

IN THE OPINION OF BOND COUNSEL, UNDER EXISTING LAW, INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES AND INTEREST ON THE BONDS IS NOT SUBJECT TO THE ALTERNATIVE MINIMUM TAX ON INDIVIDUALS; HOWEVER, SUCH INTEREST IS TAKEN INTO ACCOUNT IN DETERMINING THE ANNUAL ADJUSTED FINANCIAL STATEMENT INCOME OF APPLICABLE CORPORATIONS FOR THE PURPOSE OF DETERMINING THE ALTERNATIVE MINIMUM TAX IMPOSED ON CORPORATIONS FOR TAX YEARS BEGINNING AFTER DECEMBER 31, 2022. SEE “TAX MATTERS” FOR A DISCUSSION OF BOND COUNSEL’S OPINION.

The District did NOT designate the Bonds as “Qualified Tax-Exempt Obligations” for financial institutions.” See “TAX MATTERS – NOT Qualified Tax-Exempt Obligations for Financial Institutions” herein.

NEW ISSUE—BOOK-ENTRY-ONLY

CUSIP No. 273738

RATING: Insured “AA” (stable outlook) S&P

See “MUNICIPAL BOND RATING” and “BOND INSURANCE” herein

\$12,650,000

EAST MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT No. 3

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

UNLIMITED TAX BONDS

SERIES 2022

Dated: December 15, 2022

Due: August 15 (as shown below)

Interest on the \$12,650,000 Unlimited Tax Bonds, Series 2022 (the “Bonds” or the “Series 2022 Bonds”) will accrue from December 15, 2022, and will be payable on August 15 and February 15 of each year, commencing August 15, 2023, until maturity or prior redemption. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company (“DTC”) pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in principal denominations of \$5,000 or integral multiples thereof. The Bonds will be issued in principal denominations of \$5,000, or integral multiples thereof. No physical delivery of the Bonds will be made to the owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar (defined below) to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See “BOOK-ENTRY-ONLY SYSTEM” herein. The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the “Paying Agent/Registrar”).

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by Build America Mutual Assurance Company (“BAM”).



MATURITIES, AMOUNTS, INTEREST RATES AND PRICES

\$700,000 6.875% Term Bond Due August 15, 2029 to Yield 3.50% (a) (b) (c)
 \$725,000 6.875% Term Bond Due August 15, 2031 to Yield 3.60% (a) (b) (c)
 \$825,000 6.500% Term Bond Due August 15, 2033 to Yield 3.70% (a) (b) (c)
 \$875,000 6.250% Term Bond Due August 15, 2035 to Yield 3.85% (a) (b) (c)
 \$975,000 6.000% Term Bond Due August 15, 2037 to Yield 4.00% (a) (b) (c)
 \$1,025,000 5.000% Term Bond Due August 15, 2039 to Yield 4.40% (a) (b) (c)
 \$1,125,000 4.500% Term Bond Due August 15, 2041 to Yield 4.70% (a) (b) (c)
 \$1,225,000 4.500% Term Bond Due August 15, 2043 to Yield 4.75% (a) (b) (c)
 \$1,325,000 4.375% Term Bond Due August 15, 2045 to Yield 4.85% (a) (b) (c)
 \$1,450,000 4.375% Term Bond Due August 15, 2047 to Yield 4.90% (a) (b) (c)
 \$2,400,000 4.375% Term Bond Due August 15, 2050 to Yield 4.95% (a) (b) (c)

- (a) The initial reoffering yields are established by and are the sole responsibility of the Underwriter (hereinafter defined) and may be subsequently changed.
- (b) The Bonds maturing on or after August 15, 2028, are subject to redemption in whole or, from time to time, in part at the option of the District on August 15, 2027 or any date thereafter at a price equal to the par value thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption. If fewer than all of the Bonds within any one maturity are redeemed, the Bonds to be redeemed shall be selected, on behalf of the District, by the Paying Agent/Registrar, in its capacity as Registrar, by lot or other customary method, in integral multiples of \$5,000 in any one maturity. See “THE BONDS – Optional Redemption Provisions.”
- (c) Subject to mandatory sinking fund redemption as described herein. See “THE BONDS – Mandatory Redemption.”

The proceeds of the Bonds will be used by East Montgomery County Municipal Utility District No. 3 (the “District”) for the following purposes: (1) to reimburse two developers for advances made on behalf of the District for certain water, wastewater, and drainage facilities; (2) to pay for the engineering and construction of central wastewater treatment plant facilities; (3) to pay for engineering and storm water protection costs associated with the foregoing projects; (4) to pay for land costs; (5) to pay for developer interest costs; (6) to pay for interest attributable to a bond anticipation note; and (7) to pay for costs associated with the issuance of the Bonds. See “USE OF BOND PROCEEDS.” The Bonds, when issued, will constitute valid and binding obligations of the District and will be payable from the proceeds of a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied by the District against all taxable property within the District. See “THE BONDS – Source and Security for Payment.” The Bonds are obligations solely of the District and are not obligations of the State of Texas, Montgomery County, the City of Conroe, or any entity other than the District. Neither the faith and credit nor the taxing power of the State of Texas, Montgomery County, the City of Conroe, or any entity other than the District is pledged to the payment of the principal of or interest on the Bonds. **The Bonds are subject to certain risk factors described under the caption “RISK FACTORS.”**

The Bonds are offered when, as and if issued by the District, subject to approval by the Attorney General of Texas and the approval of certain legal matters by Marks Richardson PC, Houston, Texas, Bond Counsel. Certain other matters will be passed upon for the District by Norton Rose Fulbright US LLP, Houston, Texas as Disclosure Counsel. Delivery of the Bonds is expected through the facilities of DTC on or about Thursday, December 15, 2022.

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USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

All of the summaries of the statutes, resolutions, orders, contracts, audits, 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, upon payment of the costs of duplication.

This Official Statement contains, in part, estimates, assumptions and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions, or matters of opinion, or 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.

Build America Mutual Assurance Company ("BAM") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading "Bond Insurance" and "APPENDIX B – Specimen Municipal Bond Insurance Policy."

References to website 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 websites and the information or links contained therein are not incorporated into, and are not part of this Official Statement for any purpose.

UNDERWRITING

Award of the Bonds

After requesting competitive bids for the Bonds, the District has accepted the bid producing the lowest net interest cost to the District, which was tendered by SAMCO Capital Markets, Inc. (the "Underwriter"), to purchase the Bonds bearing the rates shown on the cover page of this Official Statement at a price of 97.008162% of par plus accrued interest to the date of delivery, which resulted in a net effective interest rate of 4.973938%, as calculated pursuant to Chapter 1204 of the Texas Government Code, as amended.

The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into unit investment trusts) and others at prices lower than the public offering price stated on the cover page hereof. The initial offering price may be changed from time to time by the Underwriter.

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

Price and Marketability

The delivery of the Bonds is conditioned upon the receipt by the District of a certificate executed and delivered by the Underwriter on or before the date of delivery of the Bonds stating the prices at which a substantial number of the Bonds of each maturity have been sold to the public. For this purpose, the term "public" shall not include any person who is a bond house, broker or similar person acting in the capacity of underwriter or wholesaler. Otherwise, the District has no understanding with the Underwriters regarding the reoffering yields or prices of the Bonds and has no control over trading of the Bonds after their initial sale by the District. Moreover, there is no assurance that a secondary market will be made in the Bonds. If there is a secondary market, the difference between the bid and asked price of the bonds may be greater than the difference between the bids 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. Information concerning reoffering yields or prices is the responsibility of the Underwriter.

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

Securities Laws

No registration statement relating to the Bonds has been filed with the Securities and Exchange Commission ("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. 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.

CONTINUING DISCLOSURE OF INFORMATION - SEC RULE 15c2-12

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

Annual Reports

The District will provide certain financial information and operating data annually to the MSRB or any successor to its functions as a repository through its EMMA system.

The information to be updated with respect to the District includes the quantitative financial information and operating data of the general type included in "APPENDIX A" (Audited Financial Statements of the District) of this Official Statement and in the caption "DISTRICT DEBT" (except for "Overlapping Debt"). The District will update and provide this information within six months after the end of each of its fiscal years ending in or after 2023. The District will provide the updated information to EMMA.

Under current Texas law, the District must keep its fiscal records in accordance with generally accepted accounting principles, must have its financial accounts and records audited by a certified public accountant within 120 days after the close of each fiscal year of the District, and must file each audit report with the Texas Commission on Environmental Quality (herein "TCEQ" or the "Commission") within 135 days after the close of the fiscal year. The District's fiscal records and audit reports are available for public inspection during regular business hours, and the District and the TCEQ are required by law to provide a copy of the District's audit reports to any member of the public within a reasonable time on request, upon payment of applicable copying charges. Requests for copies should be addressed to the District in care of Marks Richardson PC, Houston, Texas.

The District's current fiscal year end is June 30. Accordingly, it must provide updated information by December 31, in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

Event Notices

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District or other obligated person within the meaning of CFR § 240.15c2-12 (the "Rule"); (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (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 obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the financial obligation of the obligated person, any of which reflect financial difficulties. Financial obligation in the immediately preceding paragraphs (15) and (16) means a (a) debt obligation; (b) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) guarantee of a debt obligation or any such derivative instrument; provided that "financial obligation" shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule. The term "material" when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Order make any provisions for debt service reserves, liquidity enhancement, the pledge of property (other than ad valorem tax revenues) to secure payment of the Bonds, or appointment of a trustee. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information from EMMA

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

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

Limitations and Amendments

The District has agreed to update information and to provide notices of certain specified events only as described above and only for so long as the District remains an "obligated person" with respect to the Bonds within the meaning of the Rule. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results, 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 the 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, although holders and beneficial owners of the Bonds may seek a writ of mandamus to compel the District to comply with its agreement. Nothing in this paragraph is intended or shall act to disclaim, waive or limit the District's duties under federal or state securities laws.

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 type of operations of the District, if (1) the agreement, as amended would have permitted an underwriter to purchase or sell the Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule taking into account any amendments of the Rule as well as such changed circumstances, and (2) either (a) the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provisions of the order that authorizes such amendment) of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the District (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interests of the registered owners and beneficial owners of the Bonds.

The District may also repeal or amend the provisions of its continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or any court of final jurisdiction enters judgment that such provisions of the Rule are invalid, and the District also may amend the provisions of its continuing disclosure agreement in its discretion in any other manner or circumstance, but in either case only if and to the extent that the provisions of this sentence would not have prevented an underwriter from lawfully purchasing or selling the Bonds in the primary offering of the Bonds, giving effect to (a) such provisions as so amended and (b) any amendments or interpretations of the Rule. If the District amends its agreement, it must include with the next financial information and operating data 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 type of information and data provided.

