

OFFICIAL STATEMENT DATED NOVEMBER 16, 2021

IN THE OPINION OF BOND COUNSEL, THE BONDS ARE VALID OBLIGATIONS OF MONTGOMERY COUNTY UTILITY DISTRICT NO. 4. IN THE OPINION OF SPECIAL TAX COUNSEL, INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR PURPOSES OF FEDERAL INCOME TAXATION UNDER STATUTES, REGULATIONS, PUBLISHED RULINGS AND COURT DECISIONS EXISTING ON THE DATE OF SUCH OPINION. SEE "LEGAL MATTERS" HEREIN FOR A DISCUSSION OF THE OPINIONS OF BOND COUNSEL AND SPECIAL TAX COUNSEL.

The Bonds have been designated "qualified tax-exempt obligations" for financial institutions. See "LEGAL MATTERS – Qualified Tax-Exempt Obligations."

NEW ISSUE – Book Entry Only

RATINGS: S&P Global Ratings (Underlying) "A+"
S&P Global Ratings (AGM Insured) "AA"
See "MUNICIPAL BOND INSURANCE" and "RATINGS" herein.

\$5,875,000

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4

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

WATERWORKS AND SEWER SYSTEM COMBINATION

UNLIMITED TAX AND REVENUE REFUNDING BONDS, SERIES 2021

Dated: December 1, 2021

Due: March 1, as shown on the inside cover

The \$5,875,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, Series 2021 (the "Bonds") are obligations of Montgomery County Utility District No. 4 (the "District") and are not obligations of the State of Texas; Montgomery County, Texas (the "County"); the City of Conroe, Texas (the "City"); 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; the County; the City; 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/registrars, initially, The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Paying Agent/Registrar"). Interest accrues from December 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. 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 each Interest Payment Date. 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."

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



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

The Bonds constitute the District's third series of unlimited tax bonds for refunding purposes. Voters in the District have authorized a total of \$35,160,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing a waterworks, wastewater, and storm drainage system (the "System") to serve the District and \$14,160,000 principal amount of unlimited tax bonds for refunding purposes. Following the issuance of the Bonds, \$13,250,000 principal amount of unlimited tax bonds for the System and \$5,243,683 principal amount of unlimited tax bonds for refunding purposes will remain authorized but unissued.

The Bonds, 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. The Bonds are further secured by the pledge of and lien on certain Net Revenues (hereinafter defined), if any, from the System (hereinafter defined). See "THE BONDS – Source of Payment."

Investment in the Bonds is subject to special investment considerations as described herein. Prospective purchasers should review this entire Official Statement, including particularly the section of this Official Statement entitled "INVESTMENT CONSIDERATIONS," before making an investment decision. See "INVESTMENT CONSIDERATIONS."

The Bonds are offered when, as and if issued by the District, subject to, among other things, the approval of the Bonds by the Attorney General of Texas and of certain legal matters by Coats Rose, P.C., Houston, Texas, Bond Counsel, and McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Special Tax Counsel. Certain legal matters will be passed upon for the Underwriter by McCall, Parkhurst & Horton L.L.P., Houston, Texas, Underwriter's Counsel. Delivery of the Bonds through the facilities of DTC is expected on or about December 20, 2021.

SAMCO Capital

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

**\$5,875,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds,
Series 2021**

Maturity (March 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP No. 613711 (b)	Maturity (March 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP No. 613711 (b)
2022	\$60,000	3.000%	0.440%	GZ7	2031 (c)	\$355,000	3.000%	1.580%	HJ2
2023	10,000	3.000%	0.580%	HA1	2032 (c)	370,000	3.000%	1.610%	HK9
2024	265,000	3.000%	0.620%	HB9	2033 (c)	380,000	3.000%	1.690%	HL7
2025	280,000	3.000%	0.760%	HC7	2034 (c)	395,000	3.000%	1.760%	HM5
2026	290,000	3.000%	0.900%	HD5	2035 (c)	405,000	3.000%	1.780%	HN3
2027	305,000	3.000%	1.100%	HE3	2036 (c)	420,000	3.000%	1.800%	HP8
2028 (c)	320,000	3.000%	1.290%	HF0	2037 (c)	435,000	3.000%	1.830%	HQ6
2029 (c)	330,000	3.000%	1.400%	HG8	2038 (c)	450,000	3.000%	1.860%	HR4
2030 (c)	340,000	3.000%	1.540%	HH6	2039 (c)	465,000	3.000%	1.890%	HS2

- (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.
- (b) CUSIP numbers will be 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 March 1, 2028, 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 March 1, 2027, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for 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 or the Initial Purchaser.

This Official Statement does not alone 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, resolutions, orders, contracts, audited financial statements, engineering and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions and reference is made to such documents, copies of which are available from Bond Counsel (herein defined), for further information.

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

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

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

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SALE AND DISTRIBUTION OF THE BONDS

Underwriting

SAMCO Capital Markets, Inc. (the "Underwriter") has agreed to purchase the Bonds from the District for \$6,216,638.37 (being the par amount of the Bonds, plus a net original issue premium on the Bonds of \$391,406.05, and less an underwriter's discount on the Bonds of \$49,767.68 plus accrued interest on the Bonds to the date of delivery. The Underwriter's obligation is to purchase all of the Bonds, if any Bonds are purchased.

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

Prices and Marketability

The District has no control over the reoffering yields or prices of the Bonds or 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 prices of the Bonds may be greater than the difference between the bid and asked prices 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.

The prices and other terms with respect to the offering and sale of the Bonds may be changed from time-to-time by the Underwriter after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Bonds into investment accounts.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE 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.

Securities Laws

No registration statement relating to the offer and sale of the Bonds has been filed with the SEC under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; 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 jurisdiction.

MUNICIPAL BOND INSURANCE

Bond Insurance Policy

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

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

Assured Guaranty Municipal Corp.

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO". AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and international public finance (including infrastructure) and structured finance markets and 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 September 30, 2021:

- The policyholders' surplus of AGM was approximately \$2,910 million.
- The contingency reserve of AGM was approximately \$963 million.
- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately \$2,124 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.

Incorporation of Certain Documents by Reference

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

- i. the Annual Report on Form 10-K for the fiscal year ended December 31, 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);
- 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); and
- iv. the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2021 (filed by AGL with the SEC on November 5, 2021).

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

Any information regarding AGM included herein under the caption "BOND INSURANCE – Assured Guaranty Municipal Corp." or included in a document incorporated by reference herein (collectively, the "AGM Information")

shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

Miscellaneous Matters

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

RATINGS

The Bonds have been assigned an insured rating of "AA" (stable outlook) from S&P solely in reliance upon the issuance of the Bond Insurance Policy at the time of delivery of the Bonds. S&P has also assigned an underlying credit rating of "A+" to 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 of "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 their judgment, circumstances so warrant. Any such revisions or withdrawal of the rating may have an adverse effect on the market price of the Bonds. The District will pay the rating fees charged by S&P.

The District is not aware of any rating assigned to the Bonds other than the underlying credit rating of S&P.

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OFFICIAL STATEMENT SUMMARY

The following information is qualified in its entirety by the more detailed information and financial statements appearing elsewhere in this Official Statement. 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 Utility District No. 4 (the “District”), a political subdivision of the State of Texas, is located in Montgomery County, Texas (the “County”). See “THE DISTRICT.”
The Bonds.....	The District is issuing its \$5,875,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding Bonds, Series 2021 (the “Bonds”). The Bonds are dated December 1, 2021, and mature on March 1 in the years and amounts set forth on the inside cover of this Official Statement. Interest accrues from December 1, 2021, at the rates per annum set forth on the inside cover of this Official Statement 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.....	Bonds maturing on and after March 1, 2028, are subject to redemption, in whole or from time to time in part, at the option of the District on March 1, 2027, 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.”
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 further secured by the pledge of and lien on certain Net Revenues (hereinafter defined), if any, from the System (hereinafter defined). The Bonds are obligations solely of the District and are not obligations of the State of Texas; the County; the City of Conroe, Texas (the “City”); or any other political subdivision or entity other than the District. See “THE BONDS – Source of Payment.”
Strategic Partnership Agreement with the City of Conroe.....	In February 2013, the District entered into a Strategic Partnership Agreement (“SPA”) with the City as authorized by Texas Local Government Code, Chapter 43. The SPA provides for a “full purpose annexation” of the District, which became effective on December 31, 2014. The SPA also provides that the District will continue to exist as a “limited district” after the annexation of the District into the City. The District will continue to provide retail water service, sewer service, solid waste collection and disposal, and provide for the maintenance of the System. The District anticipates that all of its Unlimited Tax Bonds, Series 2011 (the “Series 2011 Bonds”) will be paid by revenues received by the District from the City pursuant to the SPA beginning in calendar year 2015. If such revenues are ever insufficient to make such payments, the District is obligated to levy a debt service tax in an amount sufficient to make such payments. See “THE BONDS – Strategic Partnership Agreement with the City of Conroe.”
Payment Record.....	The District has never defaulted on the timely payment of principal and interest on its bonded indebtedness.

Authority for Issuance.....	At various elections held within the District, voters in the District authorized a total of \$35,160,000 principal amount of waterworks and sewer system combination unlimited tax and revenue bonds for the purpose of acquiring or constructing a waterworks, wastewater, and storm drainage system (the "System") to serve the District and \$14,160,000 principal amount of waterworks and sewer system combination unlimited tax and revenue bonds for refunding purposes. The Bonds are issued pursuant to (i) Article XVI, Section 59 of the Texas Constitution and Chapter 1207 of the Texas Government Code, as amended, and the general laws of the State of Texas, including particularly Chapters 49 and 54 of the Texas Water Code, as amended; (ii) various elections held within the District; and (iii) an order adopted by the Board of Directors of the District (the "Bond Order"). See "THE BONDS – Authority for Issuance."
Plan of Financing.....	The proceeds of the Bonds will be used to refund \$5,890,000 principal amount of the District's \$7,750,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2014 (the "Refunded Bonds") and to pay certain costs incurred in connection with the issuance of the Bonds. The refunding of the Refunded Bonds is expected to result in an annual and net present value savings in the District's current annual debt service requirements. See "PLAN OF FINANCING."
Remaining Outstanding Bonds.....	The District has previously issued seven series of bonds. The District's Series 2011 Bonds are considered to be "self-supporting" as described herein under "THE BONDS – Strategic Partnership Agreement with the City of Conroe." Of such previously issued bonds, excluding the Series 2011 Bonds and the Refunded Bonds, \$480,000 principal amount of bonds will remain outstanding after the issuance of the Bonds (the "Remaining Outstanding Bonds"). See "PLAN OF FINANCING – Remaining Outstanding Bonds".
Qualified Tax-Exempt Obligations.....	The District has designated the Bonds as "Qualified Tax-Exempt Obligations" for financial institutions. See "LEGAL MATTERS – Qualified Tax-Exempt Obligations".
Municipal Bond Insurance.....	Assured Guaranty Municipal Corp. ("AGM"). See "MUNICIPAL BOND INSURANCE."
Rating.....	S&P Global Rating (AGM Insured) – "AA". S&P Global Ratings (Underlying) – "A+". See "MUNICIPAL BOND INSURANCE" and "RATINGS."
Bond Counsel.....	Coats Rose, P.C., Houston, Texas.
Underwriter's Counsel.....	McCall, Parkhurst & Horton L.L.P., Houston, Texas.
Special Tax Counsel.....	McCall, Parkhurst & Horton L.L.P., Dallas, Texas.
Financial Advisor.....	Robert W. Baird & Co. Incorporated, Houston, Texas.
Escrow Agent.....	The Bank of New York Mellon Trust Company, N.A., Dallas, Texas.
Verification Agent.....	Robert Thomas CPA LLC, Minneapolis, Minnesota.
OMS Bidding Agent.....	Causey Demgen & Moore, P.C., Denver Colorado.

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 the State of Texas (the "State") because of the effects of COVID-19. Subsequently, in response to a rise in COVID-19 infections in the State and pursuant to the Chapter
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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 the State. 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) have started 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 should there be a reversal of economic activity and re-imposition of restrictions.

THE DISTRICT

DescriptionThe District was created by the Texas Legislature, pursuant to Article XVI, Section 59 of the Texas Constitution, originally codified as Article 8280-486, Vernon’s Texas Civil Statutes, in 1971, and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. The District is located entirely within Montgomery County and the city limits of the City, adjacent to the southern shore of Lake Conroe and is accessible on Texas State Highway 105 (“S.H. 105”), 10.5 miles west of the City. On December 31, 2014, the District was annexed into the City under a “Strategic Partnership Agreement.” The District contains approximately 770 acres of land and is part of the single-family residential development on Lake Conroe known as April Sound. See “THE DISTRICT”.

Development within the DistrictOf the approximately 770 acres within the District, approximately 581 acres have been developed as single-family residential subdivisions and multi-family developments. To date, the District consists of 1,572 completed homes (1,559 occupied and 13 unoccupied) and 19 homes under construction within the single-family residential subdivisions of April Sound, Sections 4-5 and 7-9, Lakeview Village, Section 11, April Villas, Water Oak, Section 1, and Bay Point Estates. Additionally, there are approximately 715 vacant developed and future developable lots within the District. Multi-family development within the District consists of 146 units developed as April Harbour condominiums, The Palms, Colony Place condominiums, Key Harbour townhomes, Bay Point Landing townhomes, and Paradise Point Condos. In addition, approximately 20 acres within the District have been developed for

commercial use. To date, commercial development within the District consists of a 7,600 square-foot convenience store, a McDonald's restaurant, a Subway restaurant, a Valero gas station and grocery, a Shell gas station, Harbour Lights Café, and a boat store. The remaining approximately 169 acres within the District are undeveloped but developable. See "DEVELOPMENT OF THE DISTRICT."

INVESTMENT CONSIDERATIONS

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

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SELECTED FINANCIAL INFORMATION
(UNAUDITED)

2021 Taxable Assessed Valuation.....	\$ 554,106,568 (a)
Direct Debt	
The Remaining Outstanding Bonds.....	\$ 480,000 (b)
Plus: The Bonds	<u>5,875,000</u>
Total	\$ 6,355,000
Estimated Overlapping Debt	<u>\$ 45,677,631 (c)</u>
Total Direct and Estimated Overlapping Debt	\$ 52,032,631 (c)
Direct Debt Ratio:	
As a Percentage of the 2021 Taxable Assessed Valuation	1.15 %
Direct and Estimated Overlapping Debt Ratio:	
As a Percentage of the 2021 Taxable Assessed Valuation	9.39 %
Debt Service Fund Balance (as of September 23, 2021).....	\$ 46,106 (d)
Operating Fund Balance (as of September 23, 2021).....	\$ 2,810,883
Capital Projects Fund Balance (as of September 23, 2021).....	\$ 4,197,969
2021 Tax Rate	
Debt Service.....	\$ 0.0037
Maintenance and Operations.....	<u>\$ 0.0963</u>
Total	\$ 0.1000
Average Annual Debt Service Requirement (2022-2039).....	\$ 455,923 (b)
Maximum Annual Debt Service Requirement (2039)	\$ 471,975 (b)
Debt Service Tax Rate per \$100 of Assessed Valuation Required to Pay Average Annual Debt Service Requirements on the Outstanding Bonds and the Bonds (2022-2039)	
Based on the 2021 Taxable Assessed Valuation at 95% Tax Collections	\$ 0.09 (e)
Debt Service Tax Rate per \$100 of Assessed Valuation Required to Pay Maximum Annual Debt Service Requirements on the Outstanding Bonds and the Bonds (2039)	
Based on the 2021 Taxable Assessed Valuation at 95% Tax Collections	\$ 0.09 (e)

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- (a) Represents the assessed valuation of all taxable property in the District as of January 1, 2021, as provided by the Appraisal District (herein defined). See "TAX DATA" and "TAXING PROCEDURES."
- (b) Under the SPA, the City has agreed to make payments to the District each year from 2015 to 2030. These payments are calculated to cover debt service on the Series 2011 Bonds (hereinafter defined). For the purposes of the Official Statement, the Series 2011 Bonds are not included in calculations relating to the Remaining Outstanding Bonds. See "THE BONDS - Strategic Partnership Agreement with the City of Conroe."
- (c) See "DISTRICT DEBT - Direct and Estimated Overlapping Debt Statement."
- (d) Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the Debt Service Fund.
- (e) The District is authorized to levy debt service taxes that are unlimited as to rate or amount to pay debt service on its outstanding obligations. Net Revenues (hereinafter defined), if any, derived from the operation of the System (hereinafter defined) are also pledged to the payment of the District's Remaining Outstanding Bonds and the Bonds (other than the District's Series 2011 Bonds, which are payable only from the District's debt service tax and amounts received from the City pursuant to the SPA). The District makes no representation about the availability of Net Revenues to materially contribute to debt service payments on the Bonds. See "THE BONDS - Authority for Issuance".

