipation notes issued, together with interest thereon, as such tax anticipation notes become due.

Redemption Provisions

Optional Redemption

Bonds maturing on September 1, 2027, and thereafter shall be subject to redemption and payment at the option of the District, in whole or from time to time in part, on September 1, 2026, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. Notice of the exercise of the reserved right of redemption will be given at least thirty (30) days prior to the redemption date by sending such 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 bond register. If less than all of the Bonds are redeemed at any time, the maturities of the Bonds to be redeemed shall be selected by the District. If less than all of the Bonds of a certain maturity are to be redeemed, the particular Bonds or portions thereof to be redeemed will be selected by the Paying Agent/Registrar prior to the redemption date by such random method as the Paying Agent/Registrar deems fair and appropriate in integral multiples of \$5,000 within any one maturity. The Registered Owner of any Bond, all or a portion of which has been called for redemption, shall be required to present such Bond to the Paying Agent/Registrar for payment of the redemption price on the portion of the Bonds so called for redemption and issuance of a new Bond in the principal amount equal to the portion of such Bond not redeemed.

Mandatory Redemption

The Bonds that mature on September 1 in the years 2034 and 2045 are term bonds (the "Term Bonds") that shall be redeemed by lot or other customary method of random selection (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form) prior to maturity, at a price equal to the principal amount thereof, plus accrued interest to the Mandatory Redemption Date, on September 1 in each of the years and in the principal amounts set forth in the following schedule:

\$450,000 Term Bonds Maturing on September 1, 2034

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
September 1, 2033	\$ 225,000
September 1, 2034 (Maturity)	\$ 225,000

\$2,540,000 Term Bonds Maturing on September 1, 2045

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
September 1, 2036	\$ 230,000
September 1, 2037	\$ 235,000
September 1, 2038	\$ 240,000
September 1, 2039	\$ 240,000
September 1, 2040	\$ 245,000
September 1, 2041	\$ 255,000
September 1, 2042	\$ 260,000
September 1, 2043	\$ 260,000
September 1, 2044	\$ 265,000
September 1, 2045 (Maturity)	\$ 310,000

The principal amount of the Term Bonds of a maturity required to be redeemed pursuant to the operation of the mandatory sinking fund redemption provisions shall be reduced, at the direction of the District, by the principal amount of any Term Bonds of such maturity which, at least thirty (30) days prior to a Mandatory Redemption Date, (1) shall have been acquired by the District at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and cancelled by the Paying Agent/Registrar at the request of the District with monies in the applicable debt service fund at a price not exceeding the principal amount of the Term Bonds plus accrued interest to the date of purchase thereof, or (3) shall have been redeemed pursuant to the optional redemption provision and not theretofore credited against a mandatory sinking fund redemption requirement.

Mutilated, Lost, Stolen or Destroyed Bonds

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

Authority for Issuance

At an election held within the District on May 10, 2014, voters of the District authorized the District's issuance of: \$69,500,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the Utility System; \$104,250,000 principal amount of unlimited tax bonds for the purpose of refunding bonds issued by the District for the Utility System; \$12,000,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing parks and recreational facilities serving the District; \$18,000,000 principal amount of unlimited tax bonds for the purpose of refunding bonds issued by the District for parks and recreational facilities; \$26,700,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the Road System; and \$40,050,000 principal amount of unlimited tax bonds for the purpose of refunding bonds issued by the District for the Road System.

The Bonds are issued pursuant to (i) Article XVI, Section 59 of the Texas Constitution and the general laws of the State of Texas, including particularly Chapters 49 and 54 of the Texas Water Code; (ii) an election held within the District on May 10, 2014; (iii) the Bond Order; and (iv) an order of TCEQ.

Source of Payment

The Bonds are 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. In the Bond Order, the District covenants to levy a sufficient tax to pay principal of and interest on the Bonds, with full allowance being made for delinquencies, costs of collections, and certain fees. Tax proceeds, after deduction for collection costs, will be placed in the Debt Service Fund and used solely to pay principal of and interest on the Bonds, and additional bonds payable from taxes which may be issued.

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

Outstanding Bonds

The District has previously issued one (1) series of bonds for the Utility System, of which, as of November 1, 2021, \$5,825,000 principal amount will remain outstanding (the "Outstanding Bonds").

Issuance of Additional Debt

The District may issue additional bonds with the approval of the TCEQ (with respect to the Utility System and parks) necessary to provide improvements and facilities consistent with the purposes for which the District was created. The District's voters have authorized the District's issuance of \$69,500,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the Utility System; \$12,000,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing parks and recreational facilities; \$26,700,000 principal amount of unlimited tax bonds for the Road System; various principal amounts for the refunding of bonds issued by the District; and could authorize additional amounts.

The Bonds represent the second series of bonds issued by the District and the second issuance of bonds for construction of the Utility System. After issuance of the Bonds, the following principal amounts of unlimited tax bonds will remain authorized but unissued: \$58,110,000 for the Utility System; \$104,250,000 for refunding bonds issued for the Utility System; \$12,000,000 for parks and recreational facilities; \$18,000,000 for refunding of bonds issued by the District for parks and recreational facilities; \$26,700,000 for the Road System; and \$40,050,000 for the refunding of bonds issued for the Road System. The District may also issue any additional bonds as may hereafter be approved by both the Board of Directors and voters of the District as well as certain additional bonds, revenue bonds, special project bonds, and other obligations as described in the Bond Order. The Bond Order imposes no limitation on the amount of additional parity bonds which may be issued by the

District (if authorized by the District's voters and, in the case of bonds for the Utility System or for parks and recreation, approved by the TCEQ).

According to the Developers, following the issuance of the Bonds, the District will owe the Developers approximately \$20,512,584 for its expenditures to construct the Utility System, approximately \$11,104,563 for expenditures to construct parks and recreational facilities in the District, and approximately \$1,032,723 for expenditures to construct the Road System.

The District is also authorized by statute to engage in fire-fighting activities, including the issuing of bonds payable from taxes for such purposes. Before the District could issue such bonds, the following actions would be required: (a) authorization of a detailed fire protection plan; (b) approval of the fire plan by the TCEQ; (c) approval of the fire plan by the voters of the District; and (d) approval of bonds, if any, by the Attorney General of Texas. If additional debt obligations are issued in the future by the District, such issuance may increase gross debt/property ratios and might adversely affect the investment security of the Bonds.

The District is authorized by statute to develop parks and recreational facilities, including the issuing of bonds payable from taxes for such purpose. Before the District could issue park bonds payable from taxes, the following actions would be required: (a) approval of the park bond application for the issuance of bonds by the TCEQ; and (b) approval of the bonds by the Attorney General of Texas. The District has not considered the preparation of a parks bond application at this time. If the District does issue park bonds, the outstanding principal amount of such bonds may not exceed an amount equal to three percent (3%) of the value of the taxable property in the District at the time of issuance.

No Arbitrage

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

Defeasance

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

payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds.

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

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

Legal Investment and Eligibility to Secure Public Funds in Texas

The following is an excerpt 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.

Registered Owners' Remedies

Pursuant to Texas law, the Bond Order provides that, in the event the District defaults in the payment of the principal of or interest on any of the Bonds when due, fails to make payments required by the Bond Order into the Debt Service Fund, or defaults in the observance or performance of any of the other covenants, conditions or obligations set forth in the Bond Order, any Registered Owner shall be entitled to seek a writ of mandamus from a court of competent jurisdiction compelling and requiring the District to make such payments or to observe and perform such covenants, obligations or conditions. Such right is in addition to other rights the Registered Owners may be provided by the laws of the State of Texas.

In the event of default in the payment of principal of or interest on the Bonds, the Registered Owners may seek a writ of mandamus requiring the District to levy adequate taxes to make such payments. Except for the remedy of mandamus, the Bond Order does not specifically provide for remedies to a Registered Owner in the event of a District default, nor does it provide for the appointment of a trustee to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Although the Registered Owners could obtain a judgment against the District, such a judgment could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on the property of the District or sell property within the District in order to pay the principal of or interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may be further limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. For example, a Chapter 9 bankruptcy proceeding by the District could delay or eliminate payment of principal or interest to the Registered Owners.

Short-Term Debt

In connection with the Bonds, the District has issued its \$2,531,000 Bond Anticipation Note, Series 2021, dated August 19, 2021 (the "BAN"). The BAN accrues interest at a rate of 0.860% per year and matures on February 18, 2022. It is anticipated that the BAN will be repaid and retired with Bond proceeds.

Use and Distribution of Bond Proceeds

Proceeds of the Bonds will be used to redeem the BAN, the proceeds of which were used to reimburse the Developers (herein defined) for a portion of the costs to construct certain water supply, sanitary sewer, and drainage facilities serving the District, as set out below. Proceeds from the Bonds will also be used to reimburse the Developers for expenditures that were not reimbursed by the BAN, reimburse the Developers for costs related to the creation and operation of the District, to pay developer interest, to pay six (6) months of capitalized interest on the Bonds, and, among other items, to pay costs of issuance of the BAN and the Bonds, as set out below.

<u>Construction Costs</u>	<u>District's Share</u>
A. Developer Contribution Items	
1. Cayden Creek Section 1 – W, WW, & D	\$ 842,759
2. Cayden Creek Section 2 – W, WW, & D	472,241
3. Wedgewood Forest Sections 1 & 2 – W, WW, & D	1,177,575
4. Engineering Expense (Items 1 and 3)	413,177
5. Engineering Cayden Creek Detention Improvements and Mass Grading	<u>106,377</u>
Total Developer Contribution Items	\$ 3,012,129
B. District Items	
1. Wedgewood Forest Detention Improvements	\$ 461,888
2. Clearing & Grubbing for the Ultimate Madison Bend Detention Pond	210,316
3. Engineering Expense (Item 1)	<u>77,704</u>
Total District Items	<u>\$ 749,908</u>
Total Construction Costs	<u>\$ 3,762,037</u>
<u>Non-Construction Costs</u>	
A. Legal Fees	\$ 150,000
B. Fiscal Agent Fees	108,000
C. Interest	
1. Capitalized Interest (6 months)	69,134
2. Developer Interest	726,289
3. BAN Interest	5,442
D. Bond Discount	152,871
E. Developer Advances	66,820
F. Bond Issuance Expenses	49,259
G. BAN Issuance Expense	67,300
H. Bond Application Report	54,000
I. Attorney General Fee (0.10% or \$9,500 max.)	5,400
J. TCEQ Bond Issuance Fee (0.25%)	13,500
K. Contingency (a)	<u>169,948</u>
Total Non-Construction Costs	<u>\$ 1,637,963</u>
TOTAL BOND ISSUE REQUIREMENT	<u>\$ 5,400,000</u>

(a) Represents the difference between the estimated and actual amounts of Capitalized Interest, BAN Interest, and Bond Discount.

In the instance that approved estimated amounts exceed the actual costs, the difference comprises a surplus which may be expended for approved uses in accordance with the rules of the TCEQ. However, the District cannot and does not guarantee the sufficiency of such funds for such purposes.

THE DISTRICT

Authority

The District was created by House Bill 1260, an Act of the 83rd Legislature, Regular Session, June 14, 2013, now codified as Chapter 8414 of the Texas Special District Local Laws Code, and by a confirmation election held within the District on May 10, 2014. The District operates under Chapters 49 and 54 of the Texas Water Code and other general laws of the State of Texas applicable to municipal utility districts and is empowered, among other things, to purchase, construct, operate, and maintain all works, improvements, facilities, and plants necessary for the supply of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water. The District also is authorized to construct and finance roads as well as construct, develop and maintain park and recreational facilities using operating revenues or by issuing bonds payable from taxes.

Description

The District comprises 383.201 total acres and is situated entirely within the boundaries of Montgomery County, Texas, the City of Conroe, Texas, and Conroe Independent School District.

The District is located wholly within the city limits of the City of Conroe, Texas, and consists of four different non-contiguous subdivisions:

Wedgewood Falls (approximately 58.3 acres) is located approximately 3.75 miles northwest of the City of Conroe Central Business District and 2 miles west of Interstate 45, near the intersection of Farm Road 3083 and State Highway 105.

Wedgewood Forest (approximately 111.4 acres) is located approximately 4.25 miles northwest of the City of Conroe Central Business District and 2.5 miles west of Interstate 45, near the intersection of Indian Hills Drive and State Highway 105.

Cayden Creek (approximately 48.89 acres) is located approximately 2.0 miles southwest of the City of Conroe Central Business District and 1.25 miles west of Interstate 45, near the intersection of Gladstell Street and Sergeant Holcomb Boulevard.

Madison Bend (approximately 104.4 acres) is approximately 3.0 miles northwest of the City of Conroe Central Business District and approximately 1.25 miles southwest of the intersection of Interstate 45 and N Farm to Market Road 3083.