Compliance with Prior Undertakings

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

MUNICIPAL BOND RATING

S&P Global Ratings ("S&P") has assigned its municipal bond rating of "AA" (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by BAM. The District can make no assurance that S&P's rating will continue for any period of time or that such rating will not be revised downward or withdrawn entirely by S&P if in the judgment of S&P circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds. See "BOND INSURANCE."

BOND INSURANCE

Bond Insurance Policy

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

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

Build America Mutual Assurance Company

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political

subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

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

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

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

Capitalization of BAM

BAM's total admitted assets, total liabilities, and total capital and surplus, as of September 30, 2022 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$512.5 million, \$195.6 million and \$316.9 million, respectively.

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

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

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

Additional Information Available from BAM

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

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

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

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

OFFICIAL STATEMENT SUMMARY

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

THE BONDS

- Description:** The East Montgomery County Municipal Utility District No. 3 Unlimited Tax Bonds, Series 2022 (the “Bonds” or the “Series 2022 Bonds”), issued pursuant to Article XVI, Section 59 of the Texas Constitution and the general laws of the State of Texas, relating to the issuance of bonds by political subdivisions, including but not limited to, Chapters 49 and 54 of the Texas Water Code, as amended, bond election held within the District, an order of the Texas Commission on Environmental Quality (the “TCEQ”), and bond order authorizing the issuance of the Bonds order (the “Bond Order”) to be adopted by the Board of Directors of East Montgomery County Municipal Utility District No. 3 (the “District”). The Bonds will be dated December 15, 2022. The Bonds will mature on August 15 in the years and in the principal amounts set forth on the cover page of this Official Statement. Interest on the Bonds will accrue from December 15, 2022, and is payable on August 15, 2023, and each February 15 and August 15 thereafter until maturity. See “THE BONDS – General.”
- Optional Redemption:** The Bonds maturing on and after August 15, 2028, are subject to early redemption, in whole or from time to time, in part, on August 15, 2027, or on any date thereafter at the option of the District at par plus accrued interest to the date of redemption. See “THE BONDS – Optional Redemption Provisions.” The Bonds maturing on August 15 in the years 2029, 2031, 2033, 2035, 2037, 2039, 2041, 2043 2045, 2047 and 2050 are Term Bonds and are subject to annual mandatory sinking fund redemption beginning on August 15 in the years 2028, 2030, 2032, 2034, 2036, 2038, 2040, 2042, 2044, 2046 and 2048 respectively. See “THE BONDS – Mandatory Redemption.”
- Book-Entry-Only System:** The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in principal denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See “BOOK-ENTRY-ONLY SYSTEM.”
- Source of Payment:** Principal of and interest on the Bonds are payable from a continuing direct annual ad valorem tax levied by the District upon all taxable property within the District which, under Texas law, is not limited as to rate or amount. The Bonds are obligations of the District and are not obligations of the State of Texas, Montgomery County, City of Conroe or any other political subdivision or agency. See “THE BONDS – Source and Security for Payment.”
- Municipal Bond Rating and Insurance:** S&P has assigned its municipal bond rating of “AA” (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by BAM. See “MUNICIPAL BOND RATING,” “BOND INSURANCE,” and APPENDIX B – Specimen Municipal Bond Insurance Policy.”
- Use of Bond Proceeds:** The proceeds of the Bonds will be used for the following purposes: (1) to reimburse two developers for advances made on behalf of the District for certain water, wastewater, and drainage facilities; (2) to pay for the engineering and construction of central wastewater treatment plant facilities; (3) to pay for engineering and storm water protection costs associated with the foregoing projects; (4) to pay for land costs; (5) to pay for developer interest costs; (6) to pay for interest attributable to a bond anticipation note; and (7) to pay for costs associated with the issuance of the Bonds. See “USE OF BOND PROCEEDS.”
- Legal Opinions:** Marks Richardson PC, Bond Counsel, Houston, Texas.
- Payment Record:** The District has previously issued six separate issues of unlimited tax new money bonds and two separate issuances of unlimited tax refunding bonds. The District has never defaulted in payment of principal of or interest on its bonded indebtedness.
- Paying Agent/Registrar:** The Bank of New York Mellon Trust Company, N.A., Dallas, Texas.
- NOT Qualified Tax-Exempt Obligations:** The District did NOT designate the Bonds as “qualified tax-exempt obligations.”
- Risk Factors:** The Bonds are subject to certain risk factor considerations as set forth in this Official Statement. Prospective purchasers should carefully examine this Official Statement with respect to the investment security of the Bonds; particularly the section captioned “RISK FACTORS.”

THE DISTRICT

Description:	The District is a political subdivision of the State of Texas, created by the 77th Texas Legislature on June 16, 2001. The Texas Commission on Environmental Quality (herein the "Commission" or the "TCEQ") exercises continuing supervisory jurisdiction over the District. The District consists of approximately 1,534 acres of land. See "THE DISTRICT."
Location:	The District includes approximately 1,534 acres located in eastern Montgomery County, Texas, approximately 31 miles northeast of the central downtown business district of the City of Houston. The District is generally located 2 miles northwest of U.S. Highway 59, 3 miles east of FM 1314, and 18 miles southeast of the City of Conroe. The District is generally bounded on the east by FM 1485, the south by White Oak Creek, the west by FM 1314, and the north by Dry Creek, with 187 acres of residential development located south of Gene Campbell Boulevard. Approximately 1,266 acres of the District is located within the extraterritorial jurisdiction of the City of Conroe and the District is wholly within the boundaries of the New Caney Independent School District. See "THE DISTRICT."
Industrial Development:	<p>Approximately 687 of the acres in the District have been developed or will be developed for light industrial/commercial purposes known as the East Montgomery County Industrial Park (Phase 1, Sections 1-5).</p> <p>The building development in the District currently includes 25 different light-industrial/warehouse distribution center-type buildings totaling approximately 3,095,397 square feet located on approximately 404 acres of land (including the Lowes facility).</p> <p>There are approximately 719 acres of developable land not currently provided with water distribution, wastewater collection and storm drainage facilities and approximately 20 acres of land in the District that are undevelopable. See "THE DISTRICT – Commercial Development" and "– Undeveloped Acreage."</p>
Single/Family Development:	D.R. Horton is in the process of developing land within the District known as the Porters Mill subdivision. As of October 1, 2022, approximately 187 acres have been developed into the sections known as Porters Mill, Sections 1-6. As of such date, there were 747 completed homes (740 of which were occupied), 5 homes under construction, and 7 vacant developed lots. According to D.R. Horton, homes are currently being marketed in the \$289,000 price range.
Industrial Developer:	East Montgomery County Improvement District ("EMCID"), a political subdivision of the State of Texas, developed the Industrial Park, Sections 1-5. EMCID owns an additional 127 acres of land in the District that remains to be developed. EMCID was created to promote, develop, encourage, and maintain employment, commerce, economic development, and public welfare in the eastern area of Montgomery County, Texas. Land owned by EMCID is not subject to ad valorem taxation until such land is sold by EMCID to third parties.
Principal Taxpayers:	The top two principal taxpayers within the District are The Cubes at EMC Industrial Park LLC ("The Cubes") and Wal-Mart Real Estate Business Trust ("Wal-Mart"). The Cubes owns an approximately 1,500,000 square foot Lowe's warehouse and distribution type building on a 123.32-acre site in the District. The real property of The Cubes represents approximately 20.89% of the District's 2022 Certified Taxable Assessed Valuation. Wal-Mart which owns an approximately 854,600 square foot mechanized food distribution facility on a 132.40-acre site in the Industrial Park, Section 1. The real property and personal property of Wal-Mart represents approximately 20.81% of the District's 2022 Certified Taxable Assessed Valuation. See "RISK FACTORS – Tax Collections" and "– Dependence on Principal Taxpayers," and "TAX DATA – Principal Taxpayers."
Major Land Owners:	<p>Approximately 501 undeveloped acres in the District (located outside of the Industrial Park) are owned by Bear Creek Trust, Louetta Partners LTD and Crighton Park LTD; no development is currently underway on any of this acreage and the District has no knowledge of any specific development plans for such land in the future.</p> <p>During 2020, EMCID acquired 195.104 acres of undeveloped property located adjacent to a portion of the northern boundary of the District. EMCID subsequently conveyed 123.316 of those acres to The Cubes at EMC Industrial Park, LLC ("The Cubes"). EMCID and The Cubes then jointly petitioned for annexation of the 195.104 acres into the District. The petition was consented to by the City of Conroe in January, 2021. The District Board of Directors annexed the 195.104 acres into the District by Order dated March 11, 2021. The Cubes constructed an approximately 1,500,000 square foot Lowe's warehouse and distribution type building located on approximately 123 acres. The building and approximately 86.90 acres was subsequently sold to Polygon New Caney LLC and leased to Lowe's subject to the terms of a long-term lease agreement.</p> <p>In April 2021, EMCID acquired an additional 112.002 acres of undeveloped property located adjacent to the previously annexed 195.104 acres. EMCID petitioned the District for annexation of the 112.002 acres into the District and the petition was consented to by the City of Conroe in March 2022. The District Board of Directors annexed the 112.002 acres into the District by Order dated March 10, 2022.</p>

**Infectious Disease
Outlook (COVID-19):**

In 2022, EMCID acquired an additional 29.100 acres of undeveloped property located north of the previously annexed 195.104 acres and Crighton Park Limited owned 139.243 acres of undeveloped property south of the Porters Mill development. EMCID and Crighton Park Limited petitioned the District for annexation of the 29.100 acres and the 139.243 acres into the District and the petition was consented to by the City of Conroe in March 2022. The District Board of Directors annexed the 168.343 acres into the District by Order dated March 10, 2022.

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 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.

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 in order 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.

The District has not experienced any decrease in property values, unusual tax delinquencies or interruptions to any 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 reinstitution of restrictions.