\$5,875,000

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
WATERWORKS AND SEWER COMBINATION
UNLIMITED TAX AND REVENUE REFUNDING BONDS
SERIES 2021**

INTRODUCTION

This Official Statement of Montgomery County Utility District No. 4 (the "District") is provided to furnish information with respect to the issuance by the District of its \$5,875,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Refunding 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, and Chapter 1207, Texas Government Code, as amended; (ii) various elections held within the District; and (iii) an order adopted by the Board of Directors of the District (the "Bond Order").

This Official Statement includes descriptions of the Bonds, 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 Coats Rose, P.C., 9 Greenway Plaza, Suite 1000, Houston, Texas 77046, 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.

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 Coats Rose, P.C., 9 Greenway Plaza, Suite 1000, Houston, Texas 77046.

The Bonds are dated December 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 March 1 of the years shown on the inside cover 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, The Bank of New York Mellon Trust Company, Dallas, 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 (herein defined) 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, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the United States Securities and Exchange Commission (the "SEC"), 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"). DTC has a rating of AA+ from S&P Global Ratings. The DTC rules applicable to its Participants are on file with the SEC. 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 Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to 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, the Paying Agent/Registrar or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, 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 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 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 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. 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 confirms the creation of a fund for debt service on the Bonds (the "Debt Service Fund"). Accrued interest on the Bonds to the date of delivery 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, the Remaining Outstanding Bonds (hereinafter defined) and any additional combination unlimited tax and revenue 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, the Remaining Outstanding 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

Bonds maturing on March 1, 2028, 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 March 1, 2027, 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.

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.

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 and from Net Proceeds (hereinafter defined), if any, derived from operation of the System. The District has never defaulted on the timely payment of principal and interest on its bonded indebtedness.

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

Tax Pledge

The Remaining Outstanding Bonds, the Series 2011 Bgonds ((as defined herein), and the Bonds (and any additional waterworks and sewer system combination unlimited tax and revenue bonds as may hereafter be issued by the District) are payable from the proceeds of a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, against taxable property located within the District. In the Bond Order, the District covenants to levy a sufficient tax to pay the principal of and interest on the Remaining Outstanding Bonds and the Bonds, with full allowance being made for delinquencies and costs of collection. Collected taxes will be placed in the District's Debt Service Fund and used to pay principal of and interest on the Remaining Outstanding Bonds and the Bonds and on any additional bonds payable from taxes which may be hereafter issued by the District. The Series 2011 Bonds are also payable from annual payments received by the District from the City as described below under "- Strategic Partnership Agreement with the City of Conroe."

Net Revenue Pledge

The Remaining Outstanding Bonds (other than the District's Unlimited Tax Bonds, Series 2011 (the "Series 2011 Bonds"), which are payable only from the District's unlimited debt service tax) and the Bonds (and any additional waterworks and sewer system combination unlimited tax and revenue bonds as may hereafter be issued by the District) are further payable from, and secured by a pledge of and lien on, certain net revenues, if any, of the District's System (the "Net Revenues"). Net Revenues are defined by the Bond Order as all income or increment which may grow out of the ownership and operation of the District's plants, facilities, and improvements (as same are purchased, constructed, or otherwise acquired), being the administration, efficient operation, and adequate maintenance of the District's plants, facilities, and improvements, and to establish an operating reserve. The District makes no representation about the availability of Net Revenues to materially contribute to debt service payments on the Bonds. The Net Revenues are entirely dependent upon the sale of water and sewer services to residents and users in the District.

Authority for Issuance

Voters within the District authorized the issuance of waterworks and sewer system combination unlimited tax and revenue bonds in the aggregate amount of \$35,160,000 for purposes of acquiring and/or constructing a waterworks, sanitary sewer, and drainage system (the "System") to serve the District at elections held within the District on April 2, 1977, January 21, 1978, and May 12, 2012. Additionally, voters within the District authorized the issuance of waterworks and sewer system combination unlimited tax and revenue bonds for refunding purposes in the principal amount of \$14,160,000 at an election within the District on July 12, 1993.

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) various elections held within the District as described above; and (iii) the Bond Order.

Issuance of Additional Debt

The District may issue bonds necessary to provide those improvements and facilities for which the District was created, with approval of the TCEQ, and, in the case of bonds payable from taxes, the District's voters. Following the issuance of the Bonds, \$13,250,000 principal amount of waterworks and sewer system combination unlimited tax and revenue bonds for the purpose of acquiring and/or constructing the System and \$5,243,683 principal amount of waterworks and sewer system combination unlimited tax and revenue bonds for refunding purposes will remain authorized but unissued. Additional tax or tax and revenue bonds may be voted in the future. The Board is further empowered to borrow money, under limited circumstances, for its lawful corporate purpose and to issue revenue notes, bond anticipation notes, or tax anticipation notes.

The District is also authorized by law to engage in fire-fighting activities, including the issuance of bonds payable from taxes for such purpose. Before the District could issue such bonds, the following actions would be required: (1) authorization of a detailed fire plan and bonds for such purpose by the qualified voters in the District; (2) approval of a fire plan and bonds by the TCEQ; and (3) approval of bonds by the Attorney General of Texas. The District has no current plans to submit an application for approval of a fire protection plan.

The Bond Order imposes no limitation on the amount of additional bonds that may be issued by the District. Any additional bonds issued by the District may be on a parity with the Bonds.

The District anticipates submitting a bond application to the TCEQ in the fourth quarter of 2021 requesting approval to sell approximately \$4,650,000 in principal amount of unlimited tax bonds. The District anticipates selling such bonds in the third quarter of 2022.

Strategic Partnership Agreement with the City of Conroe

In February 2013, the District entered into a Strategic Partnership Agreement ("SPA") with the City as authorized by Texas Local Government Code, Chapter 43. The SPA provides for a "full purpose annexation" of the District, which became effective on December 31, 2014. The SPA also provides that the District will continue to exist as a "limited district" after the annexation of the District into the City with powers and functions provided by law, including water, wastewater, storm sewer and solid waste services, and also including the power to levy taxes and collect user fees. The District will continue to be responsible for maintenance of the System. The City has agreed to (1) pay \$0.05 per \$100 of assessed valuation plus \$60,000 annually to the District in consideration for services to be provided by the District; (2) pay a share of the non-flow related expenses pertaining to the regional sewage treatment plant partly owned by the District (see "THE SYSTEM") as a reservation fee for 150,000 gallons per day of capacity in the plant reserved for the City by the District; (3) after deliveries of sewage from the City begin, pay a share of other sewage treatment plant expenses; and (4) make payments to the District each year from 2015 to 2030, which payments are calculated to cover debt service on the District's Series 2011 Bonds and are designated as consideration for the reservation of capacity in the sewage treatment plant. See "DISTRICT DEBT - Debt Service Requirements" and "TAX DATA - Estimated Overlapping Taxes."

Under the SPA, the District's existence as a "limited district" is for an initial ten-year term, subject to extension at the option of the District and, in some circumstances, early termination and dissolution. If the District's existence as a "limited district" expires, or if the District is dissolved, the City is required to (1) take over all the property and other assets of the District, (2) assume all debts, liabilities, and other obligations of the District, and (3) perform all the functions of the District, including the provision of services. Under the SPA, there is also a possibility that the District could transfer its service obligations to the City but remain in existence "for the restricted purposes of levying and collecting an ad valorem tax to pay interest and principal on the remaining tax indebtedness of the District. Renewing the SPA is at the option of the District. It is likely that the District will choose to extend the SPA for another ten-year term at December 2024.

The District anticipates that debt service on the Series 2011 Bonds will be paid by revenues received by the District from the City pursuant to the SPA beginning in calendar year 2015. If such revenues are ever insufficient to make such payments, the District is obligated to levy a debt service tax in an amount sufficient to make such payments.

Annexation, Assumption, Dissolution and Consolidation

The District lies within the extraterritorial jurisdiction of the City. The District entered into the SPA with the City that called for the annexation of the District effective December 31, 2014, and allowing the District to continue to exist as a "limited district" for a ten-year term, subject to extension at the option of the District and, in some circumstances, early termination and dissolution. If the District's existence as a "limited district" expires, or if the District is dissolved, the City is required to (1) take over all the property and other assets of the District, (2) assume all debts, liabilities, and other obligations of the District, and (3) perform all the functions of the District, including the provision of services. See "Strategic Partnership Agreement with the City of Conroe" above.

Under Texas law, the District may be consolidated with other municipal utility districts, with the assets and liabilities of the consolidated districts belonging to the consolidated district. No representation is made that the District will ever consolidate with one or more districts.

Under Texas law, the District may be consolidated with other municipal utility districts, with the assets and liabilities of the consolidated districts belonging to the consolidated district. The District is currently discussing a potential consolidation with Montgomery County Utility District No. 3 ("District No. 3"), but there is no guarantee a consolidation will happen. No representation is made that the District will complete the consolidation with District No. 3 or any other district.

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 (i) direct noncallable obligations of the United States of America, (ii) 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 (iii) 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.

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

Registered Owners' Remedies

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Order, the Registered Owners have the right to seek of a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Order. Except for mandamus, the Bond Order does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of defaults and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners.

Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages, so that in the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Order may not be reduced to a judgment for money damages. If such a judgment against the District were obtained, it could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District to enforce tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may be further limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights and creditors of political subdivisions, such as the District.

PLAN OF FINANCING

The proceeds of the Bonds will be used to refund \$5,890,000 principal amount of the District’s \$7,750,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2014 (the “Refunded Bonds”) and to pay certain costs incurred in connection with the issuance of the Bonds. The refunding of the Refunded Bonds is expected to result in an annual and net present value savings in the District’s current annual debt service requirements.

The Refunded Bonds	
Series 2014 Bonds	
<u>Principal Amount</u>	<u>Maturity Date</u>
\$ 255,000	3/1/2024
270,000	3/1/2025
280,000	3/1/2026
295,000	3/1/2027
310,000	3/1/2028
320,000	3/1/2029
335,000 (a)	3/1/2030
355,000 (a)	3/1/2031
370,000 (b)	3/1/2032
385,000 (b)	3/1/2033
405,000 (c)	3/1/2034
420,000 (c)	3/1/2035
440,000 (d)	3/1/2036
460,000 (d)	3/1/2037
485,000 (e)	3/1/2038
<u>505,000 (e)</u>	3/1/2039
\$ 5,890,000	

Redemption Date: March 1, 2022

-
- (a) Represents mandatory sinking fund payments for a term bond with a maturity date of March 1, 2031.
 - (b) Represents mandatory sinking fund payments for a term bond with a maturity date of March 1, 2033.
 - (c) Represents mandatory sinking fund payments for a term bond with a maturity date of March 1, 2035.
 - (d) Represents mandatory sinking fund payments for a term bond with a maturity date of March 1, 2037.
 - (e) Represents mandatory sinking fund payments for a term bond with a maturity date of March 1, 2039.

Escrow Agreement

The District will enter into an escrow agreement (the “Escrow Agreement”) with The Bank of New York Mellon Trust Company, Dallas, Texas (the “Escrow Agent”), pursuant to which a portion of the proceeds of the Bonds will be deposited in an escrow fund (the “Escrow Fund”) in the amount necessary to accomplish the discharge and final payment of the Refunded Bonds. Such funds will be used to purchase United States Treasury Obligations (the “Escrowed Securities”) maturing at such times and amounts as will be sufficient to pay scheduled payments on the Refunded Bonds on their redemption date. Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Bonds and will not be available to pay principal of and interest on the Bonds, the Remaining Outstanding Bonds (including the Series 2011 Bonds). See “VERIFICATION OF MATHEMATICAL CALCULATIONS.”

Remaining Outstanding Bonds

The District has previously issued seven series of bonds. The District’s Series 2011 Bonds are considered to be “self-supporting” as described herein under “THE BONDS – Strategic Partnership Agreement with the City of Conroe.” Of such previously issued bonds, excluding the Series 2011 Bonds and the Refunded Bonds, \$480,000 principal amount of bonds will remain outstanding after the issuance of the Bonds (the “Remaining Outstanding Bonds”).

Defeasance of the Refunded Bonds

By the deposit of the Escrowed Securities and cash, if any, with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of the Refunded Bonds pursuant to the terms of the orders authorizing the issuance of the Refunded Bonds. In the opinion of Bond Counsel, as a result of such deposit, firm banking and financial arrangements will have been made for the discharge and final payment of the Refunded Bonds pursuant to the Escrow Agreement, and such Refunded Bonds will be deemed under Texas law to be fully paid and no longer outstanding, except for the purpose of being paid from the funds provided therefor in the Escrow Fund.

Sources and Uses of Funds

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

SOURCES OF FUNDS:

Principal Amount of the Bonds.....	\$ 5,875,000
Net Premium.....	391,406
Accrued Interest on the Bonds.....	<u>9,302</u>
Total Sources of Funds.....	\$ 6,275,708

USES OF FUNDS:

Deposit to the Escrow Fund.....	\$ 6,005,523
Deposit of Accrued Interest to Debt Service Fund.....	9,302
Issuance Expenses (Includes Insurance Premium).....	211,115
Underwriter’s Discount.....	<u>49,768</u>
Total Uses of Funds.....	\$ 6,275,708

THE DISTRICT

Authority

The District was created by the 62nd Texas Legislature in 1971, as a conservation and reclamation district operating as a municipal utility district pursuant to Chapters 49 and 54, Texas Water Code, as amended, and various general laws of the State of Texas applicable to municipal utility districts. The principal functions of the District are to finance, purchase, construct, own and operate waterworks, sanitary sewer, and drainage facilities to provide such facilities and services to the customers of the District. The District may provide solid waste collection and disposal services. In addition, the District is empowered, if approved by the electorate, the TCEQ and other governmental entities having jurisdiction, to establish, operate and maintain a fire department, either independently or with certain other districts. The TCEQ exercises continuing supervisory jurisdiction over the District.

Location

The District contains approximately 770 acres and is located in central Montgomery County on the southern shore of Lake Conroe approximately ten miles west of the City of Conroe, Texas (the “City”) via Texas State Highway 105 (“SH 105”). The City is approximately 40 miles north of the City of Houston via Interstate Highway 45 (the “North Freeway”). The District, which lies entirely within the city limits of the City, serves a portion of the April Sound Development (“April Sound”), a primarily single-family development on Lake Conroe designed for both primary homes and secondary recreational residences. A portion of April Sound is also located in and is served by District No. 3. The District is comprised of two noncontiguous tracts of land: one tract of approximately 536 acres which constitutes the eastern portion of April Sound and one tract of approximately 234 acres which constitutes the western portion of April Sound. These tracts lie on either side of District No. 3.

Board of Directors

The District is governed by a board of five (5) directors which has control and management supervision over all affairs of the District (the "Board"). The members of the Board are elected to their offices. All five members of the Board own property within the boundaries of 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:

Name	Position	Term Expires May
Gary S. North	President	2022
Ronald R. Cunningham	Vice President & Investment Officer	2024
Mike Ganson	Secretary & Treasurer	2022
Maurice D. Williams	Assistant Vice President & Assistant Secretary/Treasurer	2024
Matthew F. Lamey	Assistant Secretary/Treasurer	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

The District does not have any full-time employees; however, it has contracted for bookkeeping, tax assessing and collecting, operation of the System, auditing, engineering, and legal services as follows:

Tax Assessor/Collector: The District has engaged the tax assessor/collector of Montgomery County, Texas as the District's tax assessor/collector (the "Tax Assessor/Collector").

Bookkeeper: The District has engaged Municipal Accounts & Consulting, LP as the District's bookkeeper.

Auditor: The audited financial statements of the District for fiscal year ended December 31, 2020, were prepared by McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountants. See "APPENDIX A – Financial Statements of the District"). Such firm has been engaged to perform the audited financial statements for the fiscal year ending December 31, 2021.