Management of the District

The District is governed by the Board consisting of five directors, who have control over and management supervision of all affairs of the District. All of the Directors own property in the District. The directors serve four-year staggered terms. Elections are held in May of even-numbered years. The current members and officers of the Board are listed below:

<u>Name</u>	<u>Position</u>	<u>Term Expires May</u>
Brandon Macey	President	2024
Jim Grover	Vice President	2022
Bill Odle	Secretary	2022
W. Daniel Meyer	Assistant Secretary	2022
Erwin Burden	Assistant Secretary	2024

Investment Policy

The District has adopted an Investment Policy (the "Policy") as required by the Public Funds Investment Act, Chapter 2256, Texas Government Code (the "Act"). The District's goal is to preserve principal and maintain liquidity in a diversified portfolio while securing a competitive yield on its portfolio. Funds of the District are

to be invested only in accordance with the Policy. The Policy states that the funds of the District may be invested in short term obligations of the U.S. or its agencies or instrumentalities, in certificates of deposits insured by the Federal Deposit Insurance Corporation and secured by collateral authorized by the Act, and in TexPool and TexStar, which are public funds investment pools rated in the highest rating category by a nationally recognized rating service. The District does not currently own, nor does it anticipate, the inclusion of long term securities or derivative products in the portfolio.

Consultants

Although the District does not have a general manager or any other full-time employees, it has contracted for bookkeeping, tax assessing and collecting, auditing, engineering, and legal services as follows:

Tax Assessor/Collector: The tax assessor/collector for the District is Utility Tax Service, LLC (the “Tax Assessor/Collector”).

Bookkeeper: The District’s bookkeeper is Municipal Accounts & Consulting, L.P.

Auditor: The District engaged McGrath & Co., PLLC, to audit its financial statements for the fiscal year ended May 31, 2021. Said financial statements are attached hereto as “APPENDIX A.”

Engineer: The District’s engineer is Pape-Dawson Consulting Engineers, Inc. (the “Engineer”).

Bond Counsel: The District has engaged Sanford Kuhl Hagan Kugle Parker Kahn LLP, Houston, Texas, as general counsel to the District and as bond counsel (“Bond Counsel”) in connection with the issuance of the Bonds. The fees to be paid Bond Counsel in connection with the issuance of the Bonds are contingent upon the sale and delivery of the Bonds. See “LEGAL MATTERS.”

Disclosure Counsel: McCall Parkhurst & Horton L.L.P., Houston, Texas, serves as Disclosure Counsel to the District. The fee to be paid to Disclosure Counsel for services rendered in connection with the issuance of the Bonds is contingent on the issuance, sale and delivery of the Bonds.

Financial Advisor: Robert W. Baird & Co. Incorporated is engaged as financial advisor to the District in connection with the issuance of the Bonds (the “Financial Advisor”). The Financial Advisor’s fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement.

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DEVELOPMENT OF THE DISTRICT

Status of Development within the District

To date, approximately 302.89 acres within the District have been developed as 1,097 single-family lots in the following single-family residential subdivisions: Wedgewood Falls, Sections, 1, 2, and 3, Cayden Creek Sections 1, 2, 3 and 4, Wedgewood Forest Sections 1, 2, 3, and 4, and Madison Bend, Sections 1 and 2. As of September 1, 2021, development within the District consisted of approximately 651 completed homes, approximately 99 homes under construction, and approximately 347 vacant, developed lots. The remainder of the land within the District includes approximately 60.2 undevelopable acres.

The table below summarizes the status of development and land use within the District as of September 1, 2021.

Subdivision Name	Acreage	Section Lots	Homes Completed	Homes Under Construction	Vacant Lots
Wedgewood Falls, Section 1	31.22	84	84	-	-
Wedgewood Falls, Section 2	17.52	67	67	-	-
Wedgewood Falls, Section 3	9.55	42	42	-	-
Cayden Creek, Section 1	13.09	43	43	-	-
Cayden Creek, Section 2	14.05	63	63	-	-
Cayden Creek, Section 3	9.44	37	37	-	-
Cayden Creek, Section 4	12.30	48	48	-	-
Wedgewood Forest, Section 1	8.76	17	10	3	4
Wedgewood Forest, Section 2	40.68	101	89	4	8
Wedgewood Forest, Section 3	30.06	106	0	26	80
Wedgewood Forest, Section 4 (a)	31.92	93	0	0	93
Madison Bend, Section 1	57.72	178	132	37	9
Madison Bend, Section 2	<u>46.68</u>	<u>218</u>	<u>36</u>	<u>29</u>	<u>153</u>
Totals	323.00	1,097	651	99	347
Undevelopable	60.20				
District Total	383.20				

(a) 7 lots are under construction.

Homebuilders

Homebuilders active in the District include: KB Home, Colina Homes, Anglia Homes, DB Homes and Legend Homes. New homes being marketed in the District range in price from approximately \$200,000 to over \$323,000 and in size from approximately 1,300 square feet to over 3,200 square feet. See "PRINCIPAL LANDOWNERS/DEVELOPERS."

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PHOTOGRAPHS TAKEN IN THE DISTRICT
(July 2021)



PHOTOGRAPHS TAKEN IN THE DISTRICT
(July 2021)



PRINCIPAL LANDOWNERS/DEVELOPERS

Role of the Developer

In general, the activities of a developer in a municipal utility district such as the District include purchasing the land within the District, designing the subdivision, designing the utilities and streets to be constructed in the subdivision, designing any community facilities to be built, defining a marketing program and building schedule, securing necessary governmental approvals and permits for development, arranging for the construction of roads and the installation of utilities (including, in some cases, water, wastewater, and drainage facilities pursuant to the rules of the TCEQ, as well as gas, telephone, and electric service) and selling improved lots and commercial reserves to builders, developers, or other third parties. In most instances, the developer will be required to pay up to thirty percent (30%) of the cost of constructing certain water, wastewater, and drainage facilities in a municipal utility district pursuant to the rules of the TCEQ. The relative success or failure of a developer to perform such activities in development of the property within a municipal utility district may have a profound effect on the security of the unlimited tax bonds issued by a district. A developer is generally under no obligation to a district to develop the property which it owns in a district. Furthermore, there is no restriction on a developer's right to sell any or all of the land which it owns within a district. In addition, a developer is ordinarily a major taxpayer within a municipal utility district during the development phase of the property.

Prospective purchasers of the Bonds should note that the prior real estate experience of a developer should not be construed as an indication that further development within the District will occur, or construction of taxable improvements upon property within the District will occur, or that marketing or leasing of taxable improvements constructed upon property within the District will be successful. Circumstances surrounding development within the District may differ from circumstances surrounding development of other land in several respects, including the existence of different economic conditions, financial arrangements, homebuilders, geographic location, market conditions, and regulatory climate.

Neither the Developers, nor any affiliate entities, are obligated to pay principal of or interest on the Bonds. Furthermore, neither the Developers, nor any affiliate entities, have a 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 or affiliate entities 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.

Principal Landowners/Developers

Wedgewood Forest, Ltd., a Texas limited partnership, dba Land Tejas ("Land Tejas"), is the developer of approximately 111.4 acres within the District, being marketed as Wedgewood Forest. KB Home Lone Star Inc. ("KB Home Lone Star"), a Texas corporation and an indirect wholly owned subsidiary of KB Home, a Delaware corporation, the stock of which is publicly traded company on the New York Stock Exchange under the ticker symbol "KBH." KB Home Lone Star is the developer of approximately 107.2 acres within the District, being marketed as Wedgewood Falls and Cayden Creek. For more information, visit www.kbhome.com. Madison Bend, Ltd., a Texas limited partnership, dba Academy Development ("Academy", and together with Land Tejas and KB Home Lone Star, the "Developers"), is the developer of approximately 104.4 acres in the District, being marketed as Madison Bend.

THE UTILITY SYSTEM

Regulation

Construction and operation of the water, sanitary sewer, and storm drainage system serving the District as it now exists or as it may be expanded from time to time is subject to regulatory jurisdiction of federal, state, and local authorities. The TCEQ exercises continuing, supervisory authority over the water and sanitary service serving the District. Construction of water, sanitary sewer, and storm drainage facilities is subject to the regulatory authority of the District, Montgomery County, Texas, and the City of Conroe, Texas. The TCEQ also exercises regulatory jurisdiction over portions of the water and sanitary sewer facilities.

Water Supply

Water supply capacity for the District is provided by the City of Conroe, Texas (the “City”). Pursuant to the “Utility Functions Agreement,” dated March 14, 2013, the City agrees to provide up to 1,046 equivalent single family connections (“ESFCs”) of water supply to the District. In the event that the City does not have sufficient capacity, the City agrees to make any necessary improvements, at no cost to the District, to serve full build out of the District. The City supplies water through existing water mains located in League Line Road and FM 3083.

Wastewater Treatment

The District’s wastewater treatment capacity is provided by the City, per the Utility Functions Agreement. The property in the District is designated as part of the service area of the City of Conroe Treatment Plant (the “City Treatment Plant”). The City represents that it has sufficient capacity in the City Treatment Plant to serve the development of the District as needed and required by the District. In the event that the City Treatment Plant does not have sufficient capacity to serve the development in the District as needed, the City agrees to make any necessary improvements to the City Treatment Plant at no cost to the District.

Storm Water Drainage

The District consists of four different non-contiguous subdivisions separated by approximately 4.5 miles:

Wedgewood Falls is located within a watershed that drains to the SH 105 crossing located just northwest of the SH 105 and FM 3083 intersection. The project area is drained via a natural channel that runs from the northwest to the southeast through the center of the watershed.

Wedgewood Forest is located within a watershed that drains to an onsite pond that outfalls to a ditch along SH 105 via overland flow.

Cayden Creek is located within a watershed that drains to Alligator Creek. The project area drains directly to Alligator Creek via overland flow.

Madison Bend is located within a watershed that drains to White Oak Creek North. The Project area drains directly to White Oak Creek North.

100-Year Flood Plain

According to the District’s Engineer, the only portion of the District that was located within the 100-year flood plain on Federal Flood Insurance Administration Rate Map No. 48339C0390G (dated August 18, 2014) was removed via Letter of Map Revision (“LOMR”) with an effective date of January 11, 2017.

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General Fund Operating Statement

The following is a summary of the District's general fund activity for the last five fiscal years. The figures for the fiscal years ending May 31, 2017, through May 31, 2021 were obtained from the District's annual financial statements, reference to which is hereby made. The District is required by statute to have a certified public accountant audit its financial statements annually, which is filed with the TCEQ. See "Appendix A" for the District's audited financial statements for the fiscal year ending May 31, 2021.

<u>Revenues</u>	<u>5/31/2021</u>	<u>05/31/2020</u>	<u>05/31/2019</u>	<u>05/31/2018</u>	<u>05/31/2017</u>
Property Taxes	\$ 220,858	\$ 582,560	\$ 342,883	\$ 147,881	\$ 96,851
Penalties and interest	-	4,768	3,208	133	43
City of Conroe Drainage Tax Rebate	8,262	6,352	4,366	4,980	-
Miscellaneous	77,915	376	-	10	-
Investment earnings	1,274	643	130	8	6
Total Revenues	\$ 308,309	\$ 594,699	\$ 350,587	\$ 153,012	\$ 96,900
<u>Expenditures</u>					
Professional fees	\$ 116,346	\$ 88,770	\$ 86,470	\$ 52,275	\$ 57,245
Contracted services	17,269	15,186	20,357	12,355	22,564
Repairs and maintenance	50,151	130,578	43,590	90,477	134,980
Administrative	11,081	13,804	12,600	10,568	7,778
Other	9,974	3,503	3,546	1,788	1,050
Total Expenditures	\$ 204,821	\$ 251,841	\$ 166,563	\$ 167,463	\$ 223,617
Revenues Over (Under) Expenditures	\$ 103,488	\$ 342,858	\$ 184,024	\$ (14,451)	\$ (126,717)
<u>Other Financing Sources</u>					
Developer Advances	\$ -	\$ 55,177	\$ 50,000	\$ 49,000	\$ 148,620
<u>Net Change In Fund Balance</u>	\$ 103,488	\$ 398,035	\$ 234,024	\$ 34,549	\$ 21,903
<u>Balance, Beginning of Year</u>	\$ 674,034	\$ 275,999	\$ 41,975	\$ 7,426	\$ (14,477)
<u>Balance, End of Year</u>	\$ 777,522	\$ 674,034	\$ 275,999	\$ 41,975	\$ 7,426

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DISTRICT DEBT

General

2021 Taxable Assessed Valuation.....	\$140,401,372	(a)
Direct Debt		
The Bonds	\$ 5,400,000	
The Outstanding Bonds.....	<u>\$ 5,825,000</u>	
Total.....	\$ 11,225,000	
Estimated Overlapping Debt.....	<u>\$ 10,352,447</u>	(b)
Total Direct and Estimated Overlapping Debt	\$ 21,577,447	(b)
Direct Debt Ratio:		
As a Percentage of the 2021 Taxable Assessed Valuation.....	7.99	%
Direct and Estimated Overlapping Debt Ratio:		
As a Percentage of the 2021 Taxable Assessed Valuation.....	15.37	%
Debt Service Fund Balance (as of September 8, 2021)	\$ 316,701	(c)
Operating Fund Balance (as of September 8, 2021)	\$ 606,427	
Capital Projects Fund Balance (as of September 8, 2021)	\$ 17,635	
2021 Tax Rate		
Debt Service	\$ 0.48	
Maintenance and Operations	<u>\$ 0.22</u>	
Total.....	\$ 0.70	
Average Annual Debt Service Requirement (2022-2045)	\$ 627,953	(d)
Maximum Annual Debt Service Requirement (2041).....	\$ 651,850	(d)
Debt Service Tax Rate per \$100 of Assessed Valuation Required to Pay Average Annual Debt Service Requirement (2022-2045) at 95% Tax Collections:		
Based on the 2021 Taxable Assessed Valuation.....	\$ 0.48	
Debt Service Tax Rate per \$100 of Assessed Valuation Required to Pay Maximum Annual Debt Service Requirement (2041) at 95% Tax Collections:		
Based on the 2021 Taxable Assessed Valuation.....	\$ 0.49	

-
- (a) Represents the assessed valuation of all taxable property in the District as of January 1, 2021, provided by the Montgomery Central Appraisal District (the "Appraisal District"). Such value includes \$4,507,734 of uncertified value, which is 80% of the total taxable value associated with properties that remain under protest as of certification. See "TAX DATA" and "TAXING PROCEDURES."
- (b) See "DISTRICT DEBT – Direct and Estimated Overlapping Debt Statement."
- (c) At the time of closing of the Bonds, accrued interest on the Bonds to the date of delivery and six (6) months of capitalized interest on the Bonds will be deposited into the District's Debt Service Fund (herein defined). Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the Debt Service Fund.
- (d) Includes the Bonds and the Outstanding Bonds. See "DISTRICT DEBT – Debt Service Requirement Schedule."