SELECTED FINANCIAL INFORMATION
(Unaudited)

9/1/2022 Estimated Taxable Value	\$472,730,465	(a)
2022 Certified Taxable Value	\$438,454,180	(b)
Direct Debt (See "DISTRICT DEBT")		
Outstanding Bonds (as of August 16, 2022)	\$25,775,000	
Plus the Series 2022 Bonds	<u>\$12,650,000</u>	
Total Direct Debt	\$38,425,000	
Estimated Overlapping Debt	<u>\$45,921,526</u>	
Direct and Estimated Overlapping Debt	\$84,346,526	
Percentage of Direct Debt to:		
9/1/2022 Estimated Taxable Value	8.13%	
2022 Certified Taxable Value	8.76%	
See "DISTRICT DEBT"		
Percentage of Direct Overlapping Debt to:		
9/1/2022 Estimated Taxable Value	17.84%	
2022 Certified Taxable Value	19.24%	
See "DISTRICT DEBT"		
2022 Tax Rate Per \$100 of Assessed Value:		
Debt Service	\$0.65	
Maintenance Tax	<u>\$0.22</u>	
Total 2022 Tax Rate	\$0.87	
Approximate General Fund Cash and Investment Balance as of September 8, 2022	\$1,775,105	
Pro-Forma Debt Service Fund Cash and Investment Balance	\$1,385,642	(c)

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- (a) Reflects data supplied by the Montgomery County Appraisal District ("MCAD"). The Estimated Taxable Value as of 9/1/2022 was prepared by MCAD and provided to the District. Such value is not binding on MCAD; the value added after January 1, 2022, will not be included on the District's tax roll until the 2023 tax roll is prepared and certified by MCAD during the second half of 2023. See "TAX DATA" and "TAXING PROCEDURES."
- (b) Reflects the 1/1/2022 Taxable Value according to data supplied by MCAD. The figure above includes \$424,999,720 of taxable value that has been fully certified by MCAD plus 90% of uncertified value of \$14,949,400 that is still in the certification process. See "TAX DATA" and "TAXING PROCEDURES."
- (c) Reflects the unaudited cash and investment balance. The figure above includes \$569,250 of capitalized interest to be funded with Bond proceeds and deposited into the Debt Service Fund on the day of closing of the Bonds. Neither Texas law nor the District's Bond Order requires that the District maintain any particular balance in the Debt Service Fund. See "TAX DATA – Tax Rate Calculations."

DEBT SERVICE REQUIREMENTS

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

<u>Year</u>	<u>Existing Debt Service Requirements</u>	<u>Debt Service on the Series 2022 Bonds</u>		<u>Total Debt Service Requirements</u>
		<u>Principal</u>	<u>Interest</u>	
2022	\$1,529,841			\$1,529,841
2023	\$1,508,518		\$432,125	\$1,940,643
2024	\$1,528,218		\$648,188	\$2,176,406
2025	\$1,505,605		\$648,188	\$2,153,793
2026	\$1,516,505		\$648,188	\$2,164,693
2027	\$1,499,790		\$648,188	\$2,147,978
2028	\$1,532,100	\$350,000	\$648,188	\$2,530,288
2029	\$1,542,422	\$350,000	\$624,125	\$2,516,547
2030	\$1,554,315	\$350,000	\$600,063	\$2,504,378
2031	\$1,548,363	\$375,000	\$576,000	\$2,499,363
2032	\$1,581,713	\$400,000	\$550,219	\$2,531,932
2033	\$1,571,938	\$425,000	\$524,219	\$2,521,157
2034	\$1,560,503	\$425,000	\$496,594	\$2,482,097
2035	\$1,412,818	\$450,000	\$470,031	\$2,332,849
2036	\$1,455,218	\$475,000	\$441,906	\$2,372,124
2037	\$1,444,955	\$500,000	\$413,406	\$2,358,361
2038	\$1,483,436	\$500,000	\$383,406	\$2,366,842
2039	\$1,469,630	\$525,000	\$358,406	\$2,353,036
2040	\$1,184,005	\$550,000	\$332,156	\$2,066,161
2041	\$1,205,880	\$575,000	\$307,406	\$2,088,286
2042	\$1,201,068	\$600,000	\$281,531	\$2,082,599
2043	\$970,506	\$625,000	\$254,531	\$1,850,037
2044	\$973,568	\$650,000	\$226,406	\$1,849,974
2045	\$950,881	\$675,000	\$197,969	\$1,823,850
2046	\$978,193	\$700,000	\$168,438	\$1,846,631
2047	\$979,100	\$750,000	\$137,813	\$1,866,913
2048	\$979,256	\$775,000	\$105,000	\$1,859,256
2049	\$978,756	\$800,000	\$71,094	\$1,849,850
2050	<u>\$997,506</u>	<u>\$825,000</u>	<u>\$36,094</u>	<u>\$1,858,600</u>
TOTAL	\$38,644,607	\$12,650,000	\$11,229,875	\$62,524,482

Maximum Annual Debt Service Requirements (2032).....\$2,531,932

\$0.57 Tax Rate on 9/1/2022 Estimated Taxable Valuation of \$472,730,465
@ 95% collections produces\$2,559,835

\$0.61 Tax Rate on 2022 Certified Taxable Valuation of \$438,454,180
@ 95% collections produces\$2,540,842

See "TAX DATA – Tax Adequacy for Debt Service."

**OFFICIAL STATEMENT
relating to**

\$12,650,000

**EAST MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT No. 3
(A political subdivision of the State of Texas, located within Montgomery County, Texas)**

**UNLIMITED TAX BONDS
SERIES 2022**

INTRODUCTION

This Official Statement provides certain information in connection with the issuance of East Montgomery County Municipal Utility District No. 3, Unlimited Tax Bonds, Series 2022 (the "Bonds").

The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution and general laws of the State of Texas, relating to the issuance of bonds by political subdivisions particularly Chapters 49 and 54 the Texas Water Code, as amended, an order of the Texas Commission on Environmental Quality (the "TCEQ"), a bond election held within the District and bond order authorizing the issuance of the Bonds (the "Bond Order") to be adopted by the Board of Directors (the "Board") of East Montgomery County Municipal Utility District No. 3 (the "District").

This Official Statement includes descriptions of the Bonds, the Bond Order and certain information about the District and its financial condition. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the District's Bond Counsel upon payment of costs of duplication thereof.

RISK FACTORS

General

The Bonds are speculative in nature, involve a high degree of risk, and should be purchased by sophisticated investors who are able to evaluate and understand such risks. The Bonds are obligations of the District and are not obligations of the State of Texas, Montgomery County, the City of Conroe, or any other political subdivision or entity. The Bonds are payable from a continuing, direct, annual ad valorem tax, without legal limitation as to rate or amount levied by the District, on all taxable property within the District. See "THE BONDS – Source and Security for Payment." The investment quality of the Bonds depends on the ability of the District to collect all taxes levied against the taxable property within the District and, in the event of foreclosure of the District's tax lien, on the marketability of the property and the ability of the District to sell the property at a price sufficient to pay taxes levied by the District and by other overlapping taxing authorities. The District cannot and does not make any representations that over the life of the Bonds the taxable property within the District will accumulate or maintain taxable values sufficient to justify the continued payment of taxes by property owners.

Marketability

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

Tax Collections

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 impaired by (a) repetitive, annual, expensive collection procedures, (b) a federal bankruptcy court's stay of tax collection procedures, or (c) market conditions affecting the marketability of taxable property within the District and limiting the proceeds from a foreclosure sale of such 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. The District is aware of the need to potentially increase the debt service tax rate in future years depending on the rate of growth of taxable value in the District.

Personal Property Tax Collection

Unlike real property, there is no certainty that personal property will remain in the District from year to year. Personal property is portable and could be removed from the District at any time. Personal property removed from the District as of January 1 of any year is not subject to taxation by the District for that year.

If personal property is subject to a lien for unpaid District taxes for any year, the District's lien is lost if the property is sold in the ordinary course of business. While a lien in the amount of the personal property taxes owed by a taxpayer attaches not only to

personal property owned by the taxpayer as of January 1 with a tax situs in the District, but to any personal property located outside the District. Furthermore, locating and foreclosing on property held outside the District may be costly, inefficient, and difficult.

The statute of limitations for collection of personal property taxes is four years from the date of delinquency, which is shorter than the 20 year statute of limitations for real property and improvements. As with real property taxes, ad valorem taxes levied on personal property are the personal obligation of the taxpayer. No representation can be made by the District regarding future tax collections. See "TAXING PROCEDURES."

Dependence on Principal Taxpayers

Based upon the 2022 certified tax rolls, the top two taxpayers are responsible for approximately 42% of the District's 2022 taxes. The top two principal taxpayers within the District are The Cubes at EMC Industrial Park LLC ("The Cubes") and Wal-Mart Real Estate Business Trust ("Wal-Mart"). The Cubes owns an approximately 1,500,000 square foot Lowe's warehouse and distribution building on a 123.32-acre site in the District. The real property of The Cubes represents approximately 21.12% of the District's 2022 Certified Taxable Assessed Valuation. Wal-Mart which owns an approximately 854,600 square foot mechanized food distribution facility on a 132.40-acre site in the Industrial Park, Section 1. The real property and personal property of Wal-Mart represents approximately 21.04% of the District's 2022 Certified Taxable Assessed Valuation. Wal-Mart is indirectly wholly-owned by Wal-Mart Stores, Inc., a Delaware Corporation, which is a publicly held company and listed on the New York Stock Exchange. The ability of the principal taxpayers to make full and timely payments of taxes levied against its property by the District and similar taxing authorities will directly affect the District's ability to meet its debt service obligations. If, for any reason, the principal taxpayers do not pay taxes due or do not pay in a timely manner, the District may need to use other funds available for debt service purposes to the extent available. Further, if the principal taxpayers cease to operate their facilities within the District, a substantial decrease in the District's value may result; the District has no understanding with The Cubes or Wal-Mart regarding their future level of operations in the District. It should also be noted that the District's top 10 tax payers represent approximately 56% of the District's tax base. The District has not covenanted in the Bond Order, nor is it required by Texas law, to maintain any particular balance in its Debt Service Fund or any other funds. Therefore, failure by the principal taxpayer to pay their taxes on a timely basis in amounts in excess of the District's available funds could have a material adverse effect upon the District's ability to pay debt service on the Bonds on a current basis. See "THE DEVELOPER, PRINCIPAL TAXPAYERS, AND PRINCIPAL LANDOWNER" and "TAX DATA – Principal Taxpayers."

Potential Effects of Oil Price Fluctuations on the Houston Area

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

Dependence on the Energy Industry

The economy of the Houston metropolitan area, which has sometimes been referred to as the energy capital of the world, is, in part, dependent upon the oil and gas and petrochemical industries. During the height of the COVID-19 pandemic in 2020, worldwide consumption of energy decreased dramatically and led to the lowest oil prices in three decades. This led to layoffs of workers, business failures and reduced capital and operating expenditures by energy companies. While there has been some rebound, Houston area jobs in the energy industry have not fully recovered. In 2021, the United States rejoined the 2015 Paris Climate Accords, under which many countries have agreed to move away from fossil fuels to alleviate climate change. Although major energy companies expect that fossil fuels will be vital to the global economy for many years to come, they have recognized the need to direct more investment toward various clean energy projects. The pace and success of these efforts could significantly affect the Houston economy in the future.

Dependence on Future Development and Potential Impact on District Tax Rates

Assuming no further construction of residential, multi-family and/or commercial projects within the District other than those that have been constructed, the value of such land and improvements currently located and under construction within the District could be a major determinant of the ability of the District to collect, and the willingness of property owners to pay, ad valorem taxes levied by the District. Assuming no increase or decrease from the 9/1/2022 Estimated Taxable Valuation and no use of other District funds, a debt service tax rate of \$0.57 per \$100 of Assessed Valuation at 95% collection rate would be necessary to pay the Maximum Annual Debt Service Requirements. Assuming no increase or decrease from the 2022 Certified Taxable Valuation and no use of other District funds, a debt service tax rate of \$0.61 per \$100 of Assessed Valuation at 95% collection rate would be necessary to pay the Maximum Annual Debt Service Requirements. See "TAX DATA."