Engineer: The District's engineer is John D. Bleyl, P.E. of Bleyl Engineering (the "Engineer").

Bond Counsel: The District has engaged Coats Rose, P.C., 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.

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.

Special Consultants Related to the Issuance of the Bonds

Special Tax Counsel: The District has engaged McCall, Parkhurst & Horton L.L.P., Dallas, Texas, as Special Tax Counsel.

Verification Agent: At the time of delivery of the Bonds, Robert Thomas CPA LLC, Certified Public Accountants, will verify to the District, Bond Counsel, and the Underwriter certain matters related to the issuance of the bonds and the refunding of the Refunded Bonds. See "VERIFICATION OF MATHEMATICAL CALCULATIONS."

OMS Bidding Agent: Causey Demgen & Moore, P.C. has been engaged as the OMS bidding agent in relation to the refunding of the Refunded Bonds (the "OMS Bidding Agent").

DEVELOPMENT OF THE DISTRICT

Of the approximately 770 acres within the District, approximately 581 acres have been developed as single-family residential subdivisions and multi-family developments. To date, the District consists of 1,572 completed homes (1,559 occupied and 13 unoccupied) and 19 homes under construction within the single-family residential subdivisions of April Sound, Sections 4-5 and 7-9, Lakeview Village, Section 11, April Villas, Water Oak, Section 1, and Bay Point Estates. Additionally, there are approximately 715 vacant developed and future developable lots within the District. Multi-family development within the District consists of 146 units developed as April Harbour condominiums, The Palms, Colony Place condominiums, Key Harbour townhomes, Bay Point Landing townhomes, and Paradise Point Condos. In addition, approximately 20 acres within the District have been developed for commercial use. To date, commercial development within the District consists of a 7,600 square-foot convenience store, a McDonald's restaurant, a Subway restaurant, a Valero gas station and grocery, a Shell gas station, Harbour Lights Café, and a boat store. The remaining approximately 169 acres within the District are undeveloped but developable.

THE SYSTEM

General

According to the Engineer, the District's water supply and distribution, wastewater collection and treatment, and storm drainage facilities (the "System") have been designed in conformance with accepted engineering practices and in accordance with the criteria of various governmental agencies having regulatory supervisory jurisdiction over the construction and operation of such facilities, including, among others, the City, Montgomery County, and the TCEQ. The construction and installation of the facilities must be made in accordance with the standards and specifications of such entities and are subject to inspection by each such entity. According to the Engineer, all such facilities constructed to date have been approved by all required governmental agencies.

Description of the System

The District's System has been financed from proceeds of previously issued bonds and certain non-reimbursable developer contributions, as required by the rules of the TCEQ, and non-reimbursable advances by certain developers.

Source of Water Supply: The District and District No. 3 have a combined water distribution system which serves the customers of both districts, and the districts each have one (1) water plant for a total of two (2) plants. The District and District No. 3 have entered into an Amended and Restated Water Supply and Sanitary Sewer Contract (the "System Contract") for the operation of the combined water distribution system and the water plants. The District and District No. 3's water plant facilities consist of three (3) wells with a combined capacity of 4,900 gallons per minute ("gpm"), nine (9) service pumps with a total capacity of 8,800 gpm, four (4) ground storage tanks (capacity of 1,230,000 gallons), and four (4) hydropneumatics tanks (combined capacity of 45,000 gallons). The combined capacity of the water plants is 4,021 equivalent single-family connections ("ESFCs"), which is sufficient to serve the approximately 2,010 ESFCs within the District and 2,010 ESFCs within District No. 3.

Source of Wastewater Treatment: The District owns 475,000 gallons per day ("gpd") and District No. 3 owns 475,000 gpd of capacity in the 950,000 gpd regional wastewater treatment plant ("WWTP"). The District and District No. 3 have entered into a supplemental System Contract which sets out the provisions of ownership in and operation of the WWTP. Out of the District's 475,000 gpd of capacity, the District has agreed to reserve 150,000 gpd for the City. See "THE BONDS – Strategic Partnership with the City of Conroe." The level of the District's remaining capacity limits the type and intensity of new development that can be served by the System unless the System is expanded.

Lone Star Groundwater Conservation District

The District is included in the boundaries of the Lone Star Groundwater Conservation District ("LSGCD"), a Montgomery County-wide regulatory agency. The LSGCD previously adopted a regulatory plan which required groundwater users within Montgomery County to reduce groundwater usage by thirty-percent (30%) by January 1, 2016. This plan has since been terminated by the LSGCD.

The Engineer for the District prepared and submitted a Joint Groundwater Reduction Plan ("GRP") to the LSGCD, as required by the April 1, 2011, deadline, that provides for the technical data to support the planned 30% reduction in groundwater use. The Joint GRP includes the District and District No. 3. As part of the plan, the districts have constructed a water well that utilizes water in the Catahoula aquifer, which is an approved "Alternate Water Source" in a deep aquifer. This allowed the participants in the Joint GRP to reduce pumping from their existing wells located in the upper aquifers, as required by LSGCD at that time. The Joint GRP is still in effect, but no reduction in groundwater pumping is currently in place.

100-Year Flood Plain

According to the Engineer, approximately 25.35 acres of land within the District are in the 100-Year Flood Plan. This designation affects only those lots which front Lake Conroe, each of which has a building site above the minimum slab level elevation as established by the San Jacinto River Authority.

Historical Operations of the System

The following is a summary of the District's historical results of operation of the District's System. Such information was obtained from the audited financial statements of the District for the fiscal years ended December 31, 2016, through December 31, 2020. The figures for the nine-month period ending September 30, 2021, are unaudited and have been obtained from the District's bookkeeper. The District is required by statute to have a certified public accountant prepare and file an annual audit of its financial records with the TCEQ. See "APPENDIX A - Financial Statements of the District."

Revenues	Fiscal Year Ended December 31					
	2021(a)	2020	2019	2018	2017	2016
Property Taxes	\$266,890	\$434,765	\$370,729	\$367,405	\$349,990	\$352,818
Water and Wastewater Service	797,022	1,181,607	1,111,555	1,107,193	1,067,358	1,096,560
GRP Fees	-0-	-0-	-0-	-0-	-0-	32,739
Penalty and Interest	6,635	10,099	9,155	11,316	9,674	10,257
Tap Connection & Inspection Fees	65,390	67,250	113,316	48,425	66,233	195,804
Investment Revenues	-0-	43,281	82,657	50,434	21,950	13,841
Contract Revenues	827,533	789,677	786,055	785,392	779,113	765,742
Sale of Groundwater Credits	5,000	0	0	0	750,000	0
Miscellaneous Revenues	93,885	86,166	49,509	40,534	35,332	53,082
Total	\$2,062,355	\$2,612,845	\$2,522,976	\$2,410,699	\$3,079,650	\$2,520,843
Expenditures						
Professional Fees	\$116,827	\$240,778	\$301,611	\$248,764	\$310,842	\$233,778
Contracted Services	301,953	389,595	391,192	383,789	365,463	345,129
Purchased Wastewater Service	170,335	224,109	219,294	210,989	205,973	187,997
Utilities	72,097	15,906	16,139	16,379	15,569	14,689
Repairs and Maintenance	263,566	446,867	722,741	594,420	512,805	549,865
Other	1,020,044	255,268	269,289	248,181	271,668	292,502
Capital Outlay	387,891	225,960	-0-	134,188	329,122	299,551
Total	\$2,332,713	\$1,798,483	\$1,920,266	\$1,836,710	\$2,011,442	\$1,923,511
NET REVENUES (Deficit)	(\$270,358)	\$814,362	\$602,710	\$573,989	\$1,068,208	\$597,332
Other financing sources (uses)	\$-0-	(\$919,677)	(\$915,881)	(\$644,999)	(\$919,113)	(\$636,576)
Ending fund balance	\$2,632,387	\$2,902,745	\$3,008,060	\$3,321,231	\$3,392,241	\$3,243,146

(a) Unaudited; for the period ended September 30, 2021.

DISTRICT DEBT

General

2021 Taxable Assessed Valuation.....	\$ 554,106,568 (a)
Direct Debt	
The Remaining Outstanding Bonds.....	\$ 480,000 (b)
Plus: The Bonds	<u>5,875,000</u>
Total	\$ 6,355,000
Estimated Overlapping Debt	<u>\$ 45,677,631 (c)</u>
Total Direct and Estimated Overlapping Debt	\$ 52,032,631 (c)
Direct Debt Ratio:	
As a Percentage of the 2021 Taxable Assessed Valuation	1.15 %
Direct and Estimated Overlapping Debt Ratio:	
As a Percentage of the 2021 Taxable Assessed Valuation	9.39 %
Debt Service Fund Balance (as of September 23, 2021).....	\$ 46,106 (d)
Operating Fund Balance (as of September 23, 2021).....	\$ 2,810,883
Capital Projects Fund Balance (as of September 23, 2021).....	\$ 4,197,969
2021 Tax Rate	
Debt Service.....	\$ 0.0037
Maintenance and Operations.....	<u>\$ 0.0963</u>
Total	\$ 0.1000
Average Annual Debt Service Requirement (2022-2039).....	\$ 455,923 (b)
Maximum Annual Debt Service Requirement (2039)	\$ 471,975 (b)
Debt Service Tax Rate per \$100 of Assessed Valuation Required to Pay Average Annual Debt Service Requirements on the Outstanding Bonds and the Bonds (2022-2039)	
Based on the 2021 Taxable Assessed Valuation at 95% Tax Collections	\$ 0.09 (e)
Debt Service Tax Rate per \$100 of Assessed Valuation Required to Pay Maximum Annual Debt Service Requirements on the Outstanding Bonds and the Bonds (2039)	
Based on the 2021 Taxable Assessed Valuation at 95% Tax Collections	\$ 0.09 (e)

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- (a) Represents the assessed valuation of all taxable property in the District as of January 1, 2021, as provided by the Appraisal District (herein defined). See "TAX DATA" and "TAXING PROCEDURES."
- (b) Under the SPA, the City has agreed to make payments to the District each year from 2015 to 2030. These payments are calculated to cover debt service on the Series 2011 Bonds (hereinafter defined). For the purposes of the Official Statement, the Series 2011 Bonds are not included in calculations relating to the Remaining Outstanding Bonds. See "THE BONDS - Strategic Partnership Agreement with the City of Conroe."
- (c) See "DISTRICT DEBT - Direct and Estimated Overlapping Debt Statement."
- (d) Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the Debt Service Fund.
- (e) The District is authorized to levy debt service taxes that are unlimited as to rate or amount to pay debt service on its outstanding obligations. Net Revenues (hereinafter defined), if any, derived from the operation of the System (hereinafter defined) are also pledged to the payment of the District's Remaining Outstanding Bonds and the Bonds (other than the District's Series 2011 Bonds, which are payable only from the District's debt service tax and amounts received from the City pursuant to the SPA). The District makes no representation about the availability of Net Revenues to materially contribute to debt service payments on the Bonds. See "THE BONDS - Authority for Issuance".

Debt Service Requirement Schedule

The following schedule sets forth the debt service requirements on the District’s outstanding bonds (excluding the Series 2011 Bonds), less the debt service on the Refunded Bonds, plus the principal and interest requirements on the Bonds.

Calendar Year	Outstanding Debt Service Requirements(a)	Less: Refunded Bonds	The Bonds		Total Debt Service
			Principal	Interest	
2022	\$ 476,413	\$ 226,913	\$ 60,000	\$ 131,288	\$ 440,788
2023	476,813	226,913	10,000	174,300	434,200
2024	478,088	478,088	265,000	170,175	435,175
2025	485,213	485,213	280,000	162,000	442,000
2026	486,963	486,963	290,000	153,450	443,450
2027	492,969	492,969	305,000	144,525	449,525
2028	497,750	497,750	320,000	135,150	455,150
2029	496,725	496,725	330,000	125,400	455,400
2030	499,425	499,425	340,000	115,350	455,350
2031	505,625	505,625	355,000	104,925	459,925
2032	506,125	506,125	370,000	94,050	464,050
2033	506,025	506,025	380,000	82,800	462,800
2034	510,225	510,225	395,000	71,175	466,175
2035	508,725	508,725	405,000	59,175	464,175
2036	510,975	510,975	420,000	46,800	466,800
2037	511,850	511,850	435,000	33,975	468,975
2038	516,769	516,769	450,000	20,700	470,700
2039	515,731	515,731	465,000	6,975	471,975
Total	\$ 8,982,406	\$ 8,483,006	\$ 5,875,000	\$ 1,832,213	\$ 8,206,613

(a) Does not include the Series 2011 Bonds, which are self-supporting bonds.

Average Annual Debt Service Requirement (2022–2039).....	\$ 455,923
Maximum Annual Debt Service Requirement (2039)	\$ 471,975

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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 September 30, 2021	Overlapping	
		Percent	Amount
City of Conroe	\$ 365,025,000	5.07%	\$ 18,513,204
Montgomery County	486,675,000	0.83%	4,026,089
Independent School District	319,790,000	7.24%	<u>23,138,339</u>
Total Estimated Overlapping Debt			\$ 45,677,631
Direct Debt (a)			\$ 6,355,000
Total Direct and Estimated Overlapping Debt (a)			\$ 52,032,631

(a) Includes the Remaining Outstanding Bonds (excluding the Series 2011 Bonds) and the Bonds.

Debt Ratios

Ratio of Direct Debt (a):	
As a Percentage of the 2021 Taxable Assessed Valuation	1.15 %
Ratio of Direct and Estimated Overlapping Debt (a):	
As a Percentage of the 2021 Taxable Assessed Valuation	9.39 %

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

TAXING PROCEDURES

Authority to Levy Taxes

The District 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 Remaining Outstanding Bonds, and any additional bonds payable from taxes which the District may hereafter issue (see "INVESTMENT CONSIDERATIONS – Future Debt"), and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Order to levy such a tax from year to year as described more fully above under "THE BONDS – Source of Payment." Under Texas law, the District may also levy and collect annual ad valorem taxes for the operation and maintenance of the District and the System and for the payment of certain contractual obligations. See "TAX DATA – General."

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

The Property Code requires the appraisal district, by May 15 of each year, or as soon thereafter as practicable, to prepare appraisal records of property as of January 1 of each year based upon market value. The chief appraiser must give written notice before May 15, or as soon thereafter as practicable, to each property owner whose property value is appraised higher than the value in the prior tax year or the value rendered by the property owner, or whose property was not on the appraisal roll the preceding year, or whose property was reappraised in the current tax year. Notice must also be given if ownership of the property changed during the preceding year. The appraisal review board has the ultimate responsibility for determining the value of all taxable property within the District; however, any property owner who has timely filed notice with the appraisal review board may appeal a final determination by the appraisal review board by filing suit in a Texas district court. Prior to such appeal or any tax delinquency date, however, the property owner must pay the tax due on the value of that portion of the property involved that is not in dispute or the amount of tax imposed in the prior year, whichever is greater, or the amount of tax due under the order from which the appeal is taken. In such event, the value of the property in question will be determined by the court, or by a jury, if requested by any party. In addition, taxing units, such as the District, are entitled to challenge certain matters before the appraisal review board, including the level of appraisals of a certain category of property, the exclusion of property from the appraisal records of the granting in whole or in part of certain exemptions. A taxing unit may not, however, challenge the valuation of individual properties.

Although the District has the responsibility for establishing tax rates and levying and collecting its taxes each year, under the Property Code, the District does not establish appraisal standards or determine the frequency of revaluation or reappraisal. The appraisal district is governed by a board of directors elected by the governing bodies of the county and all cities, towns, school districts and, if entitled to vote, the conservation and reclamation districts that participate in the appraisal district. The Property Code requires each appraisal district to implement a plan for periodic reappraisal of property to update appraised values. Such plan must provide for reappraisal of all real property in the appraisal district at least once every three years. It is not known what frequency of future reappraisals will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone or county-wide basis.

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. For the 2021 tax year, the District adopted an such exemption for \$20,000. The District may be required to offer such exemptions if a majority of voters approve same at an election. The District would be required to call an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the preceding election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District's obligation to pay tax supported debt incurred prior to adoption of the exemption by the District.