Debt Service Requirement Schedule

The following schedule sets forth the annual debt service requirements of the Outstanding Bonds plus the principal and interest requirements of the Bonds. Totals may not sum due to rounding.

Calendar Year	Outstanding	The Bonds		Total	
	Debt Service	Principal	Interest	Debt Service	Debt Service
2022	\$ 332,300	\$ 200,000	\$ 115,224	\$ 315,224	\$ 647,524
2023	329,650	170,000	132,269	302,269	631,919
2024	326,775	175,000	127,169	302,169	628,944
2025	323,675	185,000	121,919	306,919	630,594
2026	325,350	190,000	116,369	306,369	631,719
2027	321,575	200,000	110,669	310,669	632,244
2028	318,575	210,000	106,669	316,669	635,244
2029	324,475	210,000	102,469	312,469	636,944
2030	325,175	215,000	98,269	313,269	638,444
2031	330,775	215,000	92,894	307,894	638,669
2032	335,888	215,000	87,519	302,519	638,406
2033	335,488	225,000	82,144	307,144	642,631
2034	339,975	225,000	77,081	302,081	642,056
2035	344,238	225,000	72,019	297,019	641,256
2036	347,944	230,000	66,675	296,675	644,619
2037	351,413	235,000	60,638	295,638	647,050
2038	354,288	240,000	54,469	294,469	648,756
2039	356,913	240,000	48,169	288,169	645,081
2040	359,288	245,000	41,869	286,869	646,156
2041	361,413	255,000	35,438	290,438	651,850
2042	362,881	260,000	28,744	288,744	651,625
2043	369,088	260,000	21,919	281,919	651,006
2044	369,900	265,000	15,094	280,094	649,994
2045	-	310,000	8,138	318,138	318,138
Total	\$ 7,847,038	\$ 5,400,000	\$ 1,823,830	\$ 7,223,830	\$ 15,070,868

Average Annual Debt Service Requirement (2022–2045) \$ 627,953

Maximum Annual Debt Service Requirement (2041) \$ 651,850

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Direct and Estimated Overlapping Debt Statement

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

Taxing Jurisdiction	Outstanding Debt August 31, 2021	Overlapping	
		Percent	Amount
City of Conroe	\$ 365,025,000	1.28 %	\$ 4,689,159
Montgomery County	486,675,000	0.21	1,014,448
Montgomery County Hospital District	--	--	--
Lone Star College System District	612,400,000	0.06	368,694
Conroe Independent School District	1,351,160,000	0.32	4,280,146
Total Estimated Overlapping Debt			<u>\$ 10,352,447</u>
Direct Debt (a)			<u>\$ 11,225,000</u>
Total Direct and Estimated Overlapping Debt (a)			<u>\$ 21,577,447</u>

(a) Includes the Bonds and the Outstanding Bonds.

Debt Ratios

Ratio of Direct Debt (a):

As a Percentage of the 2021 Taxable Assessed Valuation..... 7.99 %

Ratio of Direct and Estimated Overlapping Debt (a):

As a Percentage of the 2021 Taxable Assessed Valuation..... 15.37 %

(a) Includes the Bonds and the Outstanding Bonds.

TAXING PROCEDURES

Authority to Levy Taxes

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

Property Tax Code and County-Wide Appraisal District

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

The Property 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 Montgomery Central Appraisal District (the “Appraisal District”). The Appraisal District has the responsibility of appraising property for all taxing units within Montgomery County, Texas, including the District. Such appraisal values will be subject to review and change by the Montgomery County Appraisal Review Board (the “Appraisal Review Board”). The appraisal roll, as approved by the Appraisal Review Board, will be used by the District in establishing its tax rolls and tax rate.

Property Subject to Taxation by the District

General: Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes, and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: property owned by the State of Texas or its political subdivisions, if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies and personal effects; certain goods, wares, and merchandise in transit; certain farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually-owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons 65 years or older and certain disabled persons, to the extent deemed advisable by the Board of the District. The District may be required to offer such exemptions if a majority of voters approve same at an election. The District would be required to call an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the preceding election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District’s obligation to pay tax supported debt incurred prior to adoption of the exemption by the District. Furthermore, the District must grant exemptions to disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces, if requested, but only to the maximum extent of between \$5,000 and \$12,000 depending upon the disability rating of the veteran claiming the exemption. A veteran who receives a disability rating of one hundred percent (100%) is entitled to an exemption for the full value of the veteran’s residence homestead. Furthermore, qualifying surviving spouses of persons 65 years of age and older are entitled to receive a resident homestead exemption equal to the exemption received by the deceased spouse. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran’s residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran’s exemption applied. A partially disabled veteran or

certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization at no cost to the veteran. This exemption also applies to a residence homestead that was donated by a charitable organization at some cost to such veterans. 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 is killed or fatally injured in the line of duty is entitled to an exemption of the total appraised value of the surviving spouse's residence homestead if the surviving spouse has not remarried since the first responder's death, and said property was the first responder's residence homestead at the time of death. Such exemption is transferrable to a subsequent residence homestead of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

Residential Homestead Exemptions: The Property Code authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) of the appraised value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The District has never adopted a general homestead exemption.

Freeport Goods and Goods-in-Transit Exemption: Freeport goods are goods, wares, merchandise, other tangible personal property and ores, other than oil, natural gas and other petroleum products, which have been acquired or brought into the state for assembling, storing, manufacturing, repair, maintenance, processing or fabricating purposes, or used to repair or maintain aircraft of a certified air carrier, and shipped out of the state within one hundred seventy-five (175) days. Freeport goods are exempt from taxation by the District. Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of "goods-in-transit." "Goods-in-transit" is defined by a provision of the Tax Code, which is effective for tax year 2018 and prior applicable years, as personal property acquired or imported into Texas and transported to another location in the State or outside the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft, and special inventory. For tax year 2016 and subsequent years, such Goods-in-Transit Exemption is limited to tangible personal property acquired in or imported into Texas for storage purposes and which is stored under a contract of bailment by a public warehouse operator at one or more warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. The Tax Code provision permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax goods-in-transit during the following tax year. A taxpayer may receive only one of the Freeport exemptions or the goods-in-transit exemptions for items of personal property.

Reappraisal of Property

On November 5, 2019, a Constitutional amendment, effective January 1, 2020, passed and the prior process that gave local taxing jurisdictions the option to request a reappraisal following a disaster was repealed and replaced with an exemption for qualified property that is in a Governor-declared disaster area and at least 15% damaged. Qualified property includes tangible personal property, improvements to real property, and manufactured homes. Eligible individuals must apply within a specified time frame and, if the disaster occurs after taxes are levied, the taxing unit must take action to authorize the exemption. The amount of the exemption is determined by the percentage level of damage and is prorated based on the date of the disaster. An appraisal district, such as the Appraisal District, must perform a damage assessment and assign a percentage rating to determine the amount of the exemption. Any exemption granted under the new provisions expires the first year the property is reappraised.

Tax Abatement

Montgomery County, Texas, may designate all or part of the area within the District as a reinvestment zone. Thereafter, Montgomery County, Texas, and the District, at the option and discretion of each entity, may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the District, for a period of up to ten (10) years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed on the condition that the property owner make specified improvements or repairs to the property in conformity with the terms of the tax abatement. Each taxing jurisdiction has discretion to determine terms for its tax abatement agreements without regard to the terms approved by the other taxing jurisdictions. At this time, Montgomery County, Texas, has not designated any of the area within the District as a reinvestment zone.

Valuation of Property for Taxation

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

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

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

District and Taxpayer Remedies

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

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

Levy and Collection of Taxes

The District is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. The rate of taxation is set by the Board, after the legally required notice has been given to owners of property within the District, based upon: a) the valuation of property within the District as of the preceding January 1, and b) the amount required to be raised for debt service, maintenance purposes and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent if not paid before February 1 of the year following the year in which imposed. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional twenty percent (20%) penalty for collection costs. A delinquent tax on personal property incurs an additional twenty percent (20%) penalty, 60 days after the date the taxes become delinquent (April 1). For those taxes billed at a later date and that become delinquent on or after June 1, they will also incur an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. The delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, may be rejected.

Property owners affected by a disaster may pay property taxes in four equal installments following the disaster. In addition, certain classes of disabled veterans may receive a deferral or abatement of delinquent taxes without penalty during the time they own or occupy the property as their residential homestead.

District's Rights in the Event of Tax Delinquencies

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

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

Rollback of Operation and Maintenance Tax Rate

Chapter 49 of the Texas Water Code classifies municipal utility districts differently based on the current maintenance and operations tax rate or on the percentage of projected build-out that the District has completed. Districts that have adopted a maintenance and operations tax rate for the current year that is 2.5 cents or less per \$100 of taxable value are classified herein as "Special Taxing Units." Districts that have financed, completed, and issued bonds to pay for all land, 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.

Special Taxing Units

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

Developed Districts

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

Developing Districts

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

The District

For the 2021 tax year, the District made the determination of its status as a Developing District. The District cannot give any assurances as to what its classification will be at any point in time or whether the District's future tax rates will result in a total tax rate that will reclassify the District into a new classification and new election calculation.

TAX DATA

General

All taxable property within the District is subject to the assessment, levy, and collection by the District of a continuing, direct annual ad valorem tax without legal limitation as to rate or amount, sufficient to pay principal of and interest on the Bonds. See "TAXING PROCEDURES." In the Bond Order, the Board covenants to assess and levy, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax ample and

sufficient to produce funds to pay the principal of and interest on the Bonds. See “THE BONDS” and “RISK FACTORS.” For the 2021 tax year, the District levied a maintenance and operation tax rate of \$0.22 per \$100 of assessed valuation and a debt service tax rate of \$0.48.

Tax Rate Limitation

Debt Service: Unlimited (no legal limit as to rate or amount).
Maintenance and Operation General:\$1.50 per \$100 taxable assessed valuation.
Maintenance and Operation Recreation:\$0.10 per \$100 taxable assessed valuation.

Debt Service Taxes

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. For the 2021 tax year, the District levied a maintenance and operation tax rate of \$0.22 per \$100 of assessed valuation and a debt service tax rate of \$0.48.

Upon closing and delivery of the Bonds, six (6) months of capitalized interest on the Bonds will be deposited into the Debt Service Fund.

Maintenance Taxes

The Board has the statutory authority to levy and collect an annual ad valorem tax for maintenance of the District’s improvements if such maintenance tax is authorized by vote of the District’s electors. The Board is authorized by the District’s voters to levy such maintenance tax in an amount not to exceed \$1.50 per \$100 of assessed valuation. Such tax, when levied, is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds and any parity bonds which may be issued in the future. See “Tax Rate Distribution” below.

Tax Exemption

As discussed in the section entitled “TAXING 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.

Additional Penalties

The District has contracted with a delinquent tax attorney to collect certain delinquent taxes. In connection with that contract, the District can establish an additional penalty of twenty percent (20%) of the tax to defray the costs of collection. This twenty percent (20%) penalty applies to taxes that either: (1) become delinquent on or after February 1 of a year, but not later than June 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.

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Historical Tax Collections

The following table illustrates the collection history of the District for the 2017–2021 tax years:

Tax Year	Certified Taxable Value	Tax Rate	Adjusted Tax Levy	Collections Current Year	Current Year Ending 09/30	Collections 05/31/2021
2017	\$ 21,148,509	\$ 0.700	\$ 148,040	100.00 %	2018	100.00 %
2018	52,951,773	0.700	370,662	94.52 %	2019	99.44 %
2019	82,000,088	0.700	574,001	99.06 %	2020	99.56 %
2020	110,351,667	0.700	772,462	99.04 %	2021	99.04 %
2021	135,893,638	0.700	951,255	(a)	2022	(a)

(a) In process of collections.