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 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. Recent Texas court decisions have held that statutory language authorizing districts to sue and be sued is insufficient to waive a district's sovereign immunity to suit for monetary damages. Even if such sovereign immunity were waived and a judgment against the District for money damages was obtained, the judgment 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 the 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. Specifically, the District may voluntarily file a petition for protection from creditors under the federal bankruptcy laws. During the pendency of the bankruptcy proceedings, the remedy of mandamus would not be available to the Registered Owners unless authorized by a federal bankruptcy judge.

Subject to the requirements of Texas law, the District may voluntarily proceed under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. Section 901-946, if the District: (a) is generally authorized to file for federal bankruptcy protection by the State law; (b) is insolvent or unable to meet its debts as they mature; (c) desires to effect a plan to adjust such debts; and (d) has either obtained the agreement of or negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiation is impracticable. Under Texas law, the District must obtain the approval of the TCEQ prior to filing bankruptcy. Such law requires that the TCEQ investigate the financial condition of the District and authorize the District to proceed only if the District has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

Notwithstanding noncompliance by a district with Texas law requirements, a district could file a voluntary bankruptcy petition under Chapter 9, thereby invoking the protection of the automatic stay until the bankruptcy court, after a hearing, dismisses the petition. A federal bankruptcy court is a court of equity and federal bankruptcy judges have considerable discretion in the conduct of bankruptcy proceedings and in 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 Owners could potentially and adversely impair the value of the Registered Owners' claim.

If a petitioning district were allowed to proceed voluntarily under Chapter 9 of the Federal Bankruptcy Code, it could file a plan for an adjustment of its debts. If such a plan were confirmed by the bankruptcy court, it could, among other things, affect Registered Owners by reducing or eliminating the amount of indebtedness, deferring or rearranging the debt service schedule, reducing or eliminating the interest rate, modifying or abrogating 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 the district.

The District cannot be placed into bankruptcy involuntarily.

Approval of the Bonds

As required by law, the Attorney General of Texas must approve the legality of the Bonds prior to their delivery. The TCEQ has also issued an order approving the issuance of the Bonds. Neither the TCEQ nor the Attorney General of Texas passes upon or guarantees the safety of the Bonds as an investment or the adequacy or accuracy of the information contained in this Official Statement.

Economic Factors

The industrial and single family residential real estate industries in the Houston area are competitive, and the District can give no assurance that the development programs underway in the District will be completed. The sale of developed industrial tracts/single family lots and the competitive position of the industrial developer and the homebuilder in the construction of taxable improvements are affected by most of the factors discussed herein. The District's ability to pay debt service payments on its Bonds is directly related to tax revenues received by the District and the growth and maintenance of taxable values in the District.

The growth of taxable values in the District is directly related to the vitality of the industrial development and single family building industries in the Houston metropolitan area. The industrial land and single family land development industries has historically been a cyclical industry, affected by short-term and long-term interest rates, consumer demand, foreclosure rates, and availability of mortgage financing, development funds, labor conditions, and general economic conditions. The Houston economy is still dependent on energy prices and the continuation of relatively low oil and natural gas prices could result in additional adverse effects on the Houston area economy. High industrial property foreclosure rates may also affect industrial mortgage lenders' willingness to accept risks and potential borrowers' ability to qualify for loans. The ability to qualify for industrial mortgage loans may negatively affect the industrial land and development building industry and the growth of taxable values in the District. In the past periods of relatively high single family foreclosure rates have also adversely affected the single family mortgage lenders' willingness to make single family mortgage loans and thereby had an adverse effect on single family building development in the District.

Infectious Disease Outlook (COVID-19 Virus)

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 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.

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 in order 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.

The District has not experienced any decrease in property values, unusual tax delinquencies or interruptions to any 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 reinstitution of restrictions.

Competition

Alternative sites are available for the construction of single and multi-family residential, retail, and commercial improvements within the market area in which the District is located. Such sites could pose competition to the continued development of comparable sites within the District.

Future Debt

The District has reserved in the Bond Order the right to issue the remaining \$117,605,000 authorized but unissued unlimited tax bonds for water, sewer and drainage purposes, \$58,420,000 authorized but unissued unlimited tax refunding bonds, \$20,000,000 authorized but unissued unlimited tax park bonds, and \$16,825,000 authorized but unissued unlimited tax road bonds.

Financing Parks and Recreational Facilities

The District is authorized by statute to develop parks and recreational facilities, including the issuing of bonds payable from taxes for such purpose. Before the District could issue park bonds payable from taxes, the following actions would be required: (a) preparation of a detailed park plan which has already occurred; (b) authorization of park bonds by the qualified voters in the District which has already occurred; (c) approval of the park project and bonds by the TCEQ; and (d) approval of the bonds by the Attorney General of Texas. If the District does issue park bonds, the outstanding principal amount of such bonds may not exceed an amount equal to one percent of the value of the taxable property in the District.

Continuing Compliance with Certain Covenants

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

Lone Star Groundwater Conservation District

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

The Conservation District requires persons and entities, including the District, that pump groundwater from wells to apply for and obtain permits for the withdrawal of groundwater under terms and conditions provided in the Conservation District's rules. As of February 12, 2008, the Conservation District adopted Phase II of its PLAN. The PLAN called for the reduction of groundwater withdrawal throughout Montgomery County to volumes that do not exceed the recharge capabilities of aquifers in the County to prevent the long-term depletion of the aquifers. The PLAN allowed for the creation of management zones within the County to facilitate conservation of groundwater and development of other water resources from surface water, deep wells or re-use of treated effluent.

The Conservation District currently bills permit holders, including the District, \$0.085 per 1,000 gallons of water pumped from wells to finance the Conservation District's operations. On August 12, 2021 the Conservation District's Board of Directors approved Resolution No. 21-008 adopting water usage fees for 2022.

The previous Lonestar Groundwater Management Plan ("GMP") classified any user that exceeds 10 million gallons (10 MG) per year as a Large Volume Groundwater User ("LVGU"). All LVGU in Montgomery County were required to prepare and submit a two part Water Resources Assessment Plan ("WRAP") that identified methods and plans for reduction of groundwater usage through the development of alternate water resources, including the design and construction of infrastructure and facilities to purchase and transport water to affected areas within the County. The final approved plan is known as a Groundwater Reduction Plan ("GRP"). The

initial requirement and deadline for reduction of groundwater use was 30% by January 1, 2016. Once a user becomes a LVGU they are required to be a member of a GRP.

The District was to become a participant by contract to this countywide, collaborative solution to groundwater reduction. As Administrator of the GRP, SJRA delivers alternative water, namely surface water from Lake Conroe, to certain participants at a rate that meets Conservation District reduction requirements for all GRP members. SJRA completed a 30 million gallon per day surface water treatment plant and transmission system as of September 18, 2015. SJRA began delivery of treated surface water to meet the initial conversion obligation of January 1, 2016.

Upon passage of House Bill 1982 by the 85th Texas Legislature in 2017, the Lonestar Groundwater Conservation District's Board of Directors was changed from a nine-member appointed board to a seven-member elected board. The first election was held on November 6, 2018, and the new board assumed office on November 16, 2018. Since taking office, the new board has indicated there will be major changes to the PLAN, which may include changing the definition of a Large Volume Groundwater User and changing the requirement to be a member of a GRP. The PLAN must be updated every 5 years, which was due in 2018, so this update is an urgent priority for the new board.

In September 2018, Judge McCorkle issued an order declaring the LVGU Rule invalid, which was appealed. In January 2019, the parties entered into a settlement agreement which resulted in a Final Judgement declaring the LVGU Rule "void and unenforceable." The newly elected board indicated its intent to make significant changes to the PLAN. The District contacted the Conservation District and proposed a delay in joining the SJRA GRP. Once the SJRA GRP contract was approved, the District would have been locked into a long-term contract with the SJRA. The Conservation District agreed to a consent order setting an overproduction penalty of \$0.105 per 1,000 gallons over the 10 MG threshold for the 2018 usage (overage estimated to be approximately 12 million gallons, or \$969.00), plus a \$500.00 civil penalty. The actual penalty and Consent Order were calculated to be \$1,476.09 once the 2018 production data was available in February 2019.

The District notified SJRA that it will place the SJRA GRP Contract on hold until the new PLAN has been released by the Conservation District and a decision could be made regarding the new requirements to be met. On May 17, 2019, the Conservation District issued a notification to all registered LVGUs that the 10 MG requirement had been eliminated and no further action was required on the District's part. The elimination of the 10 MG limitation also removed the immediate requirement to become a member of a GRP until a new Plan is issued. As of December 10, 2019, the Conservation District has not issued a revised Plan. Therefore, the District will continue to operate unrestricted without a GRP, but will follow all other Conservation District policies, such as submitting annual usage forecasts and payment of fees.

San Jacinto River Authority GRP Agreement

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

SJRA offered to enter into a contract for a Groundwater Reduction Plan (GRP), including an alternative water supply, and related goods and services (the "GRP Contract") with all large water users in Montgomery County to achieve the goals for reduction of groundwater pumpage for the entire county. Approximately 147 larger volume water users in Montgomery County, approved and entered into the GRP Contract (collectively the "Participants") and are in compliance with SJRA and Conservation District requirements applicable to groundwater pumpage from groundwater well.

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

The SJRA designed, permitted, financed, constructed, owns, operates, and maintains the Project, a group compliance approach is utilized. Certain large volume Participants were wholly converted to treated surface water while other users continue to use groundwater. This approach is expected to minimize overall Project cost, equalize costs for Participants and avoid geographic advantages and disadvantages.

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

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

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 amended and reissued the TPDES Construction General Permit (TXR150000), dated March 5, 2018, with a new effective of January 28, 2022, which is a general permit authorizing the discharge of stormwater runoff associated with small and large construction sites and certain non-stormwater 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 not located in an Urbanized Area (UA), as defined by TPDES General Permit No. TXR040000, and does not meet the population threshold for requiring a Municipal Separate Storm System (MS4) Permit. Development in the District is required to meet the requirements of Montgomery County, Texas, a Level 2 Small MS4, by implementing best management practices (BMPs) to minimize or eliminate unauthorized pollutants after the project is constructed. If the District is required to apply for the MS4 Permit were required at a future date, the District could incur substantial costs to develop, implement, and maintain the necessary 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 in order to comply with the MS4 Permit.

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

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

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

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

On June 9, 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. On November 18, 2021, the EPA and USACE issued a Notice Proposed Rulemaking to put back into place the pre-2015 definition of "waters of the United States," and on December 7, 2021, the proposed rule was published in the Federal Register, with the public comment period closing on February 7, 2022. 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.