Furthermore, the District must grant exemptions to disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces, if requested, but only to the maximum extent of between \$5,000 and \$12,000 depending upon the disability rating of the veteran claiming the exemption. A veteran who receives a disability rating of 100% is entitled to an exemption of full value of the veteran's residential 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 and surviving spouses of a deceased veteran who had received a disability rating of 100% are entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries. 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. Also, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. The surviving spouse of a first responder who was killed or fatally injured in the line of duty is, subject to certain conditions, also entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and, subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

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

Residential Homestead Exemptions: The Property Code authorizes the governing body of each political subdivision in the State to exempt up to twenty percent (20%) of the appraised market value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of a homestead exemption may be considered each year but must be adopted by May 1. The District has not adopted a general homestead exemption.

Freeport Goods and Goods-in-Transit Exemption: A "Freeport Exemption" applies to goods, wares, ores, and merchandise other than oil, gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining petroleum or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A "Goods-in-Transit" Exemption is applicable to the same categories of tangible personal property which are covered by the Freeport Exemption, if, for tax year 2011 and prior applicable years, such property is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation, and the location where said property is detained during that period is not directly or indirectly owned or under the control of the property owner. For tax year 2013 and subsequent years, such Goods-in-Transit Exemption includes tangible personal property acquired in or imported into Texas for storage purposes only if such property is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit property. A taxing unit must exercise its option to tax goods-in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed

by applicable law. The District has taken official action to allow taxation of all such goods-in-transit personal property for all prior and subsequent years.

Tax Abatement

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

Agricultural, Open Space, Timberland, and Inventory Deferment

The Property Code permits land designated for agricultural use (including wildlife management), open space, or timberland to be appraised at its value based on the land's capacity to produce agriculture 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 such property would bring if sold as a unit to a purchaser who would continue the business. Landowners wishing to avail themselves of any of such designations must apply for the designation, and the Appraisal District 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 some political subdivisions and not as to others. If a claimant receives the 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 for the three (3) years prior to the loss of the designation for agricultural, timberland or open space land. See "TAX DATA – Analysis of Tax Base."

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.

Exemptions and Tax Payment Installments after Disaster

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

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

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.

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 date of delinquency may be postponed if the tax bills are mailed after January 1. By September 1 of each year, or as soon thereafter as practicable, the rate of taxation is set by the Board of Directors of the District based on valuation of property within the District as of the preceding January 1.

Taxes are due September 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) if imposed by the District. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency of taxes under certain circumstances. The owner of a residential homestead property who is (i) a person at least sixty-five (65) years of age or older, (ii) under a disability for purpose of payment of disability insurance benefits under the Federal Old Age Survivors and Disability Insurance Act, or (iii) qualifies as a disabled veteran under Texas Law is also entitled by law to pay current taxes on a residential homestead in installments or to defer the payment of taxes without penalty during the time of ownership. Additionally, a person who is delinquent on taxes for a residential homestead is entitled to an agreement with the District to pay such taxes in equal installments over a period of between 12 and 36 months (as determined by the District) when such person has not entered into another installment agreement with respect to delinquent taxes within the District in the preceding 24 months.

Rollback of Operation and Maintenance Tax Rate

Chapter 49 of the Texas Water Code, as amended, classifies districts differently based on the current operation and maintenance tax rate or on the percentage of build-out that the district has completed. Districts that have adopted an operation and maintenance tax rate for the current year that is 2.5 cents or less per \$100 of taxable value are classified as "Low Tax Rate Districts." Districts that have financed, completed, and issued bonds to pay for all improvements and facilities necessary to serve at least 95% of the projected build-out of the district are classified as "Developed Districts." Districts that do not meet either of the classifications previously discussed are classified herein as "Developing Districts." The impact each classification has on the ability of a district to increase its maintenance and operations tax rate is described for each classification below. Debt service and contract tax rates cannot be reduced by a rollback election held within any of the districts described below.

Low Tax Rate Districts

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

Developed Districts

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

both a Special Taxing Unit and a Developed District, the district will be subject to the operation and maintenance tax threshold applicable to Special Taxing Units.

Developing Districts

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

The District

A determination as to a district's status as a Special Taxing Unit, Developed District or Developing District will be made by the Board of Directors on an annual basis. For the 2021 tax year, the District was qualified 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.

Developing Districts

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

The District

For the 2021 tax year, the District was determined to be 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.

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 each taxing unit, including the District, having the power to tax the property. The District's tax lien is on a parity with the tax liens of other such taxing units. A tax lien on real property takes priority over the claims of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien, however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by federal law. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights or by bankruptcy proceedings which restrict the collection of taxpayer debts. A taxpayer may redeem property within two (2) years for residential and agricultural property and six (6) months for commercial property and all other types of property after the purchasers deed at the foreclosure sale is filed in the county records."

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 "INVESTMENT CONSIDERATIONS." For the 2021 tax year, the District levied a total tax rate of \$0.10 per \$100 of assessed valuation comprised of a debt service tax rate of \$0.0037 per \$100 of assessed valuation and a maintenance and operations tax rate of \$0.0963 per \$100 of assessed valuation.

Tax Rate Limitation

Debt Service.....Unlimited (no legal limit as to rate or amount).
 Maintenance and Operations.....\$1.00 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. Such tax is in addition to the maintenance and operation tax the District levies for maintenance and operation purposes. For the 2021 tax year, the District levied a debt service tax rate of \$0.0037 per \$100 of assessed valuation. See "Tax Rate Distribution."

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 \$1.00 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. For the 2021 tax year, the District levied a maintenance and operations tax rate of \$0.0963 per \$100 of assessed valuation. See "Tax Rate Distribution."

Tax Exemption

As discussed in the section entitled "TAXING PROCEDURES," 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.

Historical Tax Collections

The following table illustrates the collection history of the District for the 2016–2021 tax years:

Tax Year	Certified Taxable Value	Tax Rate	Adjusted Tax Levy	Collections Current Year	Current Year Ending 9/30	Collections 08/31/2021
2016	\$ 454,772,779	\$0.077500	\$ 352,449	98.09%	2017	99.61%
2017	474,932,721	0.077500	368,073	98.55%	2018	99.64%
2018	474,473,622	0.077500	367,717	99.03%	2019	99.57%
2019	500,207,868	0.087500	437,682	98.80%	2020	99.41%
2020	514,080,943	0.100000	517,345	98.11%	2021	98.11%
2021	554,106,568	0.100000	554,107	(a)	2022	(a)

(a) In process of collection.

Tax Rate Distribution

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

Tax Year	2021	2020	2019	2018	2017
Debt Service	\$0.0037	\$0.0085	\$0.0000	\$0.0000	\$0.0000
Maintenance & Operations	<u>0.0963</u>	<u>0.0915</u>	<u>0.0875</u>	<u>0.0775</u>	<u>0.0775</u>
Total	\$0.1000	\$0.1000	\$0.0875	\$0.0775	\$0.0775

Analysis of Tax Base

The following represents the types of property comprising the District’s taxable assessed valuation as of January 1 for the 2017–2021 tax years.

Type of Property	2021 Assessed Valuation	2020 Assessed Valuation	2019 Assessed Valuation	2018 Assessed Valuation	2017 Assessed Valuation	2016 Assessed Valuation
Land	\$150,131,464	\$138,483,600	\$136,467,900	\$86,136,199	\$83,603,679	\$81,514,659
Improvements	423,802,419	390,435,135	377,881,285	400,471,335	402,468,575	383,385,685
Personal Property	9,644,468	7,065,068	8,227,308	8,001,269	7,614,782	7,083,194
Exemptions	(29,471,783)	(21,902,860)	(22,368,625)	(20,135,181)	(18,754,315)	(17,210,759)
Total	\$554,106,568	\$514,080,943	\$500,207,868	\$474,473,622	\$474,932,721	\$454,772,779

Principal Taxpayers

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

Taxpayer	Type of Property	Tax Roll 2021 Assessed Valuation	Percent of 2021 Assessed Valuation
Pier 105 Marina LLC	Commercial & Personal	\$ 6,887,877	1.24%
Southbrook Development Corp	Land & Commercial	6,414,370	1.16%
All Seasons Resorts Inc.	Land & Commercial	3,677,860	0.66%
Tachus Infrastructure LLC	Utilities	2,782,200	0.50%
Energery Texas Inc.	Utilities	2,663,500	0.48%
Homeowner	Residential Single-Family	1,957,000	0.35%
Hot Enterprises LLC	Commercial	1,909,230	0.34%
System Capital Real Prop Corp	Commercial	1,650,000	0.30%
Homeowner	Residential Single-Family	1,576,990	0.28%
JLG Legacy Trust	Residential Single-Family	1,547,410	0.28%
Total		\$ 31,066,437	5.61%

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 Remaining Outstanding Bonds and the Bonds if no growth in the District’s tax base occurs beyond the District’s taxable assessed valuation as of January 1, 2021(\$554,106,568). The calculations assume collection of 95% of taxes levied and the sale of the Bonds but not the sale of any additional bonds by the District.

Average Annual Debt Service Requirement (2022-2039).....	\$ 455,923
Debt Service Tax Rate of \$0.09 on the 2021 Taxable Assessed Valuation Produces.....	\$ 473,761
 Maximum Annual Debt Service Requirement (2039)	 \$ 471,975
Debt Service Tax Rate of \$0.09 on the 2021 Taxable Assessed Valuation Produces.....	\$ 473,761

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, 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. See “DISTRICT DEBT – Direct and Estimated Overlapping Debt Statement.”

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.

<u>Taxing Jurisdiction</u>	<u>2021 Tax Rate</u>
Montgomery County	\$ 0.408300
Montgomery Independent School District	1.260000
City of Conroe	0.437500
Montgomery County Hospital District	0.058700
The District	<u>0.100000</u>
Total	\$ 2.264500

INVESTMENT CONSIDERATIONS

General

The Bonds, which are obligations of the District and not of the State of Texas; the County; the City; 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 and will also be payable from Net Proceeds of the System to the extent and subject to the conditions described in “THE BONDS – Source of Payment.” 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

Location and Access: The District is located approximately 10 miles west of the City’s central business district. As a result, particularly during times of increased competition, the District may find itself at a competitive disadvantage to other residential projects located closer to major urban centers.

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 \$554,106,568. See “DISTRICT DEBT.”

After issuance of the Bonds, the maximum annual debt service requirement on the Remaining Outstanding Bonds and the Bonds (2039) will be \$471,975 and the average annual debt service requirement on the Remaining Outstanding Bonds and the Bonds (2022–2029) will be \$455,923. Assuming no decrease to the District’s taxable assessed valuation as of January 1, 2021, tax rates of \$0.09 and \$0.09 per \$100 of taxable assessed valuation at a 95% tax collection rate would be necessary to pay the maximum annual debt service requirement on the Remaining Outstanding Bonds (excluding the Series 2011 Bonds) and the Bonds and the average annual debt service requirement on the Remaining Outstanding Bonds (excluding the Series 2011 Bonds) and the Bonds, 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 total tax rate of \$0.100000 per \$100 of assessed valuation comprised of a debt service tax of \$0.0037 per \$100 of assessed valuation and a maintenance and operations tax of \$0.0963 per \$100 of assessed valuation. See “DISTRICT DEBT” and “TAX DATA.”

Strategic Partnership Agreement

In February 2013, the District entered into a SPA with the City as authorized by Texas Local Government Code, Chapter 43. The SPA provides for a “full purpose annexation” of the District, which became effective on December 31, 2014, and provides that the District continues to exist as a “limited district” with powers and functions provided by law, including water, wastewater, storm sewer and solid waste services, and also including the power to levy taxes and collect user fees. The District continues to be responsible for maintenance of the System. The City has agreed to (1) pay \$0.05 per \$100 of assessed valuation plus \$60,000 annually to the District in consideration for services to be provided by the District; (2) pay a share of the non-flow related expenses pertaining to the regional sewage treatment

plant partly owned by the District (see “THE SYSTEM”) as a reservation fee for 150,000 gallons per day of capacity in the plant reserved for the City by the District; (3) after deliveries of sewage from the City begin, pay a share of other sewage treatment plant expenses; and (4) make payments to the District each year from 2015 to 2030, which payments are calculated to cover debt service on the District’s Series 2011 Bonds and are designated as consideration for the reservation of capacity in the sewage treatment plant. See “DISTRICT DEBT – Debt Service Requirements” and “TAX DATA – Estimated Overlapping Taxes.” The District makes no representation as to the likelihood or ability of the City to fulfill its obligation under the SPA. If the payments from the City are insufficient to make planned debt service payment on the Series 2011 Bonds, the District would be obligated to levy a tax in an amount sufficient to make such payment. This could result in a significantly higher tax rate within the District and negatively affect taxable assessed valuations in the District. See “– Factors Affecting Taxable Values and Tax Payments” and “TAX DATE – Estimated Overlapping Taxes”. The level of the District’s capacity in the regional sewage treatment plant could limit the type and intensity of new development that might otherwise occur in the District, which could limit user-fee revenues and taxable assessed valuations.

Tax Collections and Foreclosure Remedies

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

Registered Owners’ Remedies

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Order, the registered owners of the Bonds (the “Registered Owners”) have the right to seek of a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Order. Except for mandamus, the Bond Order does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners.

Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government’s sovereign immunity from suits for money damages, so that in the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Order may not be reduced to a judgment for money damages. If such a judgment against the District were obtained, it could not be enforced by direct levy and execution against the District’s property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the District.

Bankruptcy Limitation to Registered Owners' Rights

The enforceability of the rights and remedies of Registered Owners may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. Texas law requires a district, such as the District, to obtain the approval of the TCEQ as a condition to seeking relief under the Federal Bankruptcy Code.

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

If the petitioning District were allowed to proceed voluntarily under Chapter 9 of the Federal Bankruptcy Code, it could file a plan for an adjustment of its debts. If such a plan were confirmed by the bankruptcy court, it could, among other things, affect Registered Owners by reducing or eliminating the amount of indebtedness, deferring, or rearranging the debt service schedule, reducing or eliminating the interest rate, modifying or abrogating collateral or security arrangements, substituting (in whole or in part) other securities, and otherwise compromising and modifying the rights and remedies of the Registered Owners' claims against a district. The District may not be placed into bankruptcy involuntarily.

Marketability

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

Future Debt

Voters within the District authorized the issuance of waterworks and sewer system combination unlimited tax and revenue bonds in the aggregate amount of \$35,160,000 for purposes of acquiring and/or constructing the System to serve the District at elections held within the District on April 2, 1977, January 21, 1978, and May 12, 2012. Additionally, voters within the District authorized the issuance of waterworks and sewer system combination unlimited tax and revenue bonds for refunding purposes in the principal amount of \$14,160,000 at an election within the District on July 12, 1993. See "THE BONDS – Authority of Issuance."

Following the issuance of the Bonds, \$13,250,000 principal amount of waterworks and sewer system combination unlimited tax and revenue bonds for the purpose of acquiring and/or constructing the System and \$5,243,683 principal amount of waterworks and sewer system combination unlimited tax and revenue bonds for refunding purposes will remain authorized but unissued. Additional tax or tax and revenue bonds may be voted in the future. The Board is further empowered to borrow money, under limited circumstances, for its lawful corporate purpose and to issue revenue notes, bond anticipation notes, tax anticipation note, and other obligations as described in the Bond Order. See "THE BONDS – Issuance of Additional Debt."

The District's issuance of the remaining \$13,250,000 unlimited tax bonds for the purpose of acquiring and/or constructing the System shall be subject to approval by the TCEQ.

The District anticipates submitting a bond application to the TCEQ in the fourth quarter of 2021 requesting approval to sell approximately \$4,650,000 in principal amount of unlimited tax bonds. The District anticipates selling such bonds in the third quarter of 2022.

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 "LEGAL MATTERS."

Environmental Regulations

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

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

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

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

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

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

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

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

In order to demonstrate progress toward attainment of the EPA’s ozone standards, the TCEQ has established a state implementation plan (“SIP”) for the HGB Area setting emission control requirements, some of which regulate the inspection and use of automobiles. These types of measures could impact how people travel, what distances people

are willing to travel, where people choose to live and work, and what jobs are available in the HGB Area. These SIP requirements can negatively impact business due to the additional permitting/regulatory constraints that accompany this designation and because of the community stigma associated with a nonattainment designation. It is possible that additional controls will be necessary to allow the HGB Area to reach attainment with the ozone standards by the EPA's attainment deadlines. These additional controls could have a negative impact on the HGB Area's economic growth and development.