Tax Rate Distribution

The following table sets out the components of the District's tax levy for each of the 2017–2021 tax years.

	2021	2020	2019	2018	2017
Debt Service	\$ 0.4800	\$ 0.5100	\$ 0.0000	\$ 0.0000	\$ 0.0000
Maintenance & Operation	<u>0.2200</u>	<u>0.1900</u>	<u>0.7000</u>	<u>0.7000</u>	<u>0.7000</u>
Total	\$ 0.7000	\$ 0.7000	\$ 0.7000	\$ 0.7000	\$ 0.7000

Analysis of Tax Base

The following represents the types of property comprising the District taxable assessed value for each of the 2017–2021 tax years.

Type of Property	2021 Taxable Assessed Valuation (a)	2020 Taxable Assessed Valuation	2019 Taxable Assessed Valuation (a)	2018 Taxable Assessed Valuation	2017 Taxable Assessed Valuation
Land	\$ 37,208,580	\$ 28,868,130	\$ 21,889,240	\$ 18,844,920	\$ 5,416,630
Improvements	103,951,040	85,305,770	62,962,780	36,247,680	16,264,660
Personal Property	139,567	320,100	556,942	386,245	159,834
Exemptions	<u>(5,405,549)</u>	<u>(4,142,333)</u>	<u>(3,408,874)</u>	<u>(2,527,072)</u>	<u>(692,615)</u>
Total	\$ 135,893,638	\$ 110,351,667	\$ 82,000,088	\$ 52,951,773	\$ 21,148,509

(a) Such value does not include \$4,507,734 of uncertified value, which is 80% of the total taxable value associated with properties that remain under protest as of certification.

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Principal Taxpayers

The following represents the principal taxpayers, type of property, and their assessed values as of January 1, 2021:

Taxpayer	Type of Property	Assessed Valuation 2021 Tax Roll	Percent of District 2021 Value
Madison Bend LTD	Land	\$ 6,747,580	4.97%
AGM Safe Warehouse LLC	Land & Improvements	2,593,600	1.91%
Legend Classic Homes LTD	Land & Improvements	2,433,591	1.79%
Wedgewood Forest LTD (a)	Land & Improvements	1,979,570	1.46%
Camillo Properties LTD	Land & Improvements	1,841,550	1.36%
Lexington 26 LP	Land & Improvements	1,057,820	0.78%
Homeowner	Land & Improvements	384,880	0.28%
Homeowner	Land & Improvements	359,060	0.26%
Homeowner	Land & Improvements	343,020	0.25%
Homeowner	Land & Improvements	338,190	0.25%
		<u>\$18,078,861</u>	<u>13.30%</u>

(a) See "PRINCIPAL LANDOWNERS/DEVELOPERS."

Tax Rate Calculations

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 of taxable assessed valuation that would be required to meet certain debt service requirements on the Bonds and the Outstanding Bonds if no growth in the District's tax base occurs beyond the District's taxable assessed valuation as of January 1, 2021 (\$135,893,638). The calculations assume collection of 95% of taxes levied, the sale of the Bonds but not the sale of any additional bonds by the District.

Average Annual Debt Service Requirement (2022-2045)	\$ 627,953
Debt Service Tax Rate of \$0.48 on the 2021 Taxable Assessed Valuation produces	\$ 640,230
Maximum Annual Debt Service Requirement (2041)	\$ 651,850
Debt Service Tax Rate of \$0.49 on the 2021 Taxable Assessed Valuation produces	\$ 653,568

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Estimated Overlapping Taxes

Property within the District is subject to taxation by several taxing authorities in addition to the District. Under Texas law, if ad valorem taxes levied by a taxing authority become delinquent, a lien is created upon the property which has been taxed. A tax lien on property in favor of the District is on a parity with tax liens of other taxing jurisdictions. In addition to ad valorem taxes required to make debt service payments on bonded debt of the District and of such other jurisdictions (see "DISTRICT DEBT –Direct and Estimated Overlapping Debt Statement"), certain taxing jurisdictions are authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administrative and/or general revenue purposes.

Set forth below is an estimation of all 2021 taxes per \$100 of assessed valuation levied by such jurisdictions. No recognition is given to local assessments for civic association dues, emergency medical service contributions, fire department contributions or any other charges made by entities other than political subdivisions. No prediction can be made of the tax rates that will be levied in future years by the respective taxing jurisdictions.

Taxing Jurisdiction	2021 Tax Rate
Montgomery County	\$ 0.408300
Montgomery County Hospital District	0.058700
City of Conroe	0.437500
Conroe Independent School District	1.176000
Lone Star College System District	0.107800
The District	<u>0.700000</u>
Total	\$2.888300

LEGAL MATTERS

Legal Opinions

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

Bond Counsel has reviewed the information appearing in this Official Statement under "THE BONDS" (except for information under the subheadings "- Book-Entry-Only System" and "-Use and Distribution of Bond Proceeds"), "THE DISTRICT - Authority," "TAXING PROCEDURES," "LEGAL MATTERS," "TAX MATTERS," and "CONTINUING DISCLOSURE OF INFORMATION" solely to determine whether such information, insofar as it relates to matters of law, is true and correct and whether such information fairly summarizes matters of law and the provisions of the documents referred to therein. Bond Counsel has not, however, independently verified any of the factual information contained in this Official Statement 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 information contained herein.

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

No-Litigation Certificate

The District will furnish the Initial Purchaser of the Bonds (the "Underwriter") a certificate, dated as of the date of delivery of the Bonds, executed by both the President or Vice President and Secretary or Assistant Secretary of the Board, to the effect that no litigation of any nature has been filed or to their knowledge 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 each Underwriter to take and pay for each respective series of the Bonds, and of the District to deliver each respective series of the Bonds, are subject to the condition that, up to the time of delivery of, receipt of, and payment for each respective series of the Bonds, there shall have been no material adverse change in the condition (financial or otherwise) of the District subsequent to the date of sale from that set forth or contemplated in this Official Statement, as it may be supplemented or amended through the date of sale.

TAX MATTERS

In the opinion of Sanford Kuhl Hagan Kugle Parker Kahn LLP, Houston, Texas, Bond Counsel ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excludable from gross income for federal income tax purposes under Section 103 of the Code. Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax.

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

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

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

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

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

Tax Accounting Treatment of Original Issue Discount Bonds

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

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

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

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

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

respect to the federal, state, local and foreign tax consequences of the purchase, ownership and redemption, sale or other disposition of such Bonds.

Qualified Tax-Exempt Obligations

The District has designated the Bonds as “qualified tax-exempt obligations” within the meaning of Section 265(b)(3)(B) of the Code, as amended. The District will represent that the aggregate amount of tax-exempt bonds (including the Bonds) issued by the District, and entities subordinate to the District under the Code, during calendar year 2021 is not expected to exceed \$10,000,000 and that the District and entities subordinate to the District have not designated more than \$10,000,000 in “qualified tax-exempt obligations” (including the Bonds) during calendar year 2021. Pursuant to that section of the Code, a qualifying financial institution will be allowed a deduction from its own federal corporate income tax for the portion of interest expense the financial institution is able to allocate to designated “bank-qualified” investments.

Notwithstanding this exception, financial institutions acquiring the bonds will be subject to a 20% disallowance of allocable interest expense.

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

The District will provide certain updated financial information and operating data to the EMMA annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement under the headings “DISTRICT DEBT,” “TAX DATA,” and “APPENDIX A.” The District will update and provide this information within six months after the end of each of its fiscal years.

Any information so provided shall be prepared in accordance with generally accepted accounting principles or other such principles as the District may be required to employ from time to time pursuant to state law or regulation, and audited if the audit report is completed within the period during which it must be provided. If the audit report is not complete within such period, then the District shall provide unaudited financial statements for the applicable fiscal year to the MSRB within such six month period, and audited financial statements when and if the audit report becomes available. The District’s current fiscal year end is May 31. Accordingly, it must provide updated information by the last day in November in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

Event Notices

The District will provide timely notices of certain events to the 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 Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other material events affecting the tax-exempt status of the Bonds; (7) modifications to rights of Beneficial Owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of 17 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, or the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District or obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District or obligated person, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the financial obligation of the District or obligated person, any of which reflect financial difficulties. The term "financial obligation" when used in this paragraph shall have the meaning ascribed to it under federal securities laws including meaning a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) a guarantee of (i) or (ii). The term "financial obligation" does not include municipal securities for which a final official statement has been provided to the MSRB consistent with the Rule. The term "material" when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond 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 information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information from EMMA

The District has agreed to provide the information only to the MSRB. The District is required to file its continuing disclosure information using EMMA, which is the format currently prescribed by the MSRB and has been established by the MSRB to make such continuing disclosure information available to investors free of charge. Investors may access continuing disclosure information filed with the MSRB at www.emma.msrb.org.

Limitations and Amendments

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

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

Compliance with Prior Undertaking

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

OFFICIAL STATEMENT

General

The information contained in the Official Statement has been obtained primarily from the Developers, the District's records, the Engineer, the Tax Assessor/Collector, the Appraisal District, and other sources believed to be reliable; however, no representation is made as to the accuracy or completeness of the information contained herein, except as described below. The summaries of the statutes, resolutions, engineering and other related reports set forth herein are included 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.

The District's audited financial statements for the year ended May 31, 2021, were prepared by McGrath & co. PLLC, and have been included herein as "APPENDIX A." McGrath & Co. PLLC, Certified Public Accountant, has consented to the publication of such financial statements in this Official Statement.

Experts

The information contained in the Official Statement relating to engineering and to the description of the Utility System, and, in particular, that engineering information included in the sections entitled "THE BONDS – Use and Distribution of Bond Proceeds," "THE DISTRICT – Description," "DEVELOPMENT OF THE DISTRICT – Status of Development within the District," and "THE UTILITY SYSTEM" has been provided by the Engineer and has been included herein in reliance upon the authority of said firm as an expert in the field of civil engineering.

The information contained in this Official Statement relating to assessed valuations of property generally and, in particular, that information concerning collection rates and valuations contained in the sections captioned "TAX DATA" and "DISTRICT DEBT" was provided by the Tax Assessor/Collector and the Appraisal District. Such information has been included herein in reliance upon the Tax Assessor/Collector's authority as an expert in the field of tax collection and the Appraisal District's authority as an expert in the field of property appraisal.

Certification as to Official Statement

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

Updating of Official Statement

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

CONCLUDING STATEMENT

The information set forth herein has been obtained from the District's records, audited financial statements, and other sources that are considered to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will ever be realized. All of the summaries of the statutes, documents, and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes,

documents, and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such summarized documents for further information. Reference is made to official documents in all respects.

This Official Statement was approved by the Board of Directors of Montgomery County Municipal Utility District No. 132 as of the date shown on the cover page.

/s/ Brandon Macey
President, Board of Directors
Montgomery County Municipal Utility District No. 132

ATTEST:

/s/ Bill Odle
Secretary, Board of Directors
Montgomery County Municipal Utility District No. 132

APPENDIX A
Financial Statements of the District

**MONTGOMERY COUNTY MUNICIPAL
UTILITY DISTRICT NO. 132**

MONTGOMERY COUNTY, TEXAS

FINANCIAL REPORT

May 31, 2021

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McGRATH & CO., PLLC

Certified Public Accountants

2900 North Loop West, Suite 880

Houston, Texas 77092

Independent Auditor's Report

Board of Directors

Montgomery County Municipal Utility District No. 132

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. 132, as of and for the year ended May 31, 2021, 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 basic 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 basic financial statements are free of material misstatement.

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

Board of Directors
Montgomery County Municipal Utility District No. 132
Montgomery County, Texas

Opinion

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 Montgomery County Municipal Utility District No. 132, as of May 31, 2021, and the respective changes in financial position thereof for the year then ended in conformity 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 budgetary comparison information 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 Texas Supplementary Information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Texas Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied to the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

McGuire & Co, P.C.

Houston, Texas
October 21, 2021

Management's Discussion and Analysis

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Montgomery County Municipal Utility District No. 132
Management's Discussion and Analysis
May 31, 2021

Using this Annual Report

Within this section of the financial report of Montgomery County Municipal Utility District No. 132 (the "District"), the District's Board of Directors provides a narrative discussion and analysis of the financial activities of the District for the fiscal year ended May 31, 2021. This analysis should be read in conjunction with the independent auditor's report and the basic financial statements that follow this section.

In addition to this discussion and analysis, this annual report consists of:

- The District's basic financial statements;
- Notes to the basic financial statements, which provide additional information essential to a full understanding of the data provided in the financial statements;
- Supplementary information required by the Governmental Accounting Standards Board (GASB) concerning the District's budget; and
- Other Texas supplementary information required by the District's state oversight agency, the Texas Commission on Environmental Quality (TCEQ).