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 an 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 policy insurer (the "Bond Insurer") at such time and in such amounts as would have been due absent such prepayment by the District unless the Bond Insurer chooses to pay such amounts at an earlier date.

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 description of "BOND INSURANCE" herein.

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 nor the Underwriter have made independent investigation into the claims paying ability of the Bond Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Bond Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the Issuer 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 "BOND INSURANCE" herein for further information provided by the Bond Insurer and the Policy, which includes further instructions for obtaining current financial information concerning the Bond Insurer.

Inclement Weather

The District is located approximately 90 miles from the Texas Gulf Coast. Land located in this area is susceptible to high winds, heavy rain and flooding caused by hurricanes, tropical storms, and other tropical disturbances. If a hurricane (or any other natural disaster) significantly damaged all or part of the improvements within the District, the assessed value of property within the District could be substantially reduced, with a corresponding decrease in tax revenues or necessity to increase the District's tax rate. Further, there can be no assurance that a casualty loss to taxable property within the District will be covered by insurance (or that property owners will even carry flood insurance), that any insurance company will fulfill its obligation to provide insurance proceeds or that insurance proceeds will be used to rebuild or repair any damaged improvements within the District. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the District would be adversely affected.

Hurricane Harvey

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

The greater Houston area, including the District, has experienced multiple storms exceeding a 0.2% probability (i.e., "500-year flood" events) since 2015. The most recent event was Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 26, 2017, and brought historic levels of rainfall during the successive four days. According to the Developer and the Operator, none of the buildings in the District experienced flooding during Hurricane Harvey.

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

Tropical Storm Imelda

Various parts of Montgomery County, including areas in and around the District, reportedly experienced approximately 33" of rain over a 24-hour period during Tropical Storm Imelda. Portions of the District experienced some flooding, which receded after approximately 12 hours. Three of the industrial buildings in the District experienced some flooding (2 inches to 8 inches of water) due to Tropical Storm Imelda. All three of the buildings have been rehabilitated and the companies continue to do business in the District.

Winter Storm Uri

Winter Storm Uri was a winter and ice storm that had widespread impacts to portions of the United States, Mexico, and Canada. The Houston, Texas area experienced freezing temperatures along with extended electric interruptions in February 2021. The District is served by Entergy Texas, Inc., separate from the ERCOT Texas Electrical Grid regulated by ERCOT, experienced extended power interruptions resulting in minor impacts to the District's facilities due to freezing temperatures, but were able to be repaired quickly. However, as a result of the District having an emergency backup power supply on the Water Supply System, the water supply was not critically impacted.

Temporary Tax Exemption for Property Damaged by Disaster

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

Tax Payment Installments

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

After January 1, 2020, a district may adopt an exemption for a portion of the value of property damaged by a declared national disaster based on the percentage of damage to the property.

In addition, under the Texas Tax Code, solely at the District's discretion, quarterly payments of ad valorem taxes on all taxable personal property of a business that lost money during a declared disaster or emergency regardless of whether the property was directly damaged as a result of the disaster or emergency are allowed.

Atlas 14

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

THE BONDS

General

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

Description

The Bonds are dated December 15, 2022, and will mature on August 15 in the years and in the principal amounts set forth on the cover page of this Official Statement. The Bonds will be issued in principal denominations of \$5,000 each, or integral multiples thereof.

Interest on the Bonds will accrue from December 15, 2022, and is payable on August 15, 2023, and each February 15 and August 15 thereafter until maturity or prior redemption.

The Bond Order authorizes the issuance and sale of the Bonds and prescribes terms, conditions and provisions for the payment of the principal of and interest on the Bonds by the District.

The Bonds are issued in fully registered form only in principal denominations of \$5,000 or any integral multiple of \$5,000 for any one maturity. The Bonds will be initially registered and delivered only to CEDE & Co. the nominee of the Depository Trust Company (the "DTC") pursuant to the book-entry only system described herein. No physical delivery of the Bonds will be made to the owners thereof. Principal of and interest on the Bonds will be payable at the paying agent/registrar to CEDE & Co. which will make distribution of the amount so paid to the beneficial owners of the bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein. Interest calculations are based upon a 360-day year comprised of twelve 30-day months.

In the event that Book-Entry-Only System is discontinued, interest on the Bonds shall be payable by check or wire on or before each interest payment date, mailed by The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, as paying agent/registrar (the "Paying Agent/Registrar") to the registered owners ("Registered Owners") as shown on the bond register (the "Register") kept by the Paying Agent/Registrar at the close of business on the 1st calendar day of the month of each interest payment date to the address of such Registered Owner as shown on the Register, or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and a Registered Owner at the risk and expense of such Registered Owner.

Authority for Issuance

At various bond elections held within the District, the voters of the District authorized a total of \$161,350,000 in bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities. The District has issued six series of bonds from such authorization in the past.

After the sale of the Bonds, a total of \$117,605,000 authorized but unissued unlimited tax bonds for water, sewer and drainage purposes, \$58,420,000 authorized but unissued unlimited tax refunding bonds, \$20,000,000 authorized but unissued unlimited tax park bonds, and \$16,825,000 authorized but unissued unlimited tax road bonds. The Bonds are issued by the District pursuant to the terms and provisions of the Bond Order; Article XVI, Section 59 of the Texas Constitution; and the laws of the State of Texas including Chapters 49 and 54 of the Texas Water Code, as amended.

Source and Security for Payment

The Bonds are secured by and payable from the proceeds of a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied by the District against all taxable property located within the District. The Bonds involve certain elements of risk, and all prospective purchasers are urged to examine carefully this Official Statement with respect to the investment security of the Bonds. The Bonds are obligations solely of the District and are not obligations of the City of Conroe, Montgomery County, the State of Texas, or any political subdivision or entity other than the District. See "TAXING PROCEDURES" and "RISK FACTORS."

Funds

The Bond Order confirms the establishment of the District's Construction Fund (the "Construction Fund") and the District's Bond Fund (the "Bond Fund") created and established pursuant to the orders of the District authorizing the issuance of the Outstanding Bonds. Accrued interest on the Bonds will be deposited from proceeds from sale of the Bonds into the Bond Fund along with capitalized interest on the Bond funded with Bond proceeds. After depositing certain proceeds of the Bonds, any remaining proceeds of the Bonds will be deposited in the Construction Fund. The Bond Fund, which constitutes a trust fund for the benefit of the owners of the Outstanding Bonds, the Bonds and any additional tax bonds issued by the District, is to be kept separate from all other funds of the District, and is to be used for payment of debt service on the Outstanding Bonds, the Bonds and any of the District's duly authorized additional bonds payable in whole or part from taxes. Amounts on deposit in the Bond 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 Outstanding Bonds, the Bonds, any additional bonds, and to pay any tax anticipation notes issued, together with interest thereon, as such tax anticipation notes become due. See "USE OF BOND PROCEEDS."

Record Date

The record date for payment of the interest on any regularly scheduled interest payment date is defined as the first day of the month (whether or not a business day) of such interest payment date.

Optional Redemption Provisions

The District reserves the right, at its option, to redeem the Bonds maturing on or after August 15, 2028, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000, on August 15, 2027, or any date thereafter, at a price equal to the principal amount thereof plus accrued interest thereon from the most recent interest payment date to the date fixed for redemption. If fewer than all of the Bonds are to be redeemed, the particular maturity or maturities and the amounts thereof to be redeemed shall be determined by the District, provided that if less than all the Bonds within a particular maturity are redeemed at any time, the particular Bonds within each such maturity to be redeemed shall be selected by the Paying Agent/Registrar from the Bonds which have not previously been called for redemption, by lot or other customary method of random selection. However, if during any period in which ownership of the Bonds is determined only by a book-entry at a securities depository, if fewer than all of the Bonds of the same maturity, are to be redeemed, the particular Bond shall be selected in accordance with arrangements between the District and securities depository. See "BOOK-ENTRY-ONLY SYSTEM."

Mandatory Redemption

The Bonds maturing August 15 in the years 2029, 2031, 2033, 2035, 2037, 2039, 2041, 2043 2045, 2047 and 2050 (the "Term Bonds") shall be subject to annual mandatory sinking fund redemption as shown on the table(s) below.

\$700,000 Term Bonds, due August 15, 2029

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
August 15, 2028	\$350,000
August 15, 2029 (maturity)	\$350,000

\$725,000 Term Bonds, due August 15, 2031

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
August 15, 2030	\$350,000
August 15, 2031 (maturity)	\$375,000

\$825,000 Term Bonds, due August 15, 2033

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
August 15, 2032	\$400,000
August 15, 2033 (maturity)	\$425,000

\$875,000 Term Bonds, due August 15, 2035

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
August 15, 2034	\$425,000
August 15, 2035 (maturity)	\$450,000

\$975,000 Term Bonds, due August 15, 2037

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
August 15, 2036	\$475,000
August 15, 2037 (maturity)	\$500,000

\$1,025,000 Term Bonds, due August 15, 2039

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
August 15, 2038	\$475,000
August 15, 2039 (maturity)	\$500,000

\$1,125,000 Term Bonds, due August 15, 2041

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
August 15, 2040	\$550,000
August 15, 2041 (maturity)	\$575,000

\$1,225,000 Term Bonds, due August 15, 2043

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
August 15, 2042	\$600,000
August 15, 2043 (maturity)	\$625,000

\$1,325,000 Term Bonds, due August 15, 2045

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
August 15, 2044	\$650,000
August 15, 2045 (maturity)	\$675,000

\$1,450,000 Term Bonds, due August 15, 2047

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
August 15, 2046	\$700,000
August 15, 2047 (maturity)	\$750,000

\$2,400,000 Term Bonds, due August 15, 2050

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
August 15, 2048	\$775,000
August 15, 2049	\$800,000
August 15, 2050 (maturity)	\$825,000

Notice of Redemption; Partial Redemption

While the Bonds are in book-entry-only form, pursuant to the Bond Order, the Term Bonds will be scheduled for annual mandatory sinking fund redemption by DTC in accordance with its procedures. If the book-entry-only system is discontinued, the Paying Agent/Registrar shall select by lot the Term Bonds, if any, to be redeemed and issue a notice of redemption in the manner provided below. The principal amount of the Term Bonds of a maturity required to be redeemed pursuant to the operation of such mandatory redemption requirements shall be reduced, at the option of and as determined by the District, by the principal amount of any Term Bonds of such maturity which, prior to the date of the mailing of notice of such mandatory redemption, (1) shall have been acquired by the District and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the District, or (3) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

Notice of each exercise of the right of redemption will be given at least 30 calendar days prior to the date fixed for redemption by the mailing of a notice by the Paying Agent/Registrar to each of the registered owners of the Bonds to be redeemed at the address shown on the records of the Paying Agent/Registrar on the date which is 45 calendar days prior to the redemption date. When Bonds have been called for redemption, the right of the registered owners of such Bonds to collect interest which would otherwise accrue after the date for redemption will be terminated.