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

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

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

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

The District is subject to the TCEQ's General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the "MS4 Permit"), which was issued by the TCEQ on January 24, 2019. The MS4 Permit authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems. The District has applied for and received coverage under the MS4 Permit 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.

Infectious Disease Outbreak – 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 the State of Texas because of the effects of COVID-19. Subsequently, in response to a rise in COVID-19 infections in the State of 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 the State of 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) have started 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 should there be a reversal of economic activity and re-imposition of restrictions.

Hurricane Harvey and Tropical Storm Imelda

The Houston area, including the County, sustained widespread rain damage and flooding as a result of Hurricane Harvey’s landfall along the Texas Gulf Coast on August 25, 2017, and historic levels of rainfall during the succeeding four days. According to the Engineer (herein defined), the District’s water, sanitary sewer, and drainage facilities sustained no damage as a result of Hurricane Harvey, and there was no interruption of water and sewer service.

According to the Engineer, approximately 40 lakefront homes within the District experienced flooding as a result of Hurricane Harvey.

The Houston area, including the County, sustained moderate flooding as a result of Tropical Storm Imelda along the Texas Gulf Coast on September 17, 2019. According to the Engineer, the District's water, sanitary sewer, and drainage facilities sustained no damage as a result of Tropical Storm Imelda, and there was no interruption of water and sewer service. According to the Engineer, no homes within the District experienced flooding or structural damage as result of Tropical Storm Imelda.

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."

Specific Flood Type Risks

The District may be subject to the following 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.

Potential Impact of Natural Disaster

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 hurricane, tornado, tropical storm, or other adverse weather event. In the event that a natural disaster should damage or destroy improvements and personal property in the District, the assessed value of such taxable properties could be substantially reduced, resulting in a decrease in the taxable assessed valuation of the District or an increase in the District's tax rate.

There can be no assurance that a casualty will be covered by insurance (certain casualties, including flood, are usually excepted unless specific insurance is purchased), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild, repair, or replace any taxable properties in the District that were damaged. Even if insurance proceeds are available and damaged properties are rebuilt, there could be a lengthy period in which assessed values in the District would be adversely affected. There can be no assurance the District will not sustain damage from such natural disasters

Changes in Tax Legislation

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

Bond Insurance Risk Factors

In the event of default of the payment of principal or interest with respect to the Bonds when all or some becomes due, any owner of the Bonds shall have a claim under the applicable bond insurance policy (the "Policy") for such payments. However, in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments are to be made in such amounts and at such times as such payments would have been due had there not been any such acceleration. The Policy does not insure against redemption premium, if any. The payment of principal and interest in connection with mandatory or optional

prepayment of the Bonds by the issuer which is recovered by the issuer from the bond owner as a voidable preference under applicable bankruptcy law is covered by the insurance policy, however, such payments will be made by the provider of the Policy (the "Bond Insurer") at such time and in such amounts as would have been due absence such prepayment by the District unless the Bond Insurer chooses to pay such amounts at an earlier date.

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

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

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

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

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

LEGAL MATTERS

Legal Opinions

Issuance of the Bonds is subject to the approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and binding obligations of the District payable from an annual ad valorem tax levied without limit as to rate or amount upon all taxable property within the District. Issuance of the Bonds is also subject to the legal opinion of Bond Counsel that, based upon examination of the transcript of the proceedings incident to authorization and issuance of the Bonds, the Bonds are valid and legally binding obligations of the District payable from the sources and enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity, and are payable from annual ad valorem taxes, which are not limited by applicable law in rate or amount, levied against all property within the District which is not exempt from taxation by or under applicable law. The legal opinion will further state that the interest on the Bonds is excludable from gross income for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions as described below under "TAX MATTERS." The legal opinion of Bond Counsel may be printed on the Bonds.

Bond Counsel was engaged by the District. Except as noted below, Bond Counsel did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any factual information contained herein. In its capacity as Bond Counsel, such firm has reviewed the information appearing under the captions or sub-captions "PLAN OF FINANCING - Escrow Agreement," "THE BONDS," "THE DISTRICT-General," "TAXING PROCEDURES," "LEGAL MATTERS" (insofar as such section relates to the legal opinion of Bond Counsel), and "CONTINUING DISCLOSURE" and such firm is of the opinion that the information relating to the Bonds and legal matters contained herein under such captions and sub-captions is an accurate description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Bond Order.

McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Special Tax Counsel, will render an opinion to the effect that, under existing law, interest on the Bonds is excludable from gross income for federal income tax purposes; and, as such, interest on the Bonds will not be subject to the alternative minimum tax. In its capacity as Special Tax Counsel, such

firm has reviewed the information appearing under the captions or sub-captions “LEGAL MATTERS – Legal Opinions” (insofar as such relates to the legal opinion of Special Tax Counsel) and “TAX MATTERS” herein solely to determine whether such information fairly summarizes the procedures and documents referred to herein and is in accordance with applicable state law with regard to the sale of the Bonds and federal tax law, as applicable.

Bond Counsel and Special Tax Counsel have not independently verified factual information contained in this Official Statement, and such firms have not conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon such firms’ limited as an assumption of responsibility for, or an expression of opinion of any kind with regard to the accuracy or completeness of any of the other information contained herein. Bond Counsel will not be responsible in any manner for matters addressed in the opinion of Special Tax Counsel and, likewise, Special Tax Counsel will not be responsible in any manner for the matters addressed in the opinion of Bond Counsel. Moreover, Bond Counsel and Special Tax Counsel have no joint responsibility with respect to the Bonds or the proceedings relating to the Bonds. Bond Counsel will be solely responsible for its opinion and Special Tax Counsel will be solely responsible for its opinion. Bond Counsel’s and Special Tax Counsel’s fees for services rendered with response to the sale of the Bonds are contingent upon the issuance and delivery of the Bonds.

No-Litigation Certificate

The District will furnish the Underwriter a certificate, dated as of the date of delivery of the Bonds, executed by both the President and Secretary of the Board, to the effect that no litigation of any nature is then pending against or, to the best knowledge and belief of the certifying officers, threatened against the District contesting or attacking the Bonds; restraining or enjoining the authorization, 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 of proceedings for the authorization, execution or delivery of the Bonds; or affecting the validity of the Bonds, the corporate existence or boundaries of the District or the titles of the then present officers of the Board.

No Material Adverse Change

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

TAX MATTERS

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

In rendering its opinion, Special Tax Counsel will rely upon (a) the opinion of Coats Rose, P.C., Bond Counsel, that the Bonds are valid and binding obligations of the District payable from the proceeds of a generally-applicable ad valorem tax, (b) the District’s federal tax certificate and the verification report prepared by Robert Thomas CPA, LLC, and (c) covenants of the District contained in the Bond documents relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the property financed or refinanced therewith. Failure by the District to observe the aforementioned representations or covenants could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

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

Special Tax Counsel’s opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations, and covenants. Special Tax Counsel’s opinion is not a guarantee of a result. Existing Law is subject to change by Congress and to subsequent judicial and administrative interpretation

by the courts and the Department of the Treasury. There can be no assurance that such Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership, or disposition of the Bonds.

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

Collateral Federal Income Tax Consequences

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership, or disposition of the Bonds. This discussion is based on Existing Law, which is subject to change or modification, retroactively.

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

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

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation. Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount bonds" to the extent such gain does not exceed the accrued market discount of such bonds; although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

Qualified Tax-Exempt Obligations

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

The Bonds have been designated, or deemed designated, as "qualified tax-exempt obligations" within the meaning of section 265(b) of the Code. In furtherance of that designation, the Issuer will covenant to take such action that would assure, or to refrain from such action that would adversely affect, the treatment of the Bonds as "qualified tax-exempt obligations." Potential purchasers should be aware that if the issue price to the public exceeds \$10,000,000, there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of \$10,000,000 is

disregarded; however, the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the \$10,000,000 limitation and the Bonds would not be "qualified tax-exempt obligations.

VERIFICATION OF MATHEMATICAL CALCULATIONS

The arithmetical accuracy of certain computations included in the schedules provided by the Financial Advisor on behalf of the District relating to (a) computation of the adequacy of the cash and Escrowed Securities to pay the principal or redemption price of and interest on the Refunded Bonds, and (b) the computation of the yields on the Bonds was verified by Robert Thomas CPA LLC. The computations were independently verified by Robert Thomas CPA LLC based upon certain assumptions and information supplied by the Underwriter on behalf of the District, and the District. Robert Thomas CPA LLC has restricted its procedures to verifying the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information upon which the computations are based and accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions or the achievability of future events.

GENERAL CONSIDERATIONS

Sources and Compilation of Information

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

Consultants

In approving this Official Statement, the District has relied upon the following consultants:

The information contained in this Official Statement relating to development and engineering generally and, in particular, the development and engineering information included in the sections entitled "THE DISTRICT," "DEVELOPMENT OF THE DISTRICT" and "THE SYSTEM" has been provided by the Engineer and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

The information contained in this Official Statement relating to the breakdown of the District's historical assessed value and principal taxpayers, including particularly such information contained in the section entitled "TAX DATA" and "DISTRICT DEBT" has been provided by the Tax Assessor/Collector and the Appraisal District and is included herein in reliance upon the authority of such firm as an expert in assessing property values and collecting taxes.

The information obtained in this Official Statement in "APPENDIX A - Financial Statements of the District" has been provided by McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountants, and has been included herein in reliance upon such firm's expertise in the fields of auditing and accounting. No person is entitled to rely upon the limited participation of such firm as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any other information contained herein.

Updating of Official Statement

For the period beginning on the date of the award of the sale of the Bonds to the Initial Purchaser and ending on the ninety-first (91st) day after the "end of the underwriting period" (as defined in SEC Rule 15c2-12 of the Securities Exchange Act (the "Rule")), if any event shall occur of which the District has knowledge and as a result of which it is necessary to amend or supplement this Official Statement in order to make the statements herein, in light of the circumstances when this Official Statement is delivered to a prospective purchaser, not materially misleading, the District will promptly notify the Initial Purchaser of the occurrence of such event and will cooperate in the preparation of a revised Official Statement, or amendments or supplements hereto, so that the statements in this Official Statement, as revised, amended or supplemented, will not, in light of the circumstances when this Official Statement is delivered to a prospective purchaser, be materially misleading. The District assumes no responsibility for supplementing this Official Statement thereafter.

Certification as to Official Statement

The District, acting by and through its Board 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, 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.

CONTINUING DISCLOSURE

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

Annual Reports

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

The information to be updated with respect to the District includes all quantitative financial information and operating data relative to the District of the general type included in this Official Statement under the headings "DISTRICT DEBT - General" (except under the subheading "Direct and Estimated Overlapping Debt Statement"), "TAX DATA," and "APPENDIX A". The District will update and provide this information within six months after the end of each of fiscal year ending in or after 2021.

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 December 31. Accordingly, it must provide updated information by January 31 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify EMMA of the change

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 days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other events affecting the tax-exempt status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of SEC Rule 15c2-12; (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District or other obligated person within the meaning of the Rule, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District or other obligated person within the meaning of the Rule, any of which affect Beneficial Owners of the Bonds, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events

under the terms of a financial obligation of the District or other obligated person within the meaning of the Rule, any of which reflect financial difficulties. The terms “material” and “financial obligation” when used in this paragraph shall have the meanings ascribed to them under federal securities laws. Neither the Bonds nor the Bond Order makes any provision for debt service reserves or liquidity enhancement. 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 Municipal Securities Rulemaking Board consistent with the Rule. 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

The District has agreed to provide the foregoing notices 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 material 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 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 Initial Purchaser 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 Undertakings

During the past five years, the District has complied with its prior continuing disclosure agreement in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission.

MISCELLANEOUS

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

This Official Statement was approved by the Board of Directors of Montgomery County Utility District No. 4 as of the date shown on the cover of this Official Statement.

/s/ Gary S. North
President, Board of Directors
Montgomery County Utility District No. 4

ATTEST:

/s/ Mike Ganson
Secretary, Board of Directors
Montgomery County Utility District No. 4

APPENDIX A
Financial Statements of the District

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4

MONTGOMERY COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

DECEMBER 31, 2020

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
MONTGOMERY COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
DECEMBER 31, 2020

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Montgomery County Utility District No. 4
Montgomery County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Montgomery County Utility District No. 4 (the "District"), as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

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

Other Information

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



McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

April 22, 2021

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2020**

Management's discussion and analysis of Montgomery County Utility District No. 4's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2020. Please read it in conjunction with the District's financial statements.

USING THIS ANNUAL REPORT

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

FUND FINANCIAL STATEMENTS

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

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2020**

FUND FINANCIAL STATEMENTS (Continued)

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

OTHER INFORMATION

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The District's assets exceeded liabilities and deferred inflows of resources by \$13,333,488 as of December 31, 2020. A portion of the District's net position reflects its net investment in capital assets (water and wastewater facilities, less any debt used to acquire those assets that is still outstanding). The District uses these assets to provide water and wastewater services. The following is a comparative analysis of government-wide changes in net position:

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2020**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	<u>Summary of Changes in the Statement of Net Position</u>		
	<u>2020</u>	<u>2019</u>	<u>Change Positive (Negative)</u>
Current and Other Assets	\$ 14,249,851	\$ 14,834,897	\$ (585,046)
Capital Assets (Net of Accumulated Depreciation)	<u>10,521,031</u>	<u>10,566,533</u>	<u>(45,502)</u>
Total Assets	<u>\$ 24,770,882</u>	<u>\$ 25,401,430</u>	<u>\$ (630,548)</u>
Long-Term Liabilities	\$ 9,913,470	\$ 10,438,662	\$ 525,192
Other Liabilities	<u>1,009,048</u>	<u>955,558</u>	<u>(53,490)</u>
Total Liabilities	<u>\$ 10,922,518</u>	<u>\$ 11,394,220</u>	<u>\$ 471,702</u>
Deferred Inflows of Resources	<u>\$ 514,876</u>	<u>\$ 437,978</u>	<u>\$ (76,898)</u>
Net Position:			
Net Investment in Capital Assets	\$ 5,162,901	\$ 4,807,415	\$ 355,486
Restricted	(64,819)	(72,049)	7,230
Unrestricted	<u>8,235,406</u>	<u>8,833,866</u>	<u>(598,460)</u>
Total Net Position	<u>\$ 13,333,488</u>	<u>\$ 13,569,232</u>	<u>\$ (235,744)</u>

*

The following table provides a summary of the District's operations for the years ending December 31, 2020 and December 31, 2019. The District's net position decreased by \$235,744.

	<u>Summary of Changes in the Statement of Activities</u>		
	<u>2020</u>	<u>2019</u>	<u>Change Positive (Negative)</u>
Revenues:			
Property Taxes	\$ 437,909	\$ 367,706	\$ 70,203
Charges for Services	1,257,865	1,241,883	15,982
Other Revenues	<u>461,531</u>	<u>550,947</u>	<u>(89,416)</u>
Total Revenues	<u>\$ 2,157,305</u>	<u>\$ 2,160,536</u>	<u>\$ (3,231)</u>
Expenses for Services	<u>2,393,049</u>	<u>2,521,098</u>	<u>128,049</u>
Change in Net Position	<u>\$ (235,744)</u>	<u>\$ (360,562)</u>	<u>\$ 124,818</u>
Net Position, Beginning of Year	<u>13,569,232</u>	<u>13,929,794</u>	<u>(360,562)</u>
Net Position, End of Year	<u>\$ 13,333,488</u>	<u>\$ 13,569,232</u>	<u>\$ (235,744)</u>

*

*As adjusted, see Note 14.

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2020**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of December 31, 2020, were \$8,025,069, a decrease of \$198,690 from the prior year.

The General Fund fund balance decreased by \$105,315, primarily due to a transfer of funds to the Debt Service Fund for debt payments.

The Debt Service Fund fund balance increased by \$5,829, primarily due to the structure of the District's outstanding debt and a transfer of funds from the General Fund for debt service payments.