Overview of the Financial Statements

The District prepares its basic financial statements using a format that combines fund financial statements and government-wide statements onto one financial statement. The combined statements are the *Statement of Net Position and Governmental Funds Balance Sheet* and the *Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances*. Each statement contains an adjustments column which quantifies the differences between the government-wide and fund level statements. Additional details of the adjustments are provided in Note 2 to the basic financial statements.

Government-Wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the District, both long-term and short-term. The District's government-wide financial statements consist of the *Statement of Net Position* and the *Statement of Activities*, which are prepared using the accrual basis of accounting. The *Statement of Net Position* includes all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the residual reported as net position. Over time, changes in net position may provide a useful indicator of whether the financial position of the District as a whole is improving or deteriorating.

Accounting standards establish three components of net position. The net investment in capital assets component represents the District's investments in capital assets, less any outstanding debt or other borrowings used to acquire those assets. Resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The restricted component of net position consists of financial resources that are restricted for a specific purpose by enabling legislation or external parties. The unrestricted component of net position represents resources not included in the other components.

Montgomery County Municipal Utility District No. 132
Management's Discussion and Analysis
May 31, 2021

The *Statement of Activities* reports how the District's net position has changed during the fiscal year. All revenues and expenses are included on this statement, regardless of whether cash has been received or paid.

Fund Financial Statements

The fund financial statements include the *Governmental Funds Balance Sheet* and the *Governmental Funds Revenues, Expenditures and Changes in Fund Balances*. The focus of fund financial statements is on specific activities of the District rather than the District as a whole, reported using modified accrual accounting. These statements report on the District's use of available financial resources and the balances of available financial resources at the end of the year. Except for the General Fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties, governmental statutes or regulations.

For further discussion on the government-wide and fund financial statements, please refer to Note 1 in the financial statements.

Financial Analysis of the District as a Whole

The District's net position at May 31, 2021, was negative \$18,756,738. The District's net position is negative because the District incurs debt to construct water, sewer certain drainage facilities and road facilities which it conveys to the City of Conroe. A comparative summary of the District's overall financial position, as of May 31, 2021 and 2020, is as follows:

	2021	2020
Current and other assets	\$ 1,353,582	\$ 1,343,370
Capital assets	3,964,722	3,987,036
Total assets	<u>5,318,304</u>	<u>5,330,406</u>
Current liabilities	2,779,006	82,396
Long-term liabilities	21,296,036	18,755,561
Total liabilities	<u>24,075,042</u>	<u>18,837,957</u>
Net position		
Net investment in capital assets	(1,463,550)	(518,399)
Restricted	531,115	196,131
Unrestricted	<u>(17,824,303)</u>	<u>(13,185,283)</u>
Total net position	<u><u>\$ (18,756,738)</u></u>	<u><u>\$ (13,507,551)</u></u>

Montgomery County Municipal Utility District No. 132
Management's Discussion and Analysis
May 31, 2021

The total net position of the District decreased during the current fiscal year by \$5,249,187. A comparative summary of the District's *Statement of Activities* for the past two years is as follows:

	2021	2020
Revenues		
Property taxes, penalties and interest	\$ 778,465	\$ 578,110
Other	90,270	12,162
Total revenues	<u>868,735</u>	<u>590,272</u>
Expenses		
Operating and administrative	268,121	305,568
Debt interest and fees	187,097	150,733
Developer interest	28,547	315,215
Debt issuance costs	73,529	507,095
Depreciation	22,314	22,314
Total expenses	<u>579,608</u>	<u>1,300,925</u>
Change in net position before other item	289,127	(710,653)
Other item		
Transfers to other governments	<u>(5,538,314)</u>	<u>(4,791,081)</u>
Change in net position	(5,249,187)	(5,501,734)
Net position, beginning of year	<u>(13,507,551)</u>	<u>(8,005,817)</u>
Net position, end of year	<u><u>\$ (18,756,738)</u></u>	<u><u>\$ (13,507,551)</u></u>

Financial Analysis of the District's Funds

The District's combined fund balances, as of May 31, 2021, were \$1,307,317, which consists of \$764,867 in the General Fund, \$576,605 in the Debt Service Fund and negative \$34,155 in the Capital Projects Fund.

General Fund

A comparative summary of the General Fund's financial position as of May 31, 2021 and 2020 is as follows:

	2021	2020
Total assets	<u>\$ 796,748</u>	<u>\$ 736,914</u>
Total liabilities	\$ 23,132	\$ 39,424
Total deferred inflows	8,749	23,456
Total fund balance	<u>764,867</u>	<u>674,034</u>
Total liabilities, deferred inflows and fund balance	<u><u>\$ 796,748</u></u>	<u><u>\$ 736,914</u></u>

Montgomery County Municipal Utility District No. 132
Management's Discussion and Analysis
May 31, 2021

A comparative summary of the General Fund's activities for the current and prior fiscal year is as follows:

	2021	2020
Total revenues	\$ 308,309	\$ 594,699
Total expenditures	(204,821)	(251,841)
Revenues over expenditures	103,488	342,858
Other changes in fund balance	(12,655)	55,177
Net change in fund balance	<u>\$ 90,833</u>	<u>\$ 398,035</u>

The District manages its activities with the objectives of ensuring that expenditures will be adequately covered by revenues each year and that an adequate fund balance is maintained. The District's primary financial resources in the General Fund are from a property tax levy, which is dependent upon assessed values in the District and the maintenance tax rate set by the District. Property tax revenues decreased from prior year because the District decreased the maintenance component of the levy.

Debt Service Fund

A comparative summary of the Debt Service Fund's financial position as of May 31, 2021 and 2020 is as follows:

	2021	2020
Total assets	<u>\$ 590,989</u>	<u>\$ 196,131</u>
Total deferred inflows	\$ 14,384	\$ -
Total fund balance	576,605	196,131
Total deferred inflows and fund balance	<u>\$ 590,989</u>	<u>\$ 196,131</u>

A comparative summary of the Debt Service Fund's activities for the current and prior fiscal year is as follows:

	2021	2020
Total revenues	\$ 559,892	\$ 2,833
Total expenditures	(192,073)	(73,076)
Revenues over/(under) expenditures	367,819	(70,243)
Other changes in fund balance	12,655	266,374
Net change in fund balance	<u>\$ 380,474</u>	<u>\$ 196,131</u>

The District's financial resources in the Debt Service Fund in the current year are from property tax revenues. During the previous fiscal year, financial resources were from capitalized interest from the sale of bonds. The difference between these financial resources and debt service requirements resulted in an increase in fund balance each year. It is important to note that the District sets its annual debt service tax rate as recommended by its financial advisor, who monitors projected cash flows in the Debt Service Fund to ensure that the District will be able to meet its future debt service requirements.

Montgomery County Municipal Utility District No. 132
Management's Discussion and Analysis
May 31, 2021

Capital Projects Fund

A comparative summary of the Capital Projects Fund's financial position as of May 31, 2021 and 2020 is as follows:

	2021	2020
Total assets	<u>\$ 17,633</u>	<u>\$ 410,325</u>
Total liabilities	\$ 51,788	\$ 69
Total fund balance	<u>(34,155)</u>	<u>410,256</u>
Total liabilities and fund balance	<u>\$ 17,633</u>	<u>\$ 410,325</u>

A comparative summary of activities in the Capital Projects Fund for the current and prior fiscal year is as follows:

	2021	2020
Total revenues	\$ 856	\$ 1,958
Total expenditures	<u>(2,976,267)</u>	<u>(2,141,344)</u>
Revenues under expenditures	(2,975,411)	(2,139,386)
Other changes in fund balance	<u>2,531,000</u>	<u>2,549,182</u>
Net change in fund balance	<u>\$ (444,411)</u>	<u>\$ 409,796</u>

The District has had considerable capital asset activity in the last two years, which was financed with proceeds from the issuance of its Series 2020 Bond Anticipation Note in the current year and issuance of its Series 2019 Unlimited Tax Bonds in the prior year.

General Fund Budgetary Highlights

The Board of Directors adopts an annual unappropriated budget for the General Fund prior to the beginning of each fiscal year. The Board did not amend the budget during the fiscal year.

Since the District's budget is primarily a planning tool, actual results varied from the budgeted amounts. Actual net change in fund balance was \$315,917 less than budgeted. The *Budgetary Comparison Schedule* on page 32 of this report provides variance information per financial statement line item.

Capital Assets

The District has entered into financing agreements with its developers for the financing of the construction of capital assets within the District. Developers will be reimbursed from proceeds of future bond issues or other lawfully available funds. These developer funded capital assets are recorded on the District's financial statements upon completion of construction.

Montgomery County Municipal Utility District No. 132
Management's Discussion and Analysis
May 31, 2021

Capital assets held by the District at May 31, 2021 and 2020 are summarized as follows:

	2021	2020
Capital assets not being depreciated		
Land and improvements	\$ 3,065,939	\$ 3,065,939
Capital assets being depreciated		
Infrastructure	1,004,125	1,004,125
Less accumulated depreciation	(105,342)	(83,028)
Depreciable capital assets, net	898,783	921,097
Capital assets, net	\$ 3,964,722	\$ 3,987,036

The District and the City of Conroe (the "City") have entered into an agreement which obligates the District to construct water, wastewater, certain storm drainage and road facilities to serve the District and, when completed, to convey title to the facilities to the City. Detention facilities and certain other capital assets are retained by the District. For the year ended May 31, 2021, capital assets in the amount of \$5,538,314 have been recorded as transfers to other governments in the government-wide statements. Additional information is presented in Note 12.

Long-Term Debt and Related Liabilities

As of May 31, 2021, the District owes approximately \$15,471,036 to developers for completed projects and operating advances. The initial cost of the completed project and related liability is estimated based on actual construction costs plus 10-15% for engineering and other fees and is recorded on the District's financial statements upon completion of construction. As discussed in Note 7, the District has an additional commitment in the amount of \$6,549,549 for projects under construction by the developers. As noted, the District will owe its developer for these projects upon completion of construction. The District intends to reimburse the developer from proceeds of future bond issues or other lawfully available funds. The estimated cost of amounts owed to the developer is trued up when the developer is reimbursed.

At May 31, 2021 and 2020, the District had total bonded debt outstanding as shown below:

Series	2021	2020
2019	\$ 5,990,000	\$ 5,990,000

At May 31, 2021, the District had \$63,510,000 unlimited tax bonds authorized, but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District and \$104,250,000 for the refunding of such bonds; \$12,000,000 for parks and recreational facilities and \$18,000,000 for the refunding of such bonds; \$26,700,000 for road improvements and \$40,050,000 for the refunding of such bonds.

Montgomery County Municipal Utility District No. 132
Management's Discussion and Analysis
May 31, 2021

During the current year, the District issued a \$2,531,000 bond anticipation note (BAN) to provide short-term financing for developer reimbursements. The District intends to repay the BAN with proceeds from the issuance of long-term debt. See note 6 for additional information.

Next Year's Budget

In establishing the budget for the next fiscal year, the Board considered various economic factors that may affect the District, most notably projected revenues from property taxes and the projected cost of operating the District. A comparison of next year's budget to current year actual amounts for the General Fund is as follows:

	<u>2021 Actual</u>	<u>2022 Budget</u>
Total revenues	\$ 308,309	\$ 208,500
Total expenditures	<u>(204,821)</u>	<u>(220,800)</u>
Revenues over/(under) expenditures	103,488	(12,300)
Other changes in fund balance	<u>(12,655)</u>	<u>48,500</u>
Net change in fund balance	90,833	36,200
Beginning fund balance	<u>674,034</u>	<u>764,867</u>
Ending fund balance	<u><u>\$ 764,867</u></u>	<u><u>\$ 801,067</u></u>

Property Taxes

The District's property tax base increased approximately \$25,542,000 for the 2021 tax year from \$110,351,667 to \$135,893,638. This increase was primarily due to increased property values.

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Basic Financial Statements

Montgomery County Municipal Utility District No. 132
Statement of Net Position and Governmental Funds Balance Sheet
May 31, 2021

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
Assets						
Cash	\$ 3,473	\$ 25,215	\$ 100	\$ 28,788	\$ -	\$ 28,788
Investments	727,069	556,482	17,533	1,301,084		1,301,084
Taxes receivable	8,749	14,384		23,133		23,133
Internal balances	57,457	(5,669)	(51,788)			
Other receivables		577		577		577
Capital assets not being depreciated					3,065,939	3,065,939
Capital assets, net					898,783	898,783
Total Assets	<u>\$ 796,748</u>	<u>\$ 590,989</u>	<u>\$ (34,155)</u>	<u>\$ 1,353,582</u>	<u>3,964,722</u>	<u>5,318,304</u>
Liabilities						
Accounts payable	\$ 23,132	\$ -	\$ -	\$ 23,132		23,132
Accrued interest payable					59,874	59,874
Bond anticipation note payable					2,531,000	2,531,000
Due to developer					15,471,036	15,471,036
Long-term debt						
Due within one year					165,000	165,000
Due after one year					5,825,000	5,825,000
Total Liabilities	<u>23,132</u>			<u>23,132</u>	<u>24,051,910</u>	<u>24,075,042</u>
Deferred Inflows of Resources						
Deferred property taxes	<u>8,749</u>	<u>14,384</u>		<u>23,133</u>	<u>(23,133)</u>	
Fund Balances/Net Position						
Fund Balances						
Restricted		576,605		576,605	(576,605)	
Unassigned	<u>764,867</u>		<u>(34,155)</u>	<u>730,712</u>	<u>(730,712)</u>	
Total Fund Balances	<u>764,867</u>	<u>576,605</u>	<u>(34,155)</u>	<u>1,307,317</u>	<u>(1,307,317)</u>	
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 796,748</u>	<u>\$ 590,989</u>	<u>\$ (34,155)</u>	<u>\$ 1,353,582</u>		
Net Position						
Net investment in capital assets					(1,463,550)	(1,463,550)
Restricted for debt service					531,115	531,115
Unrestricted					(17,824,303)	(17,824,303)
Total Net Position					<u>\$ (18,756,738)</u>	<u>\$ (18,756,738)</u>

See notes to basic financial statements.