The Bonds of a denomination larger than \$5,000 in principal amount may be redeemed in part (\$5,000 in principal or any integral multiple thereof). Any Bond to be partially redeemed must be surrendered in exchange for one or more new Bonds of the same maturity for the unredeemed portion of the principal.

Paying Agent/Registrar

Pursuant to the Bond Order, the initial paying agent and initial registrar with respect to the Bonds is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. The District will maintain at least one Registrar, where the Bonds may be surrendered for transfer and/or for exchange or replacement for other Bonds, and for the purpose of maintaining the Bond Register on behalf of the District. The Registrar is required at all times to be a duly qualified banking corporation or association organized and doing business under the laws of the United States of America, or of any state thereof, and subject to supervision or examination by federal or state banking authorities.

The District reserves the right and authority to change any paying agent/registrar and, upon any such change, the District covenants and agrees in the Bond Order to promptly cause written notice thereof, specifying the name and address of such successor paying agent/registrar, to be sent to each Registered Owner of the Bonds by United States mail, first class, postage prepaid.

Registration and Transfer

In the event the Book-Entry-Only System should be discontinued, the Bonds will be transferable only on the Bond Register kept by the Registrar upon surrender and reissuance. The Bonds are exchangeable for an equal principal amount of Bonds of the same maturity and of any authorized denomination upon surrender of the Bonds to be exchanged at the operations office of the Registrar in Houston, Texas. See "BOOK-ENTRY-ONLY SYSTEM" below for a description of the system to be utilized initially in regard to the ownership and transferability of the Bonds. Every Bond presented or surrendered for transfer is required to be duly endorsed, or be accompanied by a written instrument of transfer, in a form satisfactory to the Registrar. Neither the Registrar nor the District is required (1) to transfer or exchange any Bond during the period beginning at the opening of business on a Record Date (defined herein) and ending at the close of business on the next succeeding interest payment date or (2) to transfer or exchange any Bond selected for redemption in whole or in part within thirty calendar days of the redemption date. No service charge will be made for any transfer or exchange, but the District or the Registrar may require payment of a sum sufficient to cover any tax or governmental charge payable in connection therewith.

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, or receipt of satisfactory evidence of such destruction, loss, or theft and receipt by the District and the Registrar of security or indemnity as may be required by either of them to keep them harmless. The District will require payment of taxes, governmental charges, and expenses in connection with any such replacement.

Legal Investment and Eligibility to Secure Public Funds in Texas

Pursuant to the Texas Bond Procedures Act, Chapter 1201, Texas Government Code, as amended, and Section 49.186, Texas Water Code, the Bonds, whether rated or unrated, are (a) legal investments for banks, savings banks, trust companies, building and loan associations, savings and loan associations, insurance companies, fiduciaries, and trustees and (b) legal investments for the public funds of cities, towns, villages, school districts, and other political subdivisions or public agencies of the State. Most political subdivisions in the State of Texas are required to adopt investment guidelines under the Public Funds Investment Act, Chapter 2256, Texas Government Code, and such political subdivisions may impose a requirement consistent with such act that the Bonds have a rating of not less than "A" or its equivalent to be legal investments for such entity's funds. The Bonds are eligible under the Public Funds Collateral Act, Chapter 2257, Texas Government Code, to secure deposits of public funds of the State or any political subdivision or public agency of the State and are lawful and sufficient security for those deposits to the extent of their market value. Again, political subdivisions in the State of Texas may impose a requirement that the Bonds have a rating of not less than "A" or its equivalent to be eligible to serve as collateral for their funds.

The District has not reviewed the laws in other states to determine whether the Bonds are legal investments for various institutions in those states or eligible to serve as collateral for public funds in those states. The District has made no investigation of any other laws, rules, regulations or investment criteria that might affect the suitability of the Bonds for any of the above purposes or limit the authority of any of the above persons or entities to purchase or invest in the Bonds.

Issuance of Additional Debt

The District may issue additional bonds, with the approval of the TCEQ, (if required) necessary to provide and maintain improvements and facilities consistent with the purposes for which the District was created. See "THE DISTRICT – General." The District's voters have authorized the issuance of a total of \$161,350,000 unlimited tax bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities and could authorize additional amounts. Following the issuance of the Bonds, the District will have \$117,605,000 of such unlimited tax bonds authorized but unissued, \$58,420,000 authorized but unissued unlimited tax refunding bonds, \$20,000,000 authorized but unissued unlimited tax park bonds, and \$16,825,000 authorized but unissued unlimited tax road bonds. See "RISK FACTORS – Issuance of Additional Debt."

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

The District also is authorized by statute to engage in fire-fighting activities, including the issuing of bonds payable from taxes for such purpose. Before the District could issue fire-fighting bonds payable from taxes, the following actions would be required: (a) authorization of a detailed master plan and bonds for such purpose by the qualified voters in the District; (b) approval of the master plan and issuance of bonds by the TCEQ; and (c) approval of bonds by the Attorney General of Texas. The District does not provide fire protection service, and the Board has not considered calling such an election at this time. Issuance of bonds for fire-fighting activities could dilute the investment security for the Bonds.

Annexation

The District lies partially within the extraterritorial jurisdiction of the City of Conroe (the "City"). In accordance with Texas law, the District entered into a Strategic Partnership Agreement with the City, effective February 10, 2022 (the "SPA"). The SPA provides for limited purpose annexation of the District by the City at any time and full purpose annexation by the City any time on or after December 31, 2061. Upon limited purpose annexation, the City may impose within the District any sales and use tax imposed by the City within its full purpose boundaries, subject to existing sales and use taxes imposed by other taxing authorities within the District. The District shall not be subject to ad valorem taxation by the City prior to full purpose annexation. Annexation of territory by the City is a policy-making matter within the discretion of the Mayor and City Council of the City, and, therefore, the District makes no representation that the City will ever annex the District and, in the case of full purpose annexation, assume its debt, nor does the District make any representation concerning the ability of the City to pay debt service on the District's bonds if full purpose annexation were to occur.

Consolidation

The District has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its assets (such as cash and the utility system) and liabilities (such as the Bonds) with the assets and liabilities of districts with which it is consolidating. Notwithstanding the foregoing, upon limited purpose annexation of the District by the City in accordance with the SPA, the District may not transfer any District facilities to another party without the consent of the City. Although no consolidation is presently contemplated by the District, no representation is made concerning the likelihood of consolidation in the future.

Remedies in Event of Default

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

Other than a writ of mandamus, the Bond Order does not provide a specific remedy for a default. Although a Registered Owner presumably could obtain a judgment against the District for a default in the payment of principal or interest, such judgment could not be satisfied by execution against any property of the District and recent Texas court decisions have held that statutory language authorizing districts to sue and be sued is insufficient to waive a district's sovereign immunity to suit for monetary damages. If the District defaults, a Registered Owner could petition for a writ of mandamus issued by a court of competent jurisdiction compelling and requiring the District and the District's officials to observe and perform the covenants, obligations or conditions prescribed in the Bond Order. Such remedy might need to be enforced on a periodic basis. The enforcement of a claim for payment on the Bonds would be subject to the applicable provisions of the federal bankruptcy laws, any other similar laws affecting the rights of creditors of political subdivisions, and general principles of equity. See "RISK FACTORS – Registered Owners' Remedies" and "– Bankruptcy Limitation to Registered Owners' Rights."

Defeasance

The District may discharge its obligations to the Registered Owners of any or all of the Bonds to pay principal of and interest on the Bonds and may defease the Bonds in accordance with the provisions of applicable laws, including, without limitation, Chapter 1207, Texas Government Code, as amended.

Chapter 1207 currently provides that the Bonds may be defeased by a deposit with the Comptroller of Public Accounts of the State of Texas, a paying agent or trustee for any of the obligations to be defeased or certain other trust companies or commercial banks, which may be invested only in obligations that mature and bear interest payable at times and in amounts sufficient to provide for the scheduled payment or redemption of the Bonds. The deposit may be invested and reinvested in (1) direct noncallable obligations of the United States, including obligations that are unconditionally guaranteed by the United States, (2) 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 defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, or (3) noncallable obligations of a state or 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 defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent.

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

Financing Road Facilities

Pursuant to Chapter 54 of the Water Code, a municipal utility district may petition the TCEQ for the power to issue bonds supported by property taxes to finance roads. Before the District could issue such bonds, the District would be required to receive a grant of such power from the TCEQ, authorization from the District's voters to issue such bonds, and approval of the bonds by the Attorney General of Texas. During 2016 the District received approval from the TCEQ for the acquisition of road powers and conducted an election whereby the voters authorized bonds for such purpose. Issuance of such road bonds in the future could dilute the investment security for the Bonds.

Financing Parks and Recreational Facilities

The Texas Constitution authorizes the Texas Legislature to enable conservation and reclamation districts in certain counties to develop and finance with property taxes certain parks and recreational facilities after a district election has been successfully held to approve a maintenance tax to support parks and recreational facilities and/or the issuance of bonds payable from taxes.

The Texas Legislature has enacted legislation allowing the District to levy an operation and maintenance tax to support parks and recreational facilities at a rate not to exceed 10 cents per \$100 of assessed value of taxable property in the District, after such tax is approved at an election. In addition, the District is authorized to issue bonds payable from an ad valorem tax to pay for the development and maintenance of parks and recreational facilities if (i) the District duly adopts a park plan; (ii) the bonds are authorized at an election; (iii) the bonds payable from any source do not exceed the lesser of 1% of the value of the taxable property in the District at the time of issuance of the bonds or the estimated cost of the park plan; (iv) the District obtains any necessary governmental consent allowing the issuance of such bonds; and (v) the bonds are approved by the Attorney General of Texas. The District may issue bonds for such purposes payable solely from net operating revenues without an election. The issuance of such bonds is subject to rules and regulations to be adopted by the TCEQ.

Current law may be changed in a manner to increase the amount of bonds which may be issued as related to a percentage of the value of taxable property or to allow a higher or lower maintenance tax rate for such purposes. The levy of taxes for such purposes may dilute the security for the Bonds.

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, Maturity Value, and interest on the Bonds are to be paid to and credited by 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, the Financial Advisor, and the Underwriters believe the source of such information to be reliable but take no responsibility for the accuracy or completeness thereof.

The District and the Underwriters 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, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

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

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 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. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, who will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Certificate ("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 securities representing their ownership interests in Bonds except in the event that use of the book-entry system for the Bonds is discontinued.

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

The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Certificate documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

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

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

The information in this section concerning DTC and DTC's book-entry-only system has been obtained from sources that the District believes to be reliable, but none of the District, the Financial Advisor or the Underwriter takes any responsibility for the accuracy thereof. Termination by the District of the DTC Book-Entry-Only System may require consent of DTC Participants under DTC Operational Arrangements.