The Capital Projects Fund fund balance decreased by \$99,204, primarily due to proceeds from bonds issued in previous years being expended on capital projects.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the General Fund budget during the fiscal year. Actual revenues were \$148,570 more than budgeted revenues primarily due to higher than anticipated service revenues and property tax revenues. Actual expenditures were \$135,967 less than budgeted expenditures primarily due to lower than anticipated costs across most categories with the exception of capital costs and miscellaneous costs.

CAPITAL ASSETS

Capital assets as of December 31, 2020, total \$10,521,031 (net of accumulated depreciation) and include land, as well as the water and wastewater systems. Significant capital asset activity completed during the current fiscal year included Lake Shore Cove, Section 1 wastewater and drainage, lift pumps, ground storage tank floor replacement, cathodic protection system for storage tank, generator automatic transfer switch and water plant no. 1 generator relocation.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2020	2019	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 134,299	\$ 134,299	\$
Construction in Progress	33,189	45,392	(12,203)
Capital Assets, Net of Accumulated Depreciation:			
Water System	3,622,806	3,627,342	(4,536)
Wastewater System	6,730,737	6,759,500	(28,763)
Total Net Capital Assets	\$ 10,521,031	\$ 10,566,533	\$ (45,502)

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2020**

LONG-TERM DEBT ACTIVITY

At year-end, the District had total bond debt payable of \$10,435,000. The changes in the debt position of the District during the fiscal year ended December 31, 2020, are summarized as follows:

Bond Debt Payable, January 1, 2020	\$ 10,935,000
Less: Bond Principal Paid	<u>500,000</u>
Bond Debt Payable, December 31, 2020	<u>\$ 10,435,000</u>

The District has an underlying rating of “A+”. The Series 2011 Bonds carry an insured rating of “AA” by virtue of bond insurance issued by Assured Guaranty Municipal. The Series 2014 Bonds carry an insured rating of “AA” by virtue of bond insurance issued by Build America Mutual.

CONTACTING THE DISTRICT’S MANAGEMENT

This financial report is designed to provide a general overview of the District’s finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Montgomery County Utility District No. 4, c/o Coats Rose, P.C., 9 Greenway Plaza, Suite 1000, Houston, TX 77046.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
DECEMBER 31, 2020

	General Fund	Debt Service Fund
ASSETS		
Cash	\$ 157,545	\$ 245,954
Investments	2,895,560	44,455
Receivables:		
Property Taxes	274,663	46,622
Penalty and Interest on Delinquent Taxes		
Service Accounts	141,887	
Accrued Interest	6,755	
Other	91,079	
Due from Other Funds	226,182	
Prepaid Costs	13,709	
Due from City of Conroe		
Advance for Joint Wastewater Treatment		
Plant Operations	20,000	
Land		
Construction in Progress		
Capital Assets (Net of Accumulated Depreciation)		
TOTAL ASSETS	\$ 3,827,380	\$ 337,031

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

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 3,041,555	\$ 3,445,054	\$	\$ 3,445,054
2,038,785	4,978,800		4,978,800
	321,285		321,285
		2,279	2,279
	141,887		141,887
	6,755		6,755
	91,079		91,079
	226,182	(226,182)	
	13,709		13,709
		5,229,003	5,229,003
	20,000		20,000
		134,299	134,299
		33,189	33,189
		<u>10,353,543</u>	<u>10,353,543</u>
<u>\$ 5,080,340</u>	<u>\$ 9,244,751</u>	<u>\$ 15,526,131</u>	<u>\$ 24,770,882</u>

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

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
DECEMBER 31, 2020

	General Fund	Debt Service Fund
LIABILITIES		
Accounts Payable	\$ 197,605	\$
Accrued Interest Payable		
Annexation Deposits	12,020	
Due to Other Funds		226,182
Security Deposits	140,240	
Long-Term Liabilities:		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
TOTAL LIABILITIES	\$ 349,865	\$ 226,182
DEFERRED INFLOWS OF RESOURCES		
Property Taxes	\$ 514,110	\$ 68,865
Standby Fees	60,660	
TOTAL DEFERRED INFLOWS OF RESOURCES	\$ 574,770	\$ 68,865
FUND BALANCES		
Nonspendable:		
Prepaid Costs	\$ 13,709	\$
Joint Wastewater Treatment Plant		
Operating Advance	20,000	
Restricted for Authorized Construction		
Restricted for Debt Service		41,984
Assigned to 2021 Budget Deficit	251,300	
Unassigned	2,617,736	
TOTAL FUND BALANCES	\$ 2,902,745	\$ 41,984
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 3,827,380	\$ 337,031
NET POSITION		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
TOTAL NET POSITION		

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

<u>Capital Projects Fund</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$	\$ 197,605	\$	\$ 197,605
		134,183	134,183
	12,020		12,020
	226,182	(226,182)	
	140,240		140,240
		525,000	525,000
		9,913,470	9,913,470
<u>\$ -0-</u>	<u>\$ 576,047</u>	<u>\$ 10,346,471</u>	<u>\$ 10,922,518</u>
\$	\$ 582,975	\$ (68,099)	\$ 514,876
	60,660	(60,660)	
<u>\$ -0-</u>	<u>\$ 643,635</u>	<u>\$ (128,759)</u>	<u>\$ 514,876</u>
\$	\$ 13,709	\$ (13,709)	\$
	20,000	(20,000)	
5,080,340	5,080,340	(5,080,340)	
	41,984	(41,984)	
	251,300	(251,300)	
	2,617,736	(2,617,736)	
<u>\$ 5,080,340</u>	<u>\$ 8,025,069</u>	<u>\$ (8,025,069)</u>	<u>\$ - 0 -</u>
<u>\$ 5,080,340</u>	<u>\$ 9,244,751</u>		
		\$ 5,162,901	\$ 5,162,901
		(64,819)	(64,819)
		8,235,406	8,235,406
		<u>\$ 13,333,488</u>	<u>\$ 13,333,488</u>

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

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2020

Total Fund Balances - Governmental Funds	\$	8,025,069
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.		10,521,031
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Amounts due from the City of Conroe to defray future debt service costs are not current financial resources and, therefore, are not reported as assets in the governmental funds.		5,229,003
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Deferred inflows of resources related to property tax revenues and penalty and interest receivable for the 2019 and prior tax levies and standby fees became part of recognized revenue in the governmental activities of the District.		131,038
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Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year end consist of:

Accrued Interest Payable	\$ (134,183)	
Bonds Payable	<u>(10,438,470)</u>	<u>(10,572,653)</u>
Total Net Position - Governmental Activities		<u>\$ 13,333,488</u>

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

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MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2020

	General Fund	Debt Service Fund
REVENUES		
Property Taxes	\$ 434,765	\$ 200
Water Service	529,256	
Wastewater Service	652,351	
Penalty and Interest	10,099	3,146
Tap Connection and Inspection Fees	67,250	
Investment Revenues	43,281	423
Contract Revenues	789,677	
Miscellaneous Revenues	86,166	35
TOTAL REVENUES	\$ 2,612,845	\$ 3,804
EXPENDITURES/EXPENSES		
Service Operations:		
Professional Fees	\$ 240,778	\$ 867
Contracted Services	389,595	5,591
Purchased Wastewater Service	224,109	
Utilities	15,906	
Repairs and Maintenance	446,867	
Depreciation		
Other	255,268	71
Capital Outlay	225,960	
Debt Service:		
Bond Principal		500,000
Bond Interest		411,123
TOTAL EXPENDITURES/EXPENSES	\$ 1,798,483	\$ 917,652
EXCESS (DEFICIENCY) OF REVENUES OVER		
EXPENDITURES/EXPENSES	\$ 814,362	\$ (913,848)
OTHER FINANCING SOURCES (USES)		
Transfers In (Out)	\$ (919,677)	\$ 919,677
NET CHANGE IN FUND BALANCES	\$ (105,315)	\$ 5,829
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION -		
JANUARY 1, 2020	3,008,060	36,155
FUND BALANCES/NET POSITION -		
DECEMBER 31, 2020	\$ 2,902,745	\$ 41,984

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 434,965	\$ 2,944	\$ 437,909
	529,256		529,256
	652,351		652,351
	13,245	(4,237)	9,008
	67,250		67,250
38,116	81,820		81,820
	789,677	(491,647)	298,030
	86,201	(4,520)	81,681
\$ 38,116	\$ 2,654,765	\$ (497,460)	\$ 2,157,305
\$	\$ 241,645	\$	\$ 241,645
	395,186		395,186
	224,109		224,109
	15,906		15,906
	446,867		446,867
	255,339	408,782	408,782
137,320	363,280	(363,280)	255,339
	500,000	(500,000)	
	411,123	(5,908)	405,215
\$ 137,320	\$ 2,853,455	\$ (460,406)	\$ 2,393,049
\$ (99,204)	\$ (198,690)	\$ (37,054)	\$ (235,744)
\$ -0-	\$ -0-	\$ -0-	\$ -0-
\$ (99,204)	\$ (198,690)	\$ 198,690	\$
		(235,744)	(235,744)
5,179,544	8,223,759	5,345,473	13,569,232
\$ 5,080,340	\$ 8,025,069	\$ 5,308,419	\$ 13,333,488

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

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2020**

Net Change in Fund Balances - Governmental Funds	\$ (198,690)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied.	2,944
Governmental funds report penalty and interest revenue on property taxes and standby fees when collected. However, in the Statement of Activities, revenue is recorded when penalties and interest and standby fees are assessed.	(8,757)
Governmental funds report City of Conroe payments for debt service as revenues. In the government-wide financial statements, the payments decrease long-term receivables.	(491,647)
Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.	(408,782)
Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, capital assets are increased by new purchases and the Statement of Activities is not affected.	363,280
Governmental funds report bond principal payments as expenditures. However, in the Statement of Net Position, bond principal payments are reported as decreases in long-term liabilities.	500,000
Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end.	5,908
Change in Net Position - Governmental Activities	<u>\$ (235,744)</u>

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

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 1. CREATION OF DISTRICT

Montgomery County Utility District No. 4 (the “District”) was created effective May 24, 1971, by an act of the 62nd Legislature of the State of Texas, Regular Session, 1971. Pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants and improvements necessary to provide water, sanitary sewer service, storm sewer drainage, irrigation, solid waste collection and disposal, including recycling, parks and recreational facilities for the residents of the District. The Board of Directors held its first meeting on June 6, 1972, and the first bonds were sold on September 7, 1978.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

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

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

The District has entered into a joint venture with Montgomery County Utility District No. 3 (“District No. 3”) for the construction and operation of joint wastewater treatment facilities. Oversight responsibility of the facilities is by District No. 3. Additional disclosure is provided in Note 8.

Financial Statement Presentation

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

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

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

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

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

Government-Wide Financial Statements

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

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

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide Financial Statements (Continued)

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

Fund Financial Statements

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

Governmental Funds

The District has three major governmental funds.

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

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

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

Basis of Accounting

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

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

Property taxes considered available by the District and included in revenue include 2019 taxes collected during the period October 1, 2019, to December 31, 2020. In addition, taxes collected from January 1, 2020, to December 31, 2020, for the 2018 and prior tax levies are included in revenue. The 2020 tax levy has been fully deferred to finance the District's 2021 fiscal year operations.

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis. As of December 31, 2020, the Debt Service Fund owes the General Fund \$226,182 for maintenance tax collections. During the current fiscal year, the General Fund transferred \$919,677 to the Debt Service Fund for debt service payments.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenditures in the governmental fund incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Engineering fees and certain other costs are capitalized as part of the asset.

Assets are capitalized, including infrastructure assets, if they have an original cost greater than \$5,000 and a useful life over two years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation. Estimated useful lives are as follows:

	Years
Buildings	40
Water System	10-45
Wastewater System	10-45
All Other Equipment	5-20

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgeting

An annual unappropriated budget is adopted for the General Fund by the District's Board of Directors. The budget is prepared using the same method of accounting as for financial reporting. The original General Fund budget for the current year was not amended. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund presents the original and revised budget amounts, if revised, compared to the actual amounts of revenues and expenditures for the current year.

Pensions

The District has not established a pension plan as the District does not have employees. The Internal Revenue Service determined that directors are considered to be “employees” for Federal payroll tax purposes only.

Measurement Focus

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

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

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

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

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

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

Assigned: amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. The District has not adopted a formal policy regarding the assignment of fund balances. As of December 31, 2020, the District has assigned \$251,300 of the General Fund fund balance for a projected budget deficit for the year ending December 31, 2021.

Unassigned: all other spendable amounts in the General Fund.

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

Accounting Estimates

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

NOTE 3. LONG-TERM DEBT

	Series 2011	Series 2014
Amount Outstanding - December 31, 2020	\$ 3,840,000	\$ 6,595,000
Interest Rates	3.00% - 4.25%	3.00% - 4.25%
Maturity Dates - Serially Beginning/Ending	March 1, 2021/2030	March 1, 2021/2039
Interest Payment Dates	March 1, September 1	March 1, September 1
Callable Dates	March 1, 2019*	March 1, 2022*

* Or on any date thereafter, callable at par plus unpaid accrued interest in whole or in part in inverse order of maturity in integral multiples of \$5,000 at the option of the District. Series 2011 term bonds due March 1, 2026, March 1, 2028, and March 1, 2030 are subject to mandatory redemption beginning March 1, 2025, March 1, 2027, and March 1, 2029, respectively. Series 2014 term bonds due March 1, 2031, March 1, 2033, March 1, 2035, March 1, 2037, and March 1, 2039 are subject to mandatory redemption beginning March 1, 2030, March 1, 2032, March 1, 2034, March 1, 2036, and March 1, 2038, respectively.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 3. LONG-TERM DEBT (Continued)

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

	January 1, 2020	Additions	Retirements	December 31, 2020
Bonds Payable	\$ 10,935,000	\$	\$ 500,000	\$ 10,435,000
Unamortized Bond Premiums	3,662	—	192	3,470
Bonds Payable, net	\$ 10,938,662	\$ -0-	\$ 500,192	\$ 10,438,470
		Amount Due Within One Year		\$ 525,000
		Amount Due After One Year		9,913,470
		Bonds Payable, net		\$ 10,438,470

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

Fiscal Year	Principal	Interest	Total
2021	\$ 525,000	\$ 393,361	\$ 918,361
2022	550,000	374,353	924,353
2023	580,000	353,773	933,773
2024	605,000	332,841	937,841
2025	640,000	311,454	951,454
2026-2030	3,710,000	1,169,820	4,879,820
2031-2035	1,935,000	601,725	2,536,725
2036-2039	1,890,000	165,325	2,055,325
	\$ 10,435,000	\$ 3,702,652	\$ 14,137,652

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

During the year ended December 31, 2020, the District levied an ad valorem debt service tax at the rate of \$0.0085 per \$100 of assessed valuation, which resulted in a tax levy of \$43,765 on the adjusted taxable valuation of \$514,827,781 for the 2020 tax year. The bond orders require the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. See Note 7 for the maintenance tax levy.

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

As of December 31, 2020, the District had authorized but unissued tax bonds in the amount of \$13,250,000 and refunding bonds authorization of \$5,243,683.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 4. SIGNIFICANT BOND RESOLUTION AND LEGAL REQUIREMENTS

- A. The bond resolutions state that so long as any of the bonds or coupons remain outstanding, the District covenants that it will at all times keep insured such parts of the system as are customarily insured by municipal corporations and political sub-divisions in Texas operating like properties in similar locations under the same circumstances with a responsible insurance company or companies against risks, accidents or casualties against which and to the extent insurance is customarily carried by such municipal corporations and political sub-divisions.

- B. The bond resolutions state that the District is required by the Securities and Exchange Commission to provide continuing disclosure of certain general financial information and operating data to each nationally recognized municipal securities information depository and the state information depository. This information, along with the audited annual financial statements, is to be provided within six months after the end of each fiscal year and shall continue to be provided through the life of the bonds.