Montgomery County Municipal Utility District No. 132

Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances

For the Year Ended May 31, 2021

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
Revenues						
Property taxes	\$ 220,858	\$ 551,880	\$ -	\$ 772,738	\$ (322)	\$ 772,416
Penalties and interest		6,049		6,049		6,049
City of Conroe drainage tax rebate	8,262			8,262		8,262
Miscellaneous	77,915	1,487		79,402		79,402
Investment earnings	1,274	476	856	2,606		2,606
Total Revenues	308,309	559,892	856	869,057	(322)	868,735
Expenditures/Expenses						
Operating and administrative						
Professional fees	116,346	2,567	41,319	160,232		160,232
Contracted services	17,269	14,475	33	31,777		31,777
Repairs and maintenance	50,151			50,151		50,151
Administrative	11,081	4,046		15,127		15,127
Other	9,974	860		10,834		10,834
Capital outlay			2,832,839	2,832,839	(2,832,839)	
Debt service						
Interest and fees		170,125		170,125	16,972	187,097
Developer interest			28,547	28,547		28,547
Debt issuance costs			73,529	73,529		73,529
Depreciation					22,314	22,314
Total Expenditures/Expenses	204,821	192,073	2,976,267	3,373,161	(2,793,553)	579,608
Revenues Over/(Under)						
Expenditures/Expenses	103,488	367,819	(2,975,411)	(2,504,104)	2,793,231	289,127
Other Financing Sources/(Uses)						
Proceeds from bond anticipation note			2,531,000	2,531,000	(2,531,000)	
Internal transfers	(12,655)	12,655				
Other Item						
Transfers to other governments					(5,538,314)	(5,538,314)
Net Change in Fund Balances	90,833	380,474	(444,411)	26,896	(26,896)	
Change in Net Position					(5,249,187)	(5,249,187)
Fund Balances/Net Position						
Beginning of the year	674,034	196,131	410,256	1,280,421	(14,787,972)	(13,507,551)
End of the year	\$ 764,867	\$ 576,605	\$ (34,155)	\$ 1,307,317	\$ (20,064,055)	\$ (18,756,738)

See notes to basic financial statements.

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Montgomery County Municipal Utility District No. 132
Notes to Financial Statements
May 31, 2021

Note 1 – Summary of Significant Accounting Policies

The accounting policies of Montgomery County Municipal Utility District No. 132 (the “District”) conform with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (“GASB”). The following is a summary of the most significant policies:

Creation

The District was created and established by House Bill 1260, 83rd Regular Session of the Texas Legislature, codified as Chapter 8414, Texas Special District Local Laws Code, effective September 1, 2013, and operates in accordance with the Texas Water Code, Chapters 49 and 54. The Board of Directors held its first meeting on August 16, 2013, and the first bonds were issued on September 26, 2019.

The District is responsible for providing water, sewer, drainage, park and road facilities within the District. As further discussed in Note 12, the District transfers the water, sewer and road facilities to the City of Conroe for operation and maintenance upon completion of construction. The District has contracted with various consultants to provide services to operate and administer the affairs of the District. The District has no employees, related payroll or pension costs.

Reporting Entity

The District is a political subdivision of the State of Texas governed by an elected five-member board. The GASB has established the criteria for determining the reporting entity for financial statement reporting purposes. To qualify as a primary government, a government must have a separately elected governing body, be legally separate, and be fiscally independent of other state and local governments, while a component unit is a legally separate government for which the elected officials of a primary government are financially accountable. Fiscal independence implies that the government has the authority to adopt a budget, levy taxes, set rates, and/or issue bonds without approval from other 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 statements as component units.

Government-Wide and Fund Financial Statements

Government-wide financial statements display information about the District as a whole. These statements focus on the sustainability of the District as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. Interfund activity, if any, has been removed from these statements. These aggregated statements consist of the *Statement of Net Position* and the *Statement of Activities*.

Note 1 – Summary of Significant Accounting Policies (continued)

Government-Wide and Fund Financial Statements (continued)

Fund financial statements display information at the individual fund level. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for a specific purpose. Each fund is considered to be a separate accounting entity. Most governments typically have many funds; however, governmental financial statements focus on the most important or “major” funds with non-major funds aggregated in a single column. The District has three governmental funds, which are all considered major funds.

The following is a description of the various funds used by the District:

- The General Fund is used to account for the operations of the District and all other financial transactions not reported in other funds. The principal sources of revenue are property taxes. Expenditures include costs associated with the daily operations of the District.
- The Debt Service Fund is used to account for the payment of interest and principal on the District’s general long-term debt. The primary source of revenue for debt service is property taxes. Expenditures include costs incurred in assessing and collecting these taxes.
- The Capital Projects Fund is used to account for the expenditures of bond proceeds for the construction of the District’s water, sewer and drainage facilities.

As a special-purpose government engaged in a single governmental program, the District has opted to combine its government-wide and fund financial statements in a columnar format showing an adjustments column for reconciling items between the two.

Measurement Focus and Basis of Accounting

The government-wide financial statements use the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied.

The fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized in the accounting period in which it becomes both available and measurable to finance expenditures of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Revenues susceptible to accrual include property taxes and interest earned on investments. Property taxes receivable at the end of the fiscal year are treated as deferred inflows because they are not considered available to pay liabilities of the current period. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for unmatured interest on long-term debt, which is recognized when due.

Note 2 further details the adjustments from the governmental fund presentation to the government-wide presentation.

Note 1 – Summary of Significant Accounting Policies (continued)

Use of Restricted Resources

When both restricted and unrestricted resources are available for use, the District uses restricted resources first, then unrestricted resources as they are needed.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Receivables from and payables to external parties are reported separately and are not offset, unless a legal right of offset exists. At May 31, 2021, an allowance for uncollectible accounts was not considered necessary.

Interfund Activity

During the course of operations, transactions occur between individual funds. This can include internal transfers, payables and receivables. This activity is combined as internal balances and is eliminated in both the government-wide and fund financial statement presentation.

Capital Assets

Capital assets do not provide financial resources at the fund level, and, therefore, are reported only in the government-wide statements. The District defines capital assets as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of one year. Capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at acquisition value, which is the price that would be paid to acquire the asset on the acquisition date. The District has not capitalized interest incurred during the construction of its capital assets. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Depreciable capital assets, which primarily consist of drainage facilities, are using the straight-line method as follows:

<u>Assets</u>	<u>Useful Life</u>
Infrastructure	45 years

The District's detention facilities are considered improvements to land and are non-depreciable.

Note 1 – Summary of Significant Accounting Policies (continued)

Deferred Inflows and Outflows of Financial Resources

A deferred inflow of financial resources is the acquisition of resources in one period that is applicable to a future period, while a deferred outflow of financial resources is the consumption of financial resources in one period that is applicable to a future period. A deferred inflow results from the acquisition of an asset without a corresponding revenue or assumption of a liability. A deferred outflow results from the use of an asset without a corresponding expenditure or reduction of a liability.

At the fund level, property taxes receivable not collected within 60 days of fiscal year end do not meet the availability criteria required for revenue recognition and are recorded as deferred inflows of financial resources.

Net Position – Governmental Activities

Governmental accounting standards establish the following three components of net position:

Net investment in capital assets – represents the District’s investments in capital assets, less any outstanding debt or other borrowings used to acquire those assets.

Restricted – consists of financial resources that are restricted for a specific purpose by enabling legislation or external parties.

Unrestricted – resources not included in the other components.

Fund Balances – Governmental Funds

Governmental accounting standards establish the following fund balance classifications:

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. The District does not have any nonspendable fund balances.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments. The District’s restricted fund balances consist of property taxes levied for debt service in the Debt Service Fund.

Committed - amounts that can be used only for specific purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. The District does not have any committed fund balances.

Montgomery County Municipal Utility District No. 132
Notes to Financial Statements
May 31, 2021

Note 1 – Summary of Significant Accounting Policies (continued)

Fund Balances – Governmental Funds (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 and deficit balance in the Capital Projects Fund.

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses/expenditures during the period reported. These estimates include, among others, the collectability of receivables; the useful lives and impairment of capital assets; the value of amounts due to developer; the value of capital assets transferred to the City of Conroe and the value of capital assets for which the developer has not been fully reimbursed. Estimates and assumptions are reviewed periodically, and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from the estimates.

Montgomery County Municipal Utility District No. 132
Notes to Financial Statements
May 31, 2021

Note 2 – Adjustment from Governmental to Government-wide Basis

Reconciliation of the *Governmental Fund Balance Sheet* to the *Statement of Net Position*

Total fund balances, governmental funds	\$ 1,307,317
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

Historical cost	\$ 4,070,064	
Less accumulated depreciation	<u>(105,342)</u>	
Change due to capital assets		3,964,722

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.

The difference consists of:

Bonds payable, net	(5,990,000)	
Bond anticipation note payable	(2,531,000)	
Interest payable on debt	<u>(59,874)</u>	
Change due to long-term debt		(8,580,874)

Amounts due to the District's developer for prefunded construction and operating advances are recorded as a liability in the <i>Statement of Net Position</i> .	(15,471,036)
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Property taxes receivable have been levied and are due, but are not available soon enough to pay current period expenditures and, therefore, are deferred in the funds.	23,133
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Total net position - governmental activities	<u><u>\$ (18,756,738)</u></u>
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Montgomery County Municipal Utility District No. 132
Notes to Financial Statements
May 31, 2021

Note 2 – Adjustment from Governmental to Government-wide Basis (continued)

Reconciliation of the *Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance* to the *Statement of Activities*

Net change in fund balances - total governmental funds	\$ 26,896
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The governmental fund does not report revenues that are not available to pay current obligations. In contrast, such revenues are reported in the *Statement of Activities* when earned. The difference is for property taxes.

(322)

Governmental funds report capital outlays for developer reimbursements as expenditures in the funds; however, in the *Statement of Activities*, the cost of capital assets is charged to expense over the estimated useful life of the asset.

Capital outlays	\$ 2,832,839	
Depreciation expense	<u>(22,314)</u>	
		2,810,525

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal uses current financial resources. However, neither transaction has any effect on net assets. Other elements of debt financing are reported differently between the fund and government wide statements.

Proceeds from bond anticipation note	(2,531,000)	
Interest expense accrual	<u>(16,972)</u>	
		(2,547,972)

The District conveys its infrastructure, except for detention facilities, to the City of Conroe upon completion of construction. Since these improvements are funded by the developer, financial resources are not expended in the fund financial statements; however, in the *Statement of Activities*, these amounts are reported as transfers to other governments.

(5,538,314)

Change in net position of governmental activities	<u><u>\$ (5,249,187)</u></u>
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Montgomery County Municipal Utility District No. 132
Notes to Financial Statements
May 31, 2021

Note 3 – Deposits and Investments

Deposit Custodial Credit Risk

Custodial credit risk as it applies to deposits (i.e. cash) is the risk that, in the event of the failure of the depository institution, a government will not be able to recover its deposits or will not be able to recover collateral securities. The *Public Funds Collateral Act* (Chapter 2257, Texas Government Code) requires that all of the District's deposits with financial institutions be covered by federal depository insurance and, if necessary, pledged collateral held by a third-party custodian. The act further specifies the types of securities that can be used as collateral. The District's written investment policy establishes additional requirements for collateralization of deposits.

Investments

The District is authorized by the *Public Funds Investment Act* (Chapter 2256, Texas Government Code) to invest in the following: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including Federal Home Loan Banks, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies or instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (5) certain A rated or higher obligations of states and political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) certain insured or collateralized certificates of deposit and share certificates, (8) certain fully collateralized repurchase agreements, (9) bankers' acceptances with limitations, (10) commercial paper rated A-1 or P-1 or higher and a maturity of 270 days or less, (11) no-load money market mutual funds and no-load mutual funds, with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools and (14) a qualified securities lending program.

The District has adopted a written investment policy to establish the principles by which the District's investment program should be managed. This policy further restricts the types of investments in which the District may invest.