USE OF BOND PROCEEDS

The proceeds of the Bonds will be used for the following purposes: (1) to reimburse two developers for advances made on behalf of the District for certain water, wastewater, and drainage facilities; (2) to pay for the engineering and construction of central wastewater treatment plant facilities; (3) to pay for engineering and storm water protection costs associated with the foregoing projects; (4) to pay for land costs; (5) to pay for developer interest costs; (6) to pay for interest attributable to a bond anticipation note; and (7) to pay for costs associated with the issuance of the Bonds.. To the extent surplus funds are available from the sale of the Bonds, such funds may be expended for any lawful purpose for which surplus funds may be used with approval of the TCEQ.

The Engineer (hereinafter defined) has advised the District that the proceeds listed below should be sufficient for the acquisition and construction of such facilities. The District's present estimate of the use of proceeds of the Bonds as approved by the TCEQ is as follows:

CONSTRUCTION COSTS	<u>Total Amount</u> (a)
Developer Contribution Items	
Porters Mill, Section 2 – W/WW/D	\$639,475
Porters Mill Boulevard, Phase 2 – W/WW/D	\$520,025
Porters Mill, Section 3 – W/WW/D	\$850,168
Industrial Park Section 5 – W/WW/D	\$362,696
Engineering	<u>\$666,073</u>
Total Developer Contribution Items	<u>\$3,038,437</u>
District Contribution Items	
Wastewater Treatment Plant Expansion, Phase 1	\$2,555,940
Industrial Park Section 5 – Lift Station	\$474,370
Water Supply Plants No. 1 & 2 Expansion	\$664,400
Contingency	\$501,587
Engineering	\$611,787
Water Quality Study and Engineering	\$226,355
Land Acquisition for Porters Mill Drainage and Detention	<u>\$2,251,069</u>
Total District Contribution Items	<u>\$7,285,508</u>
TOTAL CONSTRUCTION COSTS	<u>\$10,323,945</u>
NON-CONSTRUCTION COSTS	
Legal Fees	\$326,250
Fiscal Agent Fees	\$166,500
Interest	
Capitalized Interest	\$569,250
Developer Interest	\$372,116
Bond Anticipation Note Interest	\$142,065
Bond Discount	\$378,467
Bond Issuance Expenses	\$69,446
Bond Application Report Costs	\$95,000
Bond Anticipation Note Expense	\$164,803
Attorney General Fee	\$9,500
TCEQ Bond Issuance Fee	\$31,625
Contingency	<u>\$1,033</u> (b)
TOTAL NON-CONSTRUCTION COSTS	<u>\$2,326,055</u>
TOTAL BOND ISSUE REQUIREMENT	<u>\$12,650,000</u>

(a) TCEQ rules require, with certain exceptions, that developers contribute to the District's construction program a minimum of 30% of the construction costs of certain system facilities. The District has been granted a waiver of such requirement pursuant to 30 Tex. Admin. Code §293.47(a)(3).

(b) The District will designate any surplus Bond proceeds resulting from the sale of the Bonds at a lower interest rate than the estimated rate as a contingency line item in the Final Official Statement. Such funds will be used by the District to fund costs in accordance with TCEQ Rules.

THE DISTRICT

General

The District is a municipal utility district created by the 77th Texas Legislature on June 16, 2001, under Article XVI, Section 59 of the Texas Constitution, and operates under the provisions of Chapter 49 and Chapter 54 of the Texas Water Code, as amended, and other general statutes of Texas applicable to municipal utility districts. The District, which lies partially within the extraterritorial jurisdiction of the City of Conroe, is subject to the continuing supervisory jurisdiction of the TCEQ.

The District is empowered, among other things, to finance, purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation and treatment of wastewater; and the control and diversion of storm water. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District may also provide solid waste disposal and collection services. The District is also empowered to establish, operate and maintain fire-fighting facilities, independently or with one or more conservation and reclamation districts, after approval by the TCEQ and the voters of the District. Additionally, the District may, subject to certain limitations, develop parks and recreational facilities as well as roads.

Construction and operation of the District's drainage system is subject to the regulatory jurisdiction of additional State of Texas and local agencies. See "DESCRIPTION OF THE SYSTEM."

Description and Location

The District consists of approximately 1,534 acres located in eastern Montgomery County, Texas, approximately 31 miles northeast of the central downtown business district of the City of Houston. The District is generally located 2 miles northwest of U.S. Highway 59, 3 miles east of FM 1314, and 18 miles southeast of the City of Conroe. The District is generally bounded on the east by FM 1485, the south by White Oak Creek, the west by FM 1314, and the north by Dry Creek, with 187 acres of residential development located south of Gene Campbell Boulevard. Approximately 1,266 acres of the District is located within the extraterritorial jurisdiction of the City of Conroe and the District is wholly within the boundaries of the New Caney Independent School District. Approximately 687 of the acres in the district have been developed or will be developed for light industrial/commercial purposes known as the East Montgomery County Industrial Park (Phase 1, Sections 1-5). Approximately 187 acres have been developed for single family housing, 719 acres of developable land remain to be developed, and approximately 20 acres of land in the District are undevelopable.

Commercial Building Development and Proposed Development

The District currently has approximately 687 acres of developed property, including 132.377 acres known as EMCID Industrial Park, Phase 1 (Wal-Mart Distribution Center #7010); 49.439 acres platted as EMCID Industrial Park, Section 1; and 100 acres platted as EMCID Industrial Park, Section 2. Approximately 279 acres of the developed property consists of 25 improved commercial tracts that include light industrial, commercial warehouse/distribution facilities for 22 different companies. Approximately 110 acres of developed property within Sections 1, 2, 3, and 4 remains available for building development. Following is a table of building development within Phase 1, Sections 1-4 and the Lowes facility located on 127 acres adjacent to the industrial park.

Company	Approximate Tract Size	Approximate Building Size	Section of the Park
Walmart Distribution Center	132.40 acres	854,600 sf	
Keysteel LP	22.01 acres	154,700 sf	Section 1
Jova Group L.P.	8.40 acres	26,250 sf	Section 1
J.M. Maly Inc.	2.01 acres	9,600 sf	Section 1
Woodmark Cabinets LP	3.00 acres	57,000 sf	Section 1
Command Energy, Inc.	13.58 acres	31,400 sf	Section 2
Presidential Billiards	5.00 acres	35,225 sf	Section 2
The Filter Man, Ltd & Airtracks LLC	2.00 acres	26,872 sf	Section 2
Charter Supply	5.71 acres	16,800 sf	Section 2 R/P
Fastorq Bolting System	2.50 acres	21,000 sf	Section 2
Drift TC LLC	9.73 acres	43,200 sf	Section 2 R/P
Forterra Pipe & Precast, LLC	12.90 acres	15,000 sf	Section 2
Gates Lubricants	4.16 acres	23,250 sf	Section 2 R/P
Jenista Holdings, LLC	3.00 acres	14,500 sf	Section 3
Gamma Holdings	4.00 acres	55,000 sf	Section 3
Hallmark Mitigation & Construction, LLC	3.00 acres	5,000 sf	Section 3
Levitated Metals Real Estate Holdings, LLC	10.00 acres	19,200 sf	Section 4
NC Customs, LLC	1.93 acres	6,000 sf	Section 3
Stanchi Interest, LLC	5.00 acres	10,000 sf	Section 3
YMER Technology	9.37 acres	60,000 sf	Section 4
Multi Seal, Inc.	9.45 acres	40,000 sf (a)	Section 3
E9 Capital	10.00 acres	- (b)	Section 4
Lowes/CRG	123.32 acres	1,500,000 sf	
Titan Environmental USA	7.899 acres	40,800 sf (c)	Section 4
EMCID – EDA Office Building	4.770 acres	30,000 sf (c)	Section 3

(a) According to EMCID, Multi Seal, Inc. is currently under construction and will be completed by March 2023.

(b) According to EMCID, E9 Capital will start construction in 2023.

(c) According to EMCID, Titan Environmental USA and EDA Office Building will be completed in December 2022.

Single Family Residential Development

D.R. Horton is in the process of developing land within the District known as the Porters Mill subdivision. As of October 1, 2022, approximately 187 acres have been developed into the sections known as Porters Mill, Sections 1-6. As of such date, there were 747 completed homes (740 of which were occupied), 5 homes under construction, and 7 vacant developed lots. According to D.R. Horton, homes in Porters Mill are currently being marketed in the \$289,000 price range.

Recent Annexations

During 2020, EMCID acquired 195.104 acres of undeveloped property located adjacent to a portion of the northern boundary of the District. EMCID subsequently conveyed 123.316 of those acres to The Cubes at EMC Industrial Park, LLC ("The Cubes"). EMCID and The Cubes then jointly petitioned for annexation of the 195.104 acres into the District. The petition was consented to by the City of Conroe in January, 2021. The District Board of Directors annexed the 195.104 acres into the District by Order dated March 11, 2021. The Cubes constructed an approximately 1,500,000 square foot Lowe's warehouse and distribution type building located on approximately 123 acres. The building and approximately 86.90 acres was subsequently sold to Polygon New Caney LLC and leased to Lowe's subject to the terms of a long-term lease agreement.

In April 2021, EMCID acquired an additional 112.002 acres of undeveloped property located adjacent to the previously annexed 195.104 acres. EMCID petitioned the District for annexation of the 112.002 acres into the District and the petition was consented to by the City of Conroe in March 2022. The District Board of Directors annexed the 112.002 acres into the District by Order dated March 10, 2022.

In 2022, EMCID acquired an additional 29.100 acres of undeveloped property located north of the previously annexed 195.104 acres and Crighton Park Limited owned 139.243 acres of undeveloped property south of the Porters Mill development. EMCID and Crighton Park Limited petitioned the District for annexation of the 29.100 acres and the 139.243 acres into the District and the petition was consented to by the City of Conroe in March 2022. The District Board of Directors annexed the 168.343 acres into the District by Order dated March 10, 2022.

Undeveloped Acreage

There are approximately 719 acres of developable land in the District which are not currently provided with water distribution, wastewater collection and storm drainage facilities. The District has approximately 20 acres of undevelopable land that is located within the 100-year the flood plain.

Management

The current members of the Board of Directors and Officers of the District, together with their titles on the Board, are listed below:

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Phil Maybee	President	2024
Darrel Bridges	Vice President	2026
Jim Deaton	Secretary	2024
Ken Parmer	Assistant Secretary	2024
Brenda Crayton	Director	2026

Director Crayton resides within the District. Each of the other four (4) directors owns a small parcel of land within the District, which qualifies them to serve as Directors. Directors have four-year staggered terms. Director elections are held only in even-numbered years.

Auditor – The District has engaged McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountants, as its independent auditor. A copy of the District's audit for the fiscal year ended June 30, 2022, is included in "Appendix A" hereto.