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

NOTE 5. DEPOSITS AND INVESTMENTS

Deposits

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

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year-end, the carrying amount of the District's deposits was \$5,375,054 and the bank balance was \$5,273,493. The District was not exposed to custodial credit risk at year-end.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Deposits (Continued)

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

	Cash	Certificates of Deposit	Total
GENERAL FUND	\$ 157,545	\$ 1,930,000	\$ 2,087,545
DEBT SERVICE FUND	245,954		245,954
CAPITAL PROJECTS FUND	3,041,555		3,041,555
TOTAL DEPOSITS	\$ 3,445,054	\$ 1,930,000	\$ 5,375,054

Investments

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

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

The District invests in Texas Cooperative Liquid Assets Securities System Trust (“Texas CLASS”), an external public funds investment pool that is not SEC-registered. Public Trust Advisors, LLC serves as the pool’s administrator and investment advisor. The pool is subject to the general supervision of the Board of Trustees and its Advisory Board. Wells Fargo Bank, N.A. serves as custodian for the pool. Investments held by Texas CLASS are priced to market on a weekly basis. The investments are considered to be Level 1 investments because their fair value is measured by quoted prices in active markets. The fair value of the District’s position in the pool is the same as the value of the pool shares. There are no limitations or restrictions on withdrawals from Texas CLASS.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

The District records its investments in certificates of deposit at acquisition cost.

As of December 31, 2020, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities of Less Than 1 Year
<u>GENERAL FUND</u>		
Texas CLASS	\$ 965,560	\$ 965,560
Certificates of Deposit	1,930,000	1,930,000
<u>DEBT SERVICE FUND</u>		
Texas CLASS	44,455	44,455
<u>CAPITAL PROJECTS FUND</u>		
Texas CLASS	<u>2,038,785</u>	<u>2,038,785</u>
TOTAL INVESTMENTS	<u>\$4,978,800</u>	<u>\$ 4,978,800</u>

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At December 31, 2020, the investment rating for Texas CLASS was AAAM. The District also manages credit risk by investing in certificates of deposit covered by FDIC insurance.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District considers the investments in Texas CLASS to have a maturity of less than one year due to the fact the share positions can usually be redeemed each day at the discretion of the District, unless there has been a significant change in value. The District also manages interest rate risk by investing in certificates of deposit with maturities of less than one year.

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

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2020 is as follows:

	January 1, 2020	Increases	Decreases	December 31, 2020
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 134,299		\$	\$ 134,299
Construction in Progress	45,392	363,280	375,483	33,189
Total Capital Assets Not Being Depreciated	<u>\$ 179,691</u>	<u>\$ 363,280</u>	<u>\$ 375,483</u>	<u>\$ 167,488</u>
Capital Assets Subject to Depreciation				
Water System	\$ 5,807,287	\$ 151,930	\$	\$ 5,959,217
Wastewater System	10,425,460	223,553		10,649,013
Total Capital Assets Subject to Depreciation	<u>\$ 16,232,747</u>	<u>\$ 375,483</u>	<u>\$ -0-</u>	<u>\$ 16,608,230</u>
Accumulated Depreciation				
Water System	\$ 2,179,945	\$ 156,466		\$ 2,336,411
Wastewater System	3,665,960	252,316		3,918,276
Total Accumulated Depreciation	<u>\$ 5,845,905</u>	<u>\$ 408,782</u>	<u>\$ -0-</u>	<u>\$ 6,254,687</u>
Total Depreciable Capital Assets, Net of Accumulated Depreciation	<u>\$ 10,386,842</u>	<u>\$ (33,299)</u>	<u>\$ -0-</u>	<u>\$ 10,353,543</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 10,566,533</u>	<u>\$ 329,981</u>	<u>\$ 375,483</u>	<u>\$ 10,521,031</u>

NOTE 7. MAINTENANCE TAX

On April 1, 1978, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$1.00 per \$100 of assessed valuation of taxable property within the District. During the current fiscal year, the District levied an ad valorem maintenance tax rate of \$0.0915 per \$100 of assessed valuation, which resulted in a tax levy of \$471,111 on the adjusted taxable valuation of \$514,827,781 for the 2020 tax year. This maintenance tax is to be used by the General Fund to pay expenditures of operating the District's waterworks and wastewater system. The 2020 tax levy has been fully deferred.

NOTE 8. CONTRACTS WITH OTHER DISTRICTS

The District has multiple expired and superseded contracts with District No. 3. On March 22, 2012, the District and District No. 3 entered into the Agreement For Financing, Construction, Ownership, Operation, and Maintenance of Water Facilities (the "Agreement"). This Agreement embodies the entire understanding between the District and District No. 3 regarding water services and provides that there are no prior effective representations, warranties, or agreements between the districts as to water services. The Agreement does not include monthly connection or transmission fees. On October 24, 2019, the District and District No. 3 entered into the First Amendment to the Agreement dated March 22, 2012, (the "First Amendment"). The First Amendment, in addition to clarifying terms referenced in the Agreement, outlines the District's

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 8. CONTRACTS WITH OTHER DISTRICTS (Continued)

maintenance and operation and reimbursement commitments to District No. 3. The First Amendment governs how and by what percent the District is obligated to reimburse District No. 3 for costs incurred in associated with the shared water facilities. The First Amendment does not include monthly connection or transmission fees.

In May 1991, the sewage treatment plant expansion was completed, and the districts began sharing operating costs. On April 18, 2011, the districts agreed to commence construction of a new wastewater treatment plant at the shared expense of the districts.

The districts jointly own the 950,000 gallons-per-day plant. District No. 3 operates the plant on behalf of the districts. Operating costs are shared based on costs per equivalent connection times the number of equivalent connections in each district. During the current fiscal year, the District was billed \$224,109 for its share of operating costs and had an advance for wastewater treatment plant operations of \$20,000 with District No. 3.

The following summary data of the joint wastewater treatment plant is presented for the fiscal year ended December 31, 2020. A copy of the financial statements for District No. 3 can be obtained by contacting Norton Rose Fulbright US LLP, 1301 McKinney, Suite 5100, Houston, TX 77010-3095.

Total Assets	\$ 172,613
Total Liabilities	<u>132,613</u>
Total Fund Balance	<u>\$ 40,000</u>
Total Revenues	\$ 550,323
Total Expenditures	<u>550,323</u>
Net Change in Fund Balance	\$ -0-
Beginning Fund Balance	<u>40,000</u>
Ending Fund Balance	<u>\$ 40,000</u>

NOTE 9. LONE STAR GROUNDWATER CONSERVATION DISTRICT AND GROUNDWATER REDUCTION PLAN

The District is located within the boundaries of the Lone Star Groundwater Conservation District (the “Conservation District”). The Conservation District was created under Article 16, Section 59 of the Texas Constitution by House Bill 2362 (the “Act”), as passed by the 77th Texas Legislature, in 2001. The Act empowers the Conservation District for purposes including the acquisition and provision of surface water and groundwater for residential, commercial, industrial, agricultural, and other uses, the reduction of groundwater withdrawals, the conservation, preservation, protection, recharge, and prevention of waste of groundwater, and of groundwater reservoirs or their subdivisions, and the control of subsidence caused by withdrawal

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 9. LONE STAR GROUNDWATER CONSERVATION DISTRICT AND GROUNDWATER REDUCTION PLAN (Continued)

of water from those groundwater reservoirs or their subdivisions. The Conservation District is overseeing that its participants comply with subsidence district pumpage requirements. The District is required to convert its water supply to surface water over a period of time.

The Conservation District charges a fee, currently \$0.085 per 1,000 gallons, based on the amount of water pumped from a well, to the owner of wells located within the boundaries of the Conservation District, unless exempted. This fee enables the Conservation District to fulfill its purpose and regulatory functions.

NOTE 10. RISK MANAGEMENT

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

NOTE 11. STRATEGIC PARTNERSHIP AGREEMENT

On February 22, 2013, the District entered into a Strategic Partnership Agreement (“SPA”) with the City of Conroe, Texas (the “City”) pursuant to Texas Local Government Code, Section 43.0751, which SPA provides for: (1) annexation of the territory of the District by the City for full purposes effective December 31, 2014; (2) continuation of the District, after annexation, as a “limited district” with powers and functions provided by law, including water, wastewater, storm sewer, and solid waste services, and also including the power to levy taxes and collect user fees; (3) provision of fire, police, and other municipal services by the City; (4) payments by the City to the District, including payments to defray debt service related to the Bonds; (5) binding each owner and future owners of land included within the territory of the District; and (6) other matters.

The SPA requires the District to reserve 150,000 gallons per day of treatment capacity from the District’s share of the total treatment capacity from the wastewater treatment plant for which the City will pay an annual reservation fee, which is subject to an annual true-up. Additionally, in consideration for the reservation of capacity, the City will make an annual payment to defray part of the District’s debt service. The SPA also requires the City to make an annual payment to the District in consideration of services provided to operate and maintain storm sewer facilities. During the current fiscal year, the District recorded \$491,647 and \$298,030 in contract revenues related to debt service and services provided, respectively, in accordance with the terms of the SPA.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 11. STRATEGIC PARTNERSHIP AGREEMENT (Continued)

A summary of future debt service payments due from the City is as follows:

Fiscal Year	Amount
2021	\$ 497,685
2022	502,878
2023	511,897
2024	514,691
2025	521,178
2026-2030	2,680,674
	\$ 5,229,003

NOTE 12. ESCROW REQUIREMENTS

The Commission required \$2,935,000 of the Series 2014 Bonds to be escrowed. On July 24, 2015, the Commission released \$75,000 of funds from escrow for land acquisition costs for water plant no. 1. As of December 31, 2020, \$2,860,000 remains in escrow.

NOTE 13. ECONOMIC UNCERTAINTIES

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

NOTE 14. PRIOR PERIOD ADJUSTMENT

During the current fiscal year, the District elected to record future payments due from the City to defray part of the debt service costs as long-term receivables. The effect of making this change is as follows:

Net Position, January 1, 2020	\$ 7,848,582
Effect of Adjustment	5,720,650
Net Position, January 1, 2020, As Adjusted	\$ 13,569,232

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4

REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2020

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2020**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Property Taxes	\$ 380,000	\$ 434,765	\$ 54,765
Water Service	475,000	529,256	54,256
Wastewater Service	650,000	652,351	2,351
Penalty and Interest	12,000	10,099	(1,901)
Tap Connection and Inspection Fees	52,100	67,250	15,150
Investment Revenues	70,350	43,281	(27,069)
Contract Revenues	785,325	789,677	4,352
Miscellaneous Revenues	<u>39,500</u>	<u>86,166</u>	<u>46,666</u>
TOTAL REVENUES	\$ 2,464,275	\$ 2,612,845	\$ 148,570
EXPENDITURES			
Service Operations:			
Professional Fees	\$ 329,550	\$ 240,778	\$ 88,772
Contracted Services	394,000	389,595	4,405
Purchased Wastewater Service	225,000	224,109	891
Utilities	84,100	15,906	68,194
Repairs and Maintenance	649,000	446,867	202,133
Other	162,800	255,268	(92,468)
Capital Outlay	<u>90,000</u>	<u>225,960</u>	<u>(135,960)</u>
TOTAL EXPENDITURES	\$ 1,934,450	\$ 1,798,483	\$ 135,967
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 529,825	\$ 814,362	\$ 284,537
OTHER FINANCING SOURCES(USES)			
Transfers In (Out)	<u>\$ (915,000)</u>	<u>\$ (919,677)</u>	<u>\$ (4,677)</u>
NET CHANGE IN FUND BALANCE	\$ (385,175)	\$ (105,315)	\$ 279,860
FUND BALANCE - JANUARY 1, 2020	<u>3,008,060</u>	<u>3,008,060</u>	<u></u>
FUND BALANCE - DECEMBER 31, 2020	<u>\$ 2,622,885</u>	<u>\$ 2,902,745</u>	<u>\$ 279,860</u>

See accompanying independent auditor's report.

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MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
SUPPLEMENTARY INFORMATION REQUIRED BY THE
WATER DISTRICT FINANCIAL MANAGEMENT GUIDE
DECEMBER 31, 2020

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
SERVICES AND RATES
FOR THE YEAR ENDED DECEMBER 31, 2020**

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered	_____	_____	x 1.0	_____
≤¾"	<u>1,537</u>	<u>1,526</u>	x 1.0	<u>1,526</u>
1"	<u>67</u>	<u>66</u>	x 2.5	<u>165</u>
1½"	<u>4</u>	<u>4</u>	x 5.0	<u>20</u>
2"	<u>11</u>	<u>10</u>	x 8.0	<u>80</u>
3"	<u>1</u>	<u>1</u>	x 15.0	<u>15</u>
4"	_____	_____	x 25.0	_____
6"	<u>2</u>	<u>2</u>	x 50.0	<u>100</u>
8"	_____	_____	x 80.0	_____
10"	_____	_____	x 115.0	_____
Total Water Connections	<u><u>1,622</u></u>	<u><u>1,609</u></u>		<u><u>1,906</u></u>
Total Wastewater Connections	<u><u>1,597</u></u>	<u><u>1,584</u></u>	x 1.0	<u><u>1,584</u></u>

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

Gallons billed to customers: 174,094,000* Water Accountability Ratio: 94.2%
(Gallons billed/Gallons pumped)

* The District is part of an integrated system with Montgomery County Utility District No. 3. Total water pumped for the integrated system was 306,578,000 gallons. District No. 3 billed its customers for 114,855,000 gallons of usage.

See accompanying independent auditor's report.

**MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
SERVICES AND RATES
FOR THE YEAR ENDED DECEMBER 31, 2020**

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

Does the District have Debt Service standby fees? Yes No

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

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes No

County in which District is located:

Montgomery County, Texas

Is the District located within a city?

Entirely Partly Not at all

City in which District is located:

City of Conroe, Texas

Are Board Members appointed by an office outside the District?

Yes No

See accompanying independent auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2020

PROFESSIONAL FEES:	
Auditing	\$ 13,000
Engineering	104,357
Legal	<u>123,421</u>
TOTAL PROFESSIONAL FEES	<u>\$ 240,778</u>
PURCHASED SERVICES FOR RESALE:	
Purchased Wastewater Service	<u>\$ 224,109</u>
CONTRACTED SERVICES:	
Bookkeeping	\$ 36,961
Operations and Billing	86,904
Solid Waste Disposal	<u>265,730</u>
TOTAL CONTRACTED SERVICES	<u>\$ 389,595</u>
UTILITIES:	
Electricity	<u>\$ 15,906</u>
REPAIRS AND MAINTENANCE	<u>\$ 446,867</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 24,000
Election Costs	10,353
Insurance	27,397
Legal Notices	615
Office Supplies and Postage	21,969
Payroll Taxes	1,836
Travel and Meetings	<u>241</u>
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 86,411</u>
CAPITAL OUTLAY	<u>\$ 225,960</u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2020

TAP CONNECTIONS	\$ <u>20,330</u>
OTHER EXPENDITURES:	
Chemicals	\$ 84,689
Laboratory Fees	6,433
Permit Fees	21,001
Reconnection Fees	19,821
Inspection Fees	8,564
Regulatory Assessment	5,729
Other	<u>2,290</u>
TOTAL OTHER EXPENDITURES	\$ <u>148,527</u>
TOTAL EXPENDITURES	\$ <u><u>1,798,483</u></u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
INVESTMENTS
DECEMBER 31, 2020

Funds	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Accrued Interest Receivable at End of Year
<u>GENERAL FUND</u>					
Texas CLASS	XXXX0001	Varies	Daily	\$ 965,560	\$
Certificate of Deposit	XXXX0354	2.05%	01/19/21	150,000	2,898
Certificate of Deposit	XXXX0424	1.20%	06/26/21	240,000	1,483
Certificate of Deposit	XXXX2634	0.50%	10/28/21	190,000	167
Certificate of Deposit	XXXX6313	0.35%	10/08/21	240,000	193
Certificate of Deposit	XXXX2310	0.53%	12/12/21	190,000	52
Certificate of Deposit	XXXX0788	0.60%	08/15/21	240,000	545
Certificate of Deposit	XXXX0205	0.45%	10/13/21	100,000	99
Certificate of Deposit	XXXX0924	0.55%	11/12/21	100,000	74
Certificate of Deposit	XXXX7066	0.75%	07/08/21	240,000	868
Certificate of Deposit	XXXX0187	0.55%	09/18/21	<u>240,000</u>	<u>376</u>
TOTAL GENERAL FUND				<u>\$ 2,895,560</u>	<u>\$ 6,755</u>
<u>DEBT SERVICE FUND</u>					
Texas CLASS	XXXX0003	Varies	Daily	<u>\$ 44,455</u>	<u>\$ -0-</u>
<u>CAPITAL PROJECTS FUND</u>					
Texas CLASS	XXXX0002	Varies	Daily	<u>\$ 2,038,785</u>	<u>\$ -0-</u>
TOTAL - ALL FUNDS				<u>\$ 4,978,800</u>	<u>\$ 6,755</u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED DECEMBER 31, 2020