As of May 31, 2021, the District's investments consist of the following:

Type	Fund	Carrying Value	Rating	Weighted Average Maturity
Texas CLASS				
	General	\$ 727,069		
	Debt Service	556,482		
	Capital Projects	17,533		
		<u>\$ 1,301,084</u>	AAAm	54 days

Montgomery County Municipal Utility District No. 132
Notes to Financial Statements
May 31, 2021

Note 3 – Deposits and Investments (continued)

Texas CLASS

The District participates in Texas Cooperative Liquid Assets Securities System (Texas CLASS). Texas CLASS is managed by an elected Board of Trustees consisting of members of the pool. Additionally, the Board of Trustees has established an advisory board, the function of which is to provide guidance on investment policies and strategies. The Board of Trustees has selected Public Trust Advisors, LLC as the program administer and Wells Fargo Bank as the custodian.

The District's investment in Texas CLASS is reported at fair value because Texas CLASS uses fair value to report investments (other than repurchase agreements which are valued at amortized cost). Governmental accounting standards establish the following hierarchy of inputs used to measure fair value: Level 1 inputs are based on quoted prices in active markets, Level 2 inputs are based on significant other observable inputs, and Level 3 inputs are based on significant unobservable inputs. The District's investment in Texas CLASS is measured using published fair value per share (level 1 inputs).

Investments in Texas CLASS may be withdrawn via wire transfer on a same day basis, as long as the transaction is executed by 4 p.m. ACH withdrawals made by 4 p.m. will settle on the next business day.

Investment Credit and Interest Rate Risk

Investment credit risk is the risk that the investor may not recover the value of an investment from the issuer, while interest rate risk is the risk that the value of an investment will be adversely affected by changes in interest rates. The District's investment policies do not address investment credit and interest rate risk beyond the rating and maturity restrictions established by state statutes.

Note 4 – Interfund Balances and Transactions

Amounts due to/from other funds at May 31, 2021, consist of the following:

Receivable Fund	Payable Fund	Amounts	Purpose
General Fund	Debt Service Fund	\$ 5,669	Maintenance tax collections not remitted as of year end
General Fund	Capital Projects Fund	51,788	Bond application fees paid by the General Fund

Amounts reported as internal balances between funds are considered temporary balances and will be paid during the following fiscal year.

During the current year, the District recognized an internal transfer of \$12,655 between the General Fund and Debt Service Fund to eliminate internal balances for the portion of maintenance tax collections used for tax assessment and collection expenditures in previous fiscal years.

Montgomery County Municipal Utility District No. 132
Notes to Financial Statements
May 31, 2021

Note 5 – Capital Assets

A summary of changes in capital assets, for the year ended May 31, 2021, is as follows:

	Beginning Balances	Additions/ Adjustments	Ending Balances
Capital assets not being depreciated			
Land and improvements	<u>\$ 3,065,939</u>	<u>\$ -</u>	<u>\$ 3,065,939</u>
Capital assets being depreciated			
Infrastructure	1,004,125		1,004,125
Less accumulated depreciation	<u>(83,028)</u>	<u>(22,314)</u>	<u>(105,342)</u>
Subtotal depreciable capital assets, net	<u>921,097</u>	<u>(22,314)</u>	<u>898,783</u>
Capital assets, net	<u><u>\$ 3,987,036</u></u>	<u><u>\$ (22,314)</u></u>	<u><u>\$ 3,964,722</u></u>

Depreciation expense for the current year was \$22,314.

Note 6 – Bond Anticipation Note

The District uses a bond anticipation note (BAN) to provide short-term financing for reimbursements to its developers. Despite its short-term nature, a BAN is not recorded as a fund liability, since it will not be repaid from current financial resources and will be repaid through the issuance of long-term debt or another BAN. It is, however, recorded as a liability at the government-wide level.

On August 20, 2020, the District issued a \$2,531,000 BAN with an interest rate of 0.850%, which is due on August 19, 2021. This BAN was repaid subsequent to year end. See Note 14 for additional information.

The effect of this transaction on the District's short-term obligations are as follows:

Beginning balance	\$ -
Amounts borrowed	<u>2,531,000</u>
Ending balance	<u><u>\$ 2,531,000</u></u>

Note 7 – Due to Developers

The District has entered into financing agreements with its developers for the financing of the construction of water, sewer, drainage, park and recreational facilities and road improvements. Under the agreements, the developers will advance funds for the construction of facilities to serve the District. The developers will be reimbursed from proceeds of future bond issues or other lawfully available funds, subject to approval by TCEQ, as applicable. The District does not record the capital asset and related liability on the government-wide statements until construction of the facilities is complete. The initial cost is estimated based on construction costs plus 10-15% for engineering and other fees. Estimates are trued up when the developer is reimbursed.

Montgomery County Municipal Utility District No. 132
Notes to Financial Statements
May 31, 2021

Note 7 – Due to Developers (continued)

The District's developers have also advanced funds to the District for operating expenses.

Changes in the estimated amounts due to developers during the year are as follows:

Due to developers, beginning of year	\$ 12,765,561
Developer reimbursements	(2,832,839)
Developer funded construction and adjustments	<u>5,538,314</u>
Due to developers, end of year	<u><u>\$ 15,471,036</u></u>

In addition, the District will owe the developers approximately \$6,549,549, which is included in the following schedule of contractual commitments. The exact amount is not known until approved by the TCEQ and verified by the District's auditor. As previously noted, these projects will be reported in the government-wide financial statements upon completion of construction.

	Contract Amount	Amounts Paid	Remaining Commitment
Wedgewood Forest, Section 3 - clearing, grubbing and detention basin	\$ 6,549,549	\$ 5,789,657	\$ 759,892

Note 8 – Long-Term Debt

Long-term debt is comprised of the following:

Bonds payable	<u><u>\$ 5,990,000</u></u>
Due within one year	<u><u>\$ 165,000</u></u>

The District's bonds payable at May 31, 2021, consists of unlimited tax bonds as follows:

Series	Amounts Outstanding	Original Issue	Interest Rates	Maturity Date, Serially, Beginning/ Ending	Interest Payment Dates	Call Dates
2019	\$ 5,990,000	\$ 5,990,000	2.00% - 4.50%	September 1, 2021-2044	September 1, March 1	September 1, 2024

Payments of principal and interest on all series of bonds are to be provided from taxes levied on all properties within the District. Investment income realized by the Debt Service Fund from investment of idle funds will be used to pay outstanding bond principal and interest. The District is in compliance with the terms of its bond resolutions.

Montgomery County Municipal Utility District No. 132
Notes to Financial Statements
May 31, 2021

Note 8 – Long-Term Debt (continued)

At May 31, 2021, the District had \$63,510,000 unlimited tax bonds authorized, but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District and \$104,250,000 for the refunding of such bonds; \$12,000,000 for parks and recreational facilities and \$18,000,000 for the refunding of such bonds; \$26,700,000 for road improvements and \$40,050,000 for the refunding of such bonds.

As of May 31, 2021, the District had \$5,990,000 in long-term debt outstanding. There was no change in this liability from the prior year.

As of May 31, 2021, annual debt service requirements on bonds outstanding are as follows:

Year	Principal	Interest	Totals
2022	\$ 165,000	\$ 166,013	\$ 331,013
2023	170,000	158,475	328,475
2024	175,000	150,713	325,713
2025	180,000	142,726	322,726
2026	185,000	134,513	319,513
2027	195,000	125,963	320,963
2028	200,000	117,576	317,576
2029	205,000	111,526	316,526
2030	215,000	107,326	322,326
2031	220,000	102,976	322,976
2032	230,000	98,332	328,332
2033	240,000	93,188	333,188
2034	245,000	87,732	332,732
2035	255,000	82,107	337,107
2036	265,000	76,091	341,091
2037	275,000	69,678	344,678
2038	285,000	62,850	347,850
2039	295,000	55,600	350,600
2040	305,000	48,100	353,100
2041	315,000	40,350	355,350
2042	325,000	32,147	357,147
2043	335,000	23,485	358,485
2044	350,000	14,494	364,494
2045	360,000	4,950	364,950
	<u>\$ 5,990,000</u>	<u>\$ 2,106,911</u>	<u>\$ 8,096,911</u>

Montgomery County Municipal Utility District No. 132
Notes to Financial Statements
May 31, 2021

Note 9 – Property Taxes

On November 14, 2013, the voters of the District authorized the District's Board of Directors to levy taxes annually for use in financing general operations limited to \$1.50 per \$100 of assessed value and park and recreational facilities maintenance tax limited to \$0.10 per \$100 assessed value. The District's bond resolutions require that property taxes be levied for use in paying interest and principal on long-term debt and for use in paying the cost of assessing and collecting taxes. Taxes levied to finance debt service requirements on long-term debt are without limitation as to rate or amount.

All property values and exempt status, if any, are determined by the Montgomery Central 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.

Property taxes are collected based on rates adopted in the year of the levy. The District's 2021 fiscal year was financed through the 2020 tax levy, pursuant to which the District levied property taxes of \$0.70 per \$100 of assessed value, of which \$0.19 was allocated to maintenance and operations and \$0.51 was allocated to debt service. The resulting tax levy was \$772,462 on the adjusted taxable value of \$110,351,667.

Property taxes receivable, at May 31, 2021, consisted of the following:

Current year taxes receivable	\$ 14,980
Prior years taxes receivable	4,683
	<hr/> 19,663
Penalty and interest receivable	3,470
Property taxes receivable	<hr/> <u>\$ 23,133</u>

Note 10 – Lease Agreement

On March 29, 2021, the District has entered into an operating lease agreement to lease a small tract of land for the purpose of a AT&T cell tower. This lease is for five years with seventeen automatic five year renewals, unless otherwise terminated. The District has the option to extend the lease on a month-to-month basis following expiration of the term. Monthly payment for the lease is \$1,200. As of May 31, 2021 no monthly payments have been made on behalf of this lease.

Note 11 – Transfers to Other Governments

In accordance with an agreement between the District and the City of Conroe (the "City"), the District transfers all of its water, sewer, certain drainage and road facilities to the City (see Note 12). Accordingly, the District does not record these capital assets in the *Statement of Net Position*, but instead reports the completed projects as transfers to other governments on the *Statement of Activities*. The estimated cost of each project is trued-up when the developer is subsequently reimbursed. For the year ended May 31, 2021, the District reported transfers to other governments in the amount of \$5,538,314 for projects completed and transferred to the City and developer reimbursements for projects completed in previous fiscal years.

Note 12 – Utility Agreement with the City of Conroe

On March 14, 2013, the District entered into a utility agreement with the City of Conroe (the “City”) for construction and extension of water distribution lines, sanitary sewer collection systems, drainage facilities and roads to serve the District. As the system is acquired or constructed, the District shall transfer the system to the City but will reserve a security interest in the system and provide service to all users in the District. The term of the agreement is 40 years.

The agreement allows the District to levy an operation and maintenance tax to pay for its day-to-day operations, provided that the District’s combined debt service and operation and maintenance tax in a given year does not exceed \$0.70 per \$100 in valuation without written consent of the City. However, this provision does not limit the District’s authority to levy an unlimited debt service tax rate, since bonds issued by the District will be secured by an unlimited tax pledge. However, if the District’s debt service tax rate for a given year is \$0.70 or higher, then the District’s operation and maintenance tax shall not exceed \$0.05 per \$100 in valuation without written consent of the City.

Water and sewer rates charged by the City to users in the District, shall be the same rates charged to similar users within the City. All revenue derived from these changes belongs to the City.

In consideration for the acquisition of the facilities and to equitably distribute the burden of ad valorem taxes, the City shall make an annual payment to the District for the portion of the City’s water, sewer, and drainage tax rate attributable to assessed values in the District. The payment shall begin on February 1 in the calendar year following the calendar year for which the District initially receives a tax roll. During the current year, the District received \$8,262 from the City.

Note 13 – 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 personal injuries. The risk of loss is covered by commercial insurance. There have been no significant reductions in insurance coverage from the prior year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Note 14 – Subsequent Event

On August 19, 2021, the District issued a \$2,531,000 BAN with an interest rate of 0.86%, which is due on February 18, 2022. Proceeds from the BAN were used to repay the Series 2020 BAN issued during the current year. This BAN will be repaid through the issuance of long-term debt.

Required Supplementary Information

Montgomery County Municipal Utility District No. 132
Required Supplementary Information - Budgetary Comparison Schedule - General Fund
For the Year Ended May 31, 2021

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues			
Property taxes	\$ 545,900	\$ 220,858	\$ (325,042)
City of Conroe drainage tax rebate	6,500	8,262	1,762
Miscellaneous		77,915	77,915
Investment earnings	600	1,274	674
Total Revenues	553,000	308,309	(244,691)
Expenditures			
Operating and administrative			
Professional fees	65,500	116,346	(50,846)
Contracted services	15,800	17,269	(1,469)
Repairs and maintenance	50,000	50,151	(151)
Administrative	11,950	11,081	869
Other	3,000	9,974	(6,974)
Total Expenditures	146,250	204,821	(58,571)
Revenues Over Expenditures	406,750	103,488	(303,262)
Other Financing Sources			
Internal transfers		(12,655)	(12,655)
Net Change in Fund Balance	406,750	90,833	(315,917)
Fund Balance			
Beginning of the year	674,034	674,034	
End of the year	<u>\$ 1,080,784</u>	<u>\$ 764,867</u>	<u>\$ (315,917)</u>

Montgomery County Municipal Utility District No. 132
Notes to Required Supplementary Information
May 31, 2021

Budgets and Budgetary Accounting

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. There were no amendments to the budget during the year.