	Maintenance Taxes		Debt Service Taxes	
TAXES RECEIVABLE -				
JANUARY 1, 2020	\$ 235,314		\$ 25,179	
Adjustments to Beginning Balance	<u>(190)</u>	\$ 235,124	<u>122</u>	\$ 25,301
Original 2020 Tax Levy	\$ 435,987		\$ 40,502	
Adjustment to 2020 Tax Levy	<u>35,124</u>	<u>471,111</u>	<u>3,263</u>	<u>43,765</u>
TOTAL TO BE ACCOUNTED FOR		\$ 706,235		\$ 69,066
TAX COLLECTIONS:				
Prior Years	\$ 192,125		\$ 200	
Current Year	<u>239,447</u>	<u>431,572</u>	<u>22,244</u>	<u>22,444</u>
TAXES RECEIVABLE -				
DECEMBER 31, 2020		<u>\$ 274,663</u>		<u>\$ 46,622</u>
TAXES RECEIVABLE BY YEAR:				
2020		\$ 231,664		\$ 21,521
2019		4,769		
2018		2,465		
2017		2,222		
2016		2,155		
2015		1,349		928
2014		4,951		3,852
2013 and prior		<u>25,088</u>		<u>20,321</u>
TOTAL		<u>\$ 274,663</u>		<u>\$ 46,622</u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED DECEMBER 31, 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
PROPERTY VALUATIONS:				
Land	\$ 142,964,850	\$ 141,918,290	\$ 89,079,189	\$ 88,801,859
Improvements	391,178,455	377,681,285	400,671,825	401,889,625
Personal Property	6,911,281	8,219,451	7,865,854	7,613,352
Exemptions	<u>(26,226,805)</u>	<u>(27,284,569)</u>	<u>(21,977,690)</u>	<u>(23,987,684)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 514,827,781</u>	<u>\$ 500,534,457</u>	<u>\$ 475,639,178</u>	<u>\$ 474,317,152</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.0085	\$ 0.0000	\$ 0.0000	\$ 0.0000
Maintenance	<u>0.0915</u>	<u>0.0875</u>	<u>0.0775</u>	<u>0.0775</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.1000</u>	<u>\$ 0.0875</u>	<u>\$ 0.0775</u>	<u>\$ 0.0775</u>
ADJUSTED TAX LEVY*	<u>\$ 514,876</u>	<u>\$ 437,978</u>	<u>\$ 369,076</u>	<u>\$ 368,407</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>50.83 %</u>	<u>98.91 %</u>	<u>99.33 %</u>	<u>99.40 %</u>

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

Maintenance Tax – Maximum tax rate of \$1.00 per \$100 of assessed valuation approved by voters on April 1, 1978.

See accompanying independent auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2020

S E R I E S - 2 0 1 1				
Due During Fiscal Years Ending December 31	Principal Due March 1	Interest Due March 1/ September 1	Total	
2021	\$ 300,000	\$ 142,748	\$	442,748
2022	315,000	132,941		447,941
2023	335,000	121,960		456,960
2024	350,000	109,754		459,754
2025	370,000	96,241		466,241
2026	390,000	81,516		471,516
2027	410,000	65,658		475,658
2028	435,000	48,546		483,546
2029	455,000	30,069		485,069
2030	480,000	10,200		490,200
2031				
2032				
2033				
2034				
2035				
2036				
2037				
2038				
2039				
	\$ 3,840,000	\$ 839,633	\$	4,679,633

See accompanying independent auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2020

S E R I E S - 2 0 1 4				
Due During Fiscal Years Ending December 31	Principal Due March 1	Interest Due March 1/ September 1	Total	
2021	\$ 225,000	\$ 250,613	\$	475,613
2022	235,000	241,412		476,412
2023	245,000	231,813		476,813
2024	255,000	223,087		478,087
2025	270,000	215,213		485,213
2026	280,000	206,962		486,962
2027	295,000	197,969		492,969
2028	310,000	187,750		497,750
2029	320,000	176,725		496,725
2030	335,000	164,425		499,425
2031	355,000	150,625		505,625
2032	370,000	136,125		506,125
2033	385,000	121,025		506,025
2034	405,000	105,225		510,225
2035	420,000	88,725		508,725
2036	440,000	70,975		510,975
2037	460,000	51,850		511,850
2038	485,000	31,769		516,769
2039	505,000	10,731		515,731
	\$ 6,595,000	\$ 2,863,019	\$	9,458,019

See accompanying independent auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
LONG-TERM DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2020

ANNUAL REQUIREMENTS
FOR ALL SERIES

Due During Fiscal Years Ending December 31	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2021	\$ 525,000	\$ 393,361	\$ 918,361
2022	550,000	374,353	924,353
2023	580,000	353,773	933,773
2024	605,000	332,841	937,841
2025	640,000	311,454	951,454
2026	670,000	288,478	958,478
2027	705,000	263,627	968,627
2028	745,000	236,296	981,296
2029	775,000	206,794	981,794
2030	815,000	174,625	989,625
2031	355,000	150,625	505,625
2032	370,000	136,125	506,125
2033	385,000	121,025	506,025
2034	405,000	105,225	510,225
2035	420,000	88,725	508,725
2036	440,000	70,975	510,975
2037	460,000	51,850	511,850
2038	485,000	31,769	516,769
2039	505,000	10,731	515,731
	<u>\$ 10,435,000</u>	<u>\$ 3,702,652</u>	<u>\$ 14,137,652</u>

See accompanying independent auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
CHANGE IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED DECEMBER 31, 2020

Description	Original Bonds Issued	Bonds Outstanding January 1, 2020
Montgomery County Utility District No. 4 Unlimited Tax Bonds - Series 2011	\$ 5,755,000	\$ 4,125,000
Montgomery County Utility District No. 4 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds - Series 2014	<u>7,750,000</u>	<u>6,810,000</u>
TOTAL	<u>\$ 13,505,000</u>	<u>\$ 10,935,000</u>
Bond Authority:	Tax Bonds*	Refunding Bonds
Amount Authorized by Voters	\$ 35,160,000	\$ 14,160,000
Amount Issued	<u>21,910,000</u>	<u>8,916,317</u>
Remaining to be Issued	<u>\$ 13,250,000</u>	<u>\$ 5,243,683</u>
Debt Service Fund cash and investment balances as of December 31, 2020:		<u>\$ 290,409</u>
Average annual debt service payment (principal and interest) for remaining term of all debt:		<u>\$ 744,087</u>

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

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

See accompanying independent auditor's report.

<u>Current Year Transactions</u>				
<u>Bonds Sold</u>	<u>Retirements</u>		<u>Bonds Outstanding December 31, 2020</u>	<u>Paying Agent</u>
	<u>Principal</u>	<u>Interest</u>		
\$	\$ 285,000	\$ 151,710	\$ 3,840,000	The Bank Of New York Mellon Trust Company, N.A. Dallas, TX
	215,000	259,413	6,595,000	The Bank Of New York Mellon Trust Company, N.A. Dallas, TX
<u>\$ - 0 -</u>	<u>\$ 500,000</u>	<u>\$ 411,123</u>	<u>\$ 10,435,000</u>	

See accompanying independent auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS

	Amounts		
	2020	2019	2018
REVENUES			
Property Taxes	\$ 434,765	\$ 370,729	\$ 367,405
Water and Wastewater Service	1,181,607	1,111,555	1,107,193
Groundwater Reduction Plan Fees			
Penalty and Interest	10,099	9,155	11,316
Tap Connection and Inspection Fees	67,250	113,316	48,425
Investment Revenues	43,281	82,657	50,434
Contract Revenues	789,677	786,055	785,392
Sale of Groundwater Credits			
Miscellaneous Revenues	86,166	49,509	40,534
TOTAL REVENUES	<u>\$ 2,612,845</u>	<u>\$ 2,522,976</u>	<u>\$ 2,410,699</u>
EXPENDITURES			
Professional Fees	\$ 240,778	\$ 301,611	\$ 248,764
Contracted Services	389,595	391,192	383,789
Purchased Wastewater Service	224,109	219,294	210,989
Utilities	15,906	16,139	16,379
Repairs and Maintenance	446,867	722,741	594,420
Other	255,268	269,289	248,181
Capital Outlay	225,960		134,188
TOTAL EXPENDITURES	<u>\$ 1,798,483</u>	<u>\$ 1,920,266</u>	<u>\$ 1,836,710</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 814,362</u>	<u>\$ 602,710</u>	<u>\$ 573,989</u>
OTHER FINANCING SOURCES (USES)			
Transfers In (Out)	<u>\$ (919,677)</u>	<u>\$ (915,881)</u>	<u>\$ (644,999)</u>
NET CHANGE IN FUND BALANCE	\$ (105,315)	\$ (313,171)	\$ (71,010)
BEGINNING FUND BALANCE	<u>3,008,060</u>	<u>3,321,231</u>	<u>3,392,241</u>
ENDING FUND BALANCE	<u>\$ 2,902,745</u>	<u>\$ 3,008,060</u>	<u>\$ 3,321,231</u>

See accompanying independent auditor's report.

		Percentage of Total Revenue				
2017	2016	2020	2019	2018	2017	2016
\$ 349,990	\$ 352,818	16.6 %	14.5 %	15.2 %	11.3 %	14.0 %
1,067,358	1,096,560	45.2	44.1	45.9	34.7	43.5
	32,739					1.3
9,674	10,257	0.4	0.4	0.5	0.3	0.4
66,233	195,804	2.6	4.5	2.0	2.2	7.8
21,950	13,841	1.7	3.3	2.1	0.7	0.5
779,113	765,742	30.2	31.2	32.6	25.3	30.4
750,000					24.4	
35,332	53,082	3.3	2.0	1.7	1.1	2.1
<u>\$ 3,079,650</u>	<u>\$ 2,520,843</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 310,842	\$ 233,778	9.2 %	12.0 %	10.3 %	10.1 %	9.3 %
365,463	345,129	14.9	15.5	15.9	11.9	13.7
205,973	187,997	8.6	8.7	8.8	6.7	7.5
15,569	14,689	0.6	0.6	0.7	0.5	0.6
512,805	549,865	17.1	28.6	24.7	16.7	21.8
271,668	292,502	9.8	10.7	10.3	8.8	11.6
329,122	299,551	8.6		5.6	10.7	11.9
<u>\$ 2,011,442</u>	<u>\$ 1,923,511</u>	<u>68.8 %</u>	<u>76.1 %</u>	<u>76.3 %</u>	<u>65.4 %</u>	<u>76.4 %</u>
<u>\$ 1,068,208</u>	<u>\$ 597,332</u>	<u>31.2 %</u>	<u>23.9 %</u>	<u>23.7 %</u>	<u>34.6 %</u>	<u>23.6 %</u>
<u>\$ (919,113)</u>	<u>\$ (636,576)</u>					
\$ 149,095	\$ (39,244)					
<u>3,243,146</u>	<u>3,282,390</u>					
<u>\$ 3,392,241</u>	<u>\$ 3,243,146</u>					

See accompanying independent auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FIVE YEARS

	Amounts		
	2020	2019	2018
REVENUES			
Property Taxes	\$ 200	\$ 346	\$ 1,850
Penalty and Interest	3,146	8,193	7,305
Investment Revenues	423	971	701
Miscellaneous Revenues	35	5	
TOTAL REVENUES	\$ 3,804	\$ 9,515	\$ 9,856
EXPENDITURES			
Tax Collection Expenditures	\$ 5,279	\$ 6,170	\$ 5,010
Debt Service Principal	500,000	475,000	450,000
Debt Service Interest and Fees	412,373	433,498	457,935
TOTAL EXPENDITURES	\$ 917,652	\$ 914,668	\$ 912,945
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (913,848)	\$ (905,153)	\$ (903,089)
OTHER FINANCING SOURCES (USES)			
Transfers In (Out)	\$ 919,677	\$ 918,063	\$ 906,685
NET CHANGE IN FUND BALANCE	\$ 5,829	\$ 12,910	\$ 3,596
BEGINNING FUND BALANCE	36,155	23,245	19,649
ENDING FUND BALANCE	\$ 41,984	\$ 36,155	\$ 23,245
TOTAL ACTIVE RETAIL WATER CONNECTIONS	1,609	1,584	1,566
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	1,584	1,560	1,542

See accompanying independent auditor's report.

		Percentage of Total Revenue				
2017	2016	2020	2019	2018	2017	2016
\$ 1,209	\$ 5,516	5.3 %	3.6 %	18.8 %	9.6 %	32.2 %
10,934	11,526	82.7	86.1	74.1	87.6	67.2
345	103	11.1	10.2	7.1	2.8	0.6
		0.9	0.1			
<u>\$ 12,488</u>	<u>\$ 17,145</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 5,673	\$ 4,967	138.8 %	64.8 %	50.8 %	45.4 %	29.0 %
435,000	410,000	13,144.1	4,992.1	4,565.7	3,483.3	2,391.4
481,310	503,623	10,840.5	4,555.9	4,646.3	3,854.2	2,937.4
<u>\$ 921,983</u>	<u>\$ 918,590</u>	<u>24,123.4 %</u>	<u>9,612.8 %</u>	<u>9,262.8 %</u>	<u>7,382.9 %</u>	<u>5,357.8 %</u>
<u>\$ (909,495)</u>	<u>\$ (901,445)</u>	<u>(24,023.4) %</u>	<u>(9,512.8) %</u>	<u>(9,162.8) %</u>	<u>(7,282.9) %</u>	<u>(5,257.8) %</u>
<u>\$ 919,113</u>	<u>\$ 882,374</u>					
\$ 9,618	\$ (19,071)					
<u>10,031</u>	<u>29,102</u>					
<u>\$ 19,649</u>	<u>\$ 10,031</u>					
<u>1,539</u>	<u>1,524</u>					
<u>1,515</u>	<u>1,501</u>					

See accompanying independent auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
DECEMBER 31, 2020

District Mailing Address - Montgomery County Utility District No. 4
c/o Coats Rose, P.C.
9 Greenway Plaza, Suite 1000
Houston, TX 77046

District Telephone Number - (713) 651-0111

Board Members	Term of Office (Elected or Appointed)	Fees of Office for the year ended <u>December 31, 2020</u>	Expense Reimbursements for the year ended <u>December 31, 2020</u>	<u>Title</u>
Gary S. North	05/2018 05/2022 (Elected)	\$ 7,050	\$ -0-	President
Ronald R. Cunningham	11/2020 05/2024 (Elected)	\$ 4,050	\$ -0-	Vice President/ Investment Officer
Mike Ganson	05/2018 05/2022 (Elected)	\$ 4,650	\$ -0-	Secretary/ Treasurer
Maurice Williams	11/2020 05/2024 (Elected)	\$ 3,600	\$ -0-	Assistant Vice President/ Assistant Secretary/ Treasurer
Matthew Lamey	11/2020 05/2024 (Elected)	\$ 3,300	\$ -0-	Assistant Secretary

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

Submission date of most recent District Registration: June 13, 2018

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

See accompanying independent auditor's report.

MONTGOMERY COUNTY UTILITY DISTRICT NO. 4
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
DECEMBER 31, 2020

	<u>Date Hired</u>	Fees for the year ended <u>December 31, 2020</u>	<u>Title</u>
Coats Rose, P.C.	02/25/10	\$ 142,486	General Counsel
McCall Gibson Swedlund Barfoot PLLC	12/18/14	\$ 13,250	Auditor
Municipal Accounts & Consulting, LP	01/01/95	\$ 39,828	Bookkeeper
Linebarger Goggan Blair & Sampson, LLP		\$ 867	Delinquent Tax Attorney
Bleyl & Associates	06/18/02	\$ 139,580	Engineer
Robert W. Baird & Co. Incorporated	03/26/15	\$ -0-	Financial Advisor
Hays Utility North Corporation	04/01/95	\$ 835,278	Operator
Tammy J. McRae	03/01/95	\$ 613	Tax Assessor/ Collector
Mark Burton Ghia Lewis	11/21/19	\$ -0-	Investment Officers

See accompanying independent auditor's report.

APPENDIX B

Specimen Municipal Bond Insurance Policy



MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

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

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

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

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

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

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

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

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

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer

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