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Texas Supplementary Information

Montgomery County Municipal Utility District No. 132

TSI-1. Services and Rates

May 31, 2021

1. Services provided by the District During the Fiscal Year:

- ☐ Retail Water ☐ Wholesale Water ☐ Solid Waste / Garbage ☒ Drainage
☐ Retail Wastewater ☐ Wholesale Wastewater ☐ Flood Control ☐ Irrigation
☒ Parks / Recreation ☐ Fire Protection ☒ Roads ☐ Security
☐ Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)
☒ Other (Specify): Water and wastewater services are provided by the City of Conroe.

2. Retail Service Providers

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

	Minimum Charge	Minimum Usage	Flat Rate (Y / N)	Rate per 1,000 Gallons Over Minimum Usage	Usage Levels
Water:					to
Wastewater:					to
Surcharge:					to

District employs winter averaging for wastewater usage? ☐ Yes ☐ No

Total charges per 10,000 gallons usage: Water _____ Wastewater _____

b. Water and Wastewater Retail Connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFC'S
Unmetered			x 1.0	
less than 3/4"			x 1.0	
1"			x 2.5	
1.5"			x 5.0	
2"			x 8.0	
3"			x 15.0	
4"			x 25.0	
6"			x 50.0	
8"			x 80.0	
10"			x 115.0	
Total Water				
Total Wastewater			x 1.0	

See accompanying auditor's report.

Montgomery County Municipal Utility District No. 132
TSI-1. Services and Rates
May 31, 2021

3. Total Water Consumption during the fiscal year (rounded to the nearest thousand):

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

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

Does the District have Debt Service standby fees? Yes ☐ No ☒

If yes, Date of the most recent commission Order: _____

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

If yes, Date of the most recent commission Order: _____

5. Location of District

Is the District located entirely within one county? Yes ☒ No ☐

County(ies) in which the District is located: Montgomery County

Is the District located within a city? Entirely ☐ Partly ☐ Not at all ☒

City(ies) in which the District is located: _____

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

Entirely ☒ Partly ☐ Not at all ☐

ETJs in which the District is located: City of Conroe

Are Board members appointed by an office outside the district? Yes ☐ No ☒

If Yes, by whom? _____

See accompanying auditor's report.

Montgomery County Municipal Utility District No. 132
TSI-2 General Fund Expenditures
For the Year Ended May 31, 2021

Professional fees	
Legal	\$ 75,136
Audit	9,000
Engineering	32,210
	<u>116,346</u>
Contracted services	
Bookkeeping	<u>17,269</u>
Repairs and maintenance	<u>50,151</u>
Administrative	
Directors fees	4,350
Printing and office supplies	1,162
Insurance	3,256
Other	2,313
	<u>11,081</u>
Other	<u>9,974</u>
Total expenditures	<u><u>\$ 204,821</u></u>

See accompanying auditor's report.

Montgomery County Municipal Utility District No. 132
TSI-3. Investments
May 31, 2021

<u>Fund</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>
General			
Texas CLASS	Variable	N/A	\$ 727,069
Debt Service			
Texas CLASS	Variable	N/A	556,482
Capital Projects			
Texas CLASS	Variable	N/A	<u>17,533</u>
Total - All Funds			<u><u>\$ 1,301,084</u></u>

See accompanying auditor's report.

Montgomery County Municipal Utility District No. 132

TSI-4. Taxes Levied and Receivable

May 31, 2021

	Maintenance Taxes	Debt Service Taxes	Totals	
Taxes Receivable, Beginning of Year	\$ 19,984	\$ -	\$ 19,984	
Adjustments to Prior Year Tax Levy	(45)		(45)	
Adjusted Receivable	19,939	-	19,939	
2020 Original Tax Levy	192,057	515,522	707,579	
Adjustments	17,611	47,272	64,883	
Adjusted Tax Levy	209,668	562,794	772,462	
Total to be accounted for	229,607	562,794	792,401	
Tax collections:				
Current year	205,602	551,880	757,482	
Prior years	15,256		15,256	
Total Collections	220,858	551,880	772,738	
Taxes Receivable, End of Year	\$ 8,749	\$ 10,914	\$ 19,663	
Taxes Receivable, By Years				
2020	\$ 4,066	\$ 10,914	\$ 14,980	
2019	2,607		2,607	
2018	2,076		2,076	
Taxes Receivable, End of Year	\$ 8,749	\$ 10,914	\$ 19,663	
	2020	2019	2018	2017
Property Valuations:				
Land	\$ 28,868,130	\$ 21,889,240	\$ 18,844,920	\$ 5,416,630
Improvements	85,305,770	62,978,510	36,247,680	16,561,060
Personal Property	320,100	556,942	386,245	159,834
Exemptions	(4,142,333)	(3,424,604)	(2,527,072)	(989,015)
Total Property Valuations	\$ 110,351,667	\$ 82,000,088	\$ 52,951,773	\$ 21,148,509
Tax Rates per \$100 Valuation:				
Maintenance tax rates	\$ 0.19	\$ 0.70	\$ 0.70	\$ 0.70
Debt service tax rates	0.51			
Total Tax Rates per \$100 Valuation	\$ 0.70	\$ 0.70	\$ 0.70	\$ 0.70
Adjusted Tax Levy:	\$ 772,462	\$ 574,001	\$ 370,662	\$ 148,040
Percentage of Taxes Collected to Taxes Levied **	98.06%	99.55%	99.44%	100%

* Maximum Maintenance Tax Rate Approved by Voters: \$1.50 on November 14, 2013.

* Maximum Parks Maintenance Tax Rate Approved by Voters: \$0.10 on November 14, 2013.

** Calculated as taxes collected for a tax year divided by taxes levied for that tax year.

See accompanying auditor's report.

Montgomery County Municipal Utility District No. 132
TSI-5. Long-Term Debt Service Requirements
Series 2019--by Years
May 31, 2021

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
2022	\$ 165,000	\$ 166,013	\$ 331,013
2023	170,000	158,475	328,475
2024	175,000	150,713	325,713
2025	180,000	142,726	322,726
2026	185,000	134,513	319,513
2027	195,000	125,963	320,963
2028	200,000	117,576	317,576
2029	205,000	111,526	316,526
2030	215,000	107,326	322,326
2031	220,000	102,976	322,976
2032	230,000	98,332	328,332
2033	240,000	93,188	333,188
2034	245,000	87,732	332,732
2035	255,000	82,107	337,107
2036	265,000	76,091	341,091
2037	275,000	69,678	344,678
2038	285,000	62,850	347,850
2039	295,000	55,600	350,600
2040	305,000	48,100	353,100
2041	315,000	40,350	355,350
2042	325,000	32,147	357,147
2043	335,000	23,485	358,485
2044	350,000	14,494	364,494
2045	360,000	4,950	364,950
	<u>\$ 5,990,000</u>	<u>\$ 2,106,911</u>	<u>\$ 8,096,911</u>

See accompanying auditor's report.

Montgomery County Municipal Utility District No. 132
TSI-6. Change in Long-Term Bonded Debt
May 31, 2021

	Bond Issue Series 2019
Interest rate	2.00% - 4.50%
Dates interest payable	9/1; 3/1
Maturity dates	9/1/21 - 9/1/44
Beginning bonds outstanding	\$ 5,990,000
Bonds retired	-
Ending bonds outstanding	<u>\$ 5,990,000</u>
Interest paid during fiscal year	<u>\$ 169,724</u>

Paying agent's name and city
Series 2019

Amegy Bank, a division of ZB, N.A., Houston, Texas

	Water, Sewer and Drainage Bonds	Road Bonds	Park Bonds	Water, Sewer and Drainage Refunding Bonds
Bond Authority:				
Amount Authorized by Voters	\$ 69,500,000	\$ 26,700,000	\$ 12,000,000	\$ 104,250,000
Amount Issued	(5,990,000)			
Remaining To Be Issued	<u>\$ 63,510,000</u>	<u>\$ 26,700,000</u>	<u>\$ 12,000,000</u>	<u>\$ 104,250,000</u>
	Road Refunding Bonds	Park Refunding Bonds		
Bond Authority:				
Amount Authorized by Voters	\$ 40,050,000	\$ 18,000,000		
Amount Issued				
Remaining To Be Issued	<u>\$ 40,050,000</u>	<u>\$ 18,000,000</u>		

All bonds are secured with tax revenues. Bonds may also be secured with other revenues in combination with taxes.

Debt Service Fund cash and investment balances as of May 31, 2021: \$ 581,697

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 337,371

See accompanying auditor's report.

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Montgomery County Municipal Utility District No. 132

TSI-7a. Comparative Schedule of Revenues and Expenditures - General Fund

For the Last Five Fiscal Years

	Amounts				
	2021	2020	2019	2018	2017
Revenues					
Property taxes	\$ 220,858	\$ 582,560	\$ 342,883	\$ 147,881	\$ 96,851
Penalties and interest		4,768	3,208	133	43
City of Conroe drainage tax rebate	8,262	6,352	4,366	4,980	
Miscellaneous	77,915	376		10	
Investment earnings	1,274	643	130	8	6
Total Revenues	308,309	594,699	350,587	153,012	96,900
Expenditures					
Operating and administrative					
Professional fees	116,346	88,770	86,470	52,275	57,245
Contracted services	17,269	15,186	20,357	12,355	22,564
Repairs and maintenance	50,151	130,578	43,590	90,477	134,980
Administrative	11,081	13,804	12,600	10,568	7,778
Other	9,974	3,503	3,546	1,788	1,050
Total Expenditures	204,821	251,841	166,563	167,463	223,617
Revenues Over/(Under) Expenditures	\$ 103,488	\$ 342,858	\$ 184,024	\$ (14,451)	\$ (126,717)

*Percentage is negligible

**Unaudited

See accompanying auditor's report.

Percent of Fund Total Revenues				
2021	2020	2019	2017	2017
72%	98%	98%	97%	100%
	1%	1%	*	*
3%	1%	1%	3%	
25%	*		*	
*	*	*	*	*
100%	100%	100%	100%	100%
38%	15%	25%	34%	59%
6%	3%	6%	8%	23%
16%	22%	12%	59%	139%
4%	2%	4%	7%	8%
3%	1%	1%	1%	1%
67%	43%	48%	109%	230%
33%	57%	52%	(9%)	(130%)

Montgomery County Municipal Utility District No. 132

TSI-7b. Comparative Schedule of Revenues and Expenditures - Debt Service Fund

For the Last Two Fiscal Years

	Amounts		Percent of Fund Total	
	2021	2020	Revenues	
			2021	2020
Revenues				
Property taxes	\$ 551,880	\$ -	99%	
Penalties and interest	6,049		1%	
Miscellaneous	1,487		*	
Investment earnings	476	2,833	*	100%
Total Revenues	559,892	2,833	100%	100%
Expenditures				
Tax collection services	21,088		4%	
Other	860		*	
Debt service				
Interest and fees	170,125	73,076	30%	2579%
Total Expenditures	192,073	73,076	34%	2579%
Revenues Over/(Under) Expenditures	\$ 367,819	\$ (70,243)	66%	(2,479%)

*Percentage is negligible

See accompanying auditor's report.

Montgomery County Municipal Utility District No. 132
TSI-8. Board Members, Key Personnel and Consultants
For the Year Ended May 31, 2021

Complete District Mailing Address: 1980 Post Oak Blvd., Suite 1380, Houston, Texas 77056-3970

District Business Telephone Number: (713) 850-9000

Submission Date of the most recent District Registration Form

(TWC Sections 36.054 and 49.054): June 8, 2018

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

(Set by Board Resolution -- TWC Section 49.0600)

Names:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid *	Expense Reimburse- ments	Title at Year End
Board Members				
Brandon Macey	05/20 - 05/24	\$ 900	\$ -	President
Jim Grover	05/18 - 05/22	900		Vice President
Bill Odle	05/18 - 05/22	900		Secretary
W. Daniel Meyer	06/18 - 05/22	750		Assistant Secretary
Erwin Burden	05/20 - 05/24	900		Assistant Secretary
Consultants				
Sanford Kuhl Hagan Kugle Parker Kahn LLP	2013	<u>Amounts Paid</u> \$ 109,837		Attorney
Municipal Accounts & Consulting, LP	2018	18,232		Bookkeeper
Utility Tax Service, LLC	2013	9,035		Tax Collector
Montgomery Central Appraisal District	Legislation	5,364		Property Valuation
Pape-Dawson Engineers, Inc.	2013	86,044		Engineer
McGrath & Co., PLLC	2017	12,000		Auditor
Robert W. Baird & Co., Inc.	2013	25,310		Financial Advisor

* *Fees of Office* are the amounts actually paid to a director during the District's fiscal year.

See accompanying auditor's report.

APPENDIX B

Specimen Municipal Bond Insurance Policy



MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

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

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

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

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

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

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

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

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

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer

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