Tax Assessor/Collector – The Tax Assessor/Collector for the District is appointed by the Board each year. Montgomery County Tax Assessor/Collector is currently engaged by the District as Tax Assessor/Collector.

Bookkeeper – The District has engaged Municipal Accounts and Consulting, L.P. as bookkeeper and to perform certain other administrative duties. Municipal Accounts and Consulting, L.P. currently serves as bookkeeper for approximately 140 other municipal utility districts.

Utility System Operator – The District has engaged TNG Utility Corporation to operate and maintain the District's System. Municipal District Services, LLC serves in a similar capacity for approximately 25 other municipal utility districts.

Engineer – The consulting engineer for the District is J. A. Costanza & Associates Engineering, Inc. (the "Engineer").

Financial Advisor – The District has engaged The GMS Group, L.L.C., as Financial Advisor. Financial advisory fees related to the sale and delivery of bonds is to be computed on each separate issuance of bonds, contingent upon such bonds being delivered. The GMS Group, L.L.C. also performs certain work for the District on an hourly fee basis.

Bond Counsel and General Counsel – Marks Richardson PC ("Bond Counsel"), serves as Bond Counsel to the District. The fee to be paid to Bond Counsel for services rendered in connection with the Bonds is contingent upon the issuance of the Bonds. In addition, Marks Richardson PC also serves as General Counsel to the District on matters other than the issuance of bonds.

Disclosure Counsel – Norton Rose Fulbright US LLP, Houston, Texas, has been engaged by the District to serve as Disclosure Counsel on certain matters related to the sale and delivery of the Bonds but such advice should not be relied upon by the purchasers as a due diligence undertaking on their behalf. Fees of the Disclosure Counsel will be paid from proceeds of the Bonds; however, such fees are not contingent upon the sale and delivery of such Bonds

THE DEVELOPER, PRINCIPAL TAXPAYERS AND PRINCIPAL LANDOWNER

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

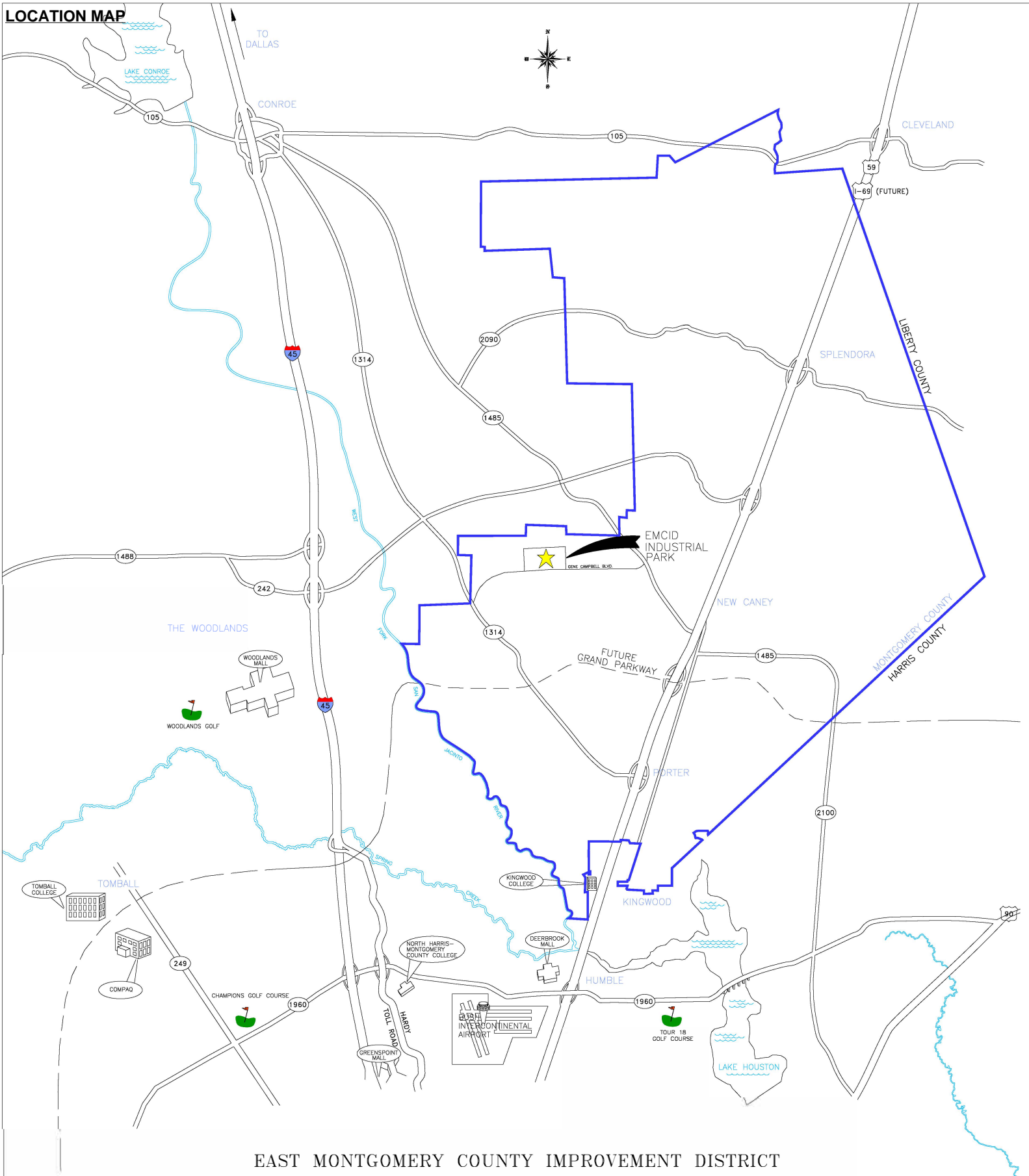
East Montgomery County Improvement District ("EMCID"), a political subdivision of the State of Texas, developed the Industrial Park, Sections 1-5 (the land within Sections 5 is developed but unimproved and the plat is in the process of being recorded), and the EMCID owns an additional 127 acres of land in the District that remains to be developed. EMCID was created to promote, develop, encourage, and maintain employment, commerce, economic development, and public welfare in the eastern area of Montgomery County, Texas. Land owned by EMCID is not subject to ad valorem taxation until sold by EMCID to a third party.

D.R. Horton has developed land within the District known as the Porters Mill subdivision. As of October 1, 2022, approximately 187 acres (759 lots) have been developed into the sections known as Porters Mill, Sections 1-6. As of such date, there were 747 completed homes, 5 homes under construction, and 7 vacant developed lots. According to D.R. Horton, homes are currently being marketed in the \$289,000 price range.

The top two principal taxpayers within the District are The Cubes at EMC Industrial Park LLC ("The Cubes") and Wal-Mart Real Estate Business Trust ("Wal-Mart"). The Cubes owns an approximately 1,500,000 square foot Lowe's warehouse and distribution type building on a 123.32-acre site in the District. The real property of The Cubes represents approximately 20.89% of the District's 2022 Certified Taxable Assessed Valuation. Wal-Mart which owns an approximately 854,600 square foot mechanized food distribution facility on a 132.40-acre site in the Industrial Park, Section 1. The real property and personal property of Wal-Mart represents approximately 20.81% of the District's 2022 Certified Taxable Assessed Valuation. See "RISK FACTORS" – Tax Collections" and "– Dependence on Principal Taxpayer," and "TAX DATA – Principal Taxpayers."

Approximately 501 undeveloped acres in the District (located outside of the Industrial Park) are owned by Bear Creek Trust, Louetta Partners LTD and Crighton Park LTD; no development is currently underway on any of this acreage and the District has no knowledge of any specific development plans for such land in the future.

LOCATION MAP



EAST MONTGOMERY COUNTY IMPROVEMENT DISTRICT

JACOSTANZA
& ASSOCIATES
 ENGINEERING, INC.

T.B.P.E. FIRM REGISTRATION NO. F-652

4301 CENTER ST. DEER PARK, TX 77536 281-930-9339

DESCRIPTION OF THE SYSTEM

General

The proceeds of the District's previously issued unlimited tax bonds were used to finance the construction and/or acquisition of water distribution, sanitary sewage collection, and storm drainage facilities to serve the District and to pay all expenses in any manner incidental thereto, in accordance with plans and specifications prepared by the Engineer. The previously issued unlimited tax bonds also financed the construction and acquisition of water supply and storage facilities and a wastewater treatment plant for the District.

Regulation

Construction and operation of the water supply and distribution system and the wastewater treatment and collection system (herein the "System") as it now exists or as it may be expanded from time to time are subject to the regulatory jurisdiction of various federal, state and local authorities. The TCEQ exercises continuing supervisory authority over the District. Discharge of treated sewage into Texas waters is also subject to regulatory authority of the TCEQ and the United States Environmental Protection Agency ("EPA"). The provision of potable water in the District is subject to regulatory authority of the TCEQ and the EPA. Withdrawal of ground water and the issuance of water well permits are subject to the regulatory authority of the Lone Star Groundwater Conservation District. (See "RISK FACTORS – Conversion to Surface Water"). Construction of drainage facilities is subject to the regulatory authority of Montgomery County. Montgomery County, the City of Conroe, and the Texas Department of Health also exercise regulatory jurisdiction over the District's System. Changes in regulatory criteria could require the District to make additional capital expenditures for system improvements in the future.

Water Supply

The District has constructed two water plants; each water plant includes a 1,000 gpm well. The District has ground storage tank capacity of 420,000 gallons, booster pump capacity of 2,500 gpm and hydropneumatic capacity of 25,000 gallons.

According to the Engineer, the water supply facilities are sufficient to serve a total 1,250 equivalent single family connections ("esfc"). Currently, the District is supplying water to approximately 886 esfc.

The District does not currently have a source for surface water and there are currently no interconnects to other groundwater sources. See "RISK FACTORS – Lone Star Groundwater Conservation District" and "- San Jacinto River Authority GRP Agreement."

Wastewater Treatment Plant Capacity

Wastewater treatment for the District is provided by an 300,000 gallon per day ("GPD") package wastewater treatment plant owned by the District. The wastewater treatment plant capacity is sufficient to serve the 886 esfc based on 300 GPD per esfc.

The District currently has an additional 300,000 GPD under construction. WWTP construction began on May 2, 2022 and is estimated to be completed on or around June 2023. The sale of the Bonds will fund the construction of the project. With completion of the project, the District will have 600,000 GPD of WWTP capacity to serve 2,000 ESFC at 300 GPD/ESFC.

Water Distribution, Wastewater Collection and Storm Drainage Facilities

The District has constructed water distribution, wastewater collection and storm drainage facilities to serve approximately 796 acres in the District. The District's Engineer has determined that the System will be sufficient to serve all developed acreage currently within the District's boundaries, based on current projected land uses, except as described above. (See "– Wastewater Treatment Plant Capacity" herein.)

Flood Plain Acreage in District

Approximately 20 acres in the District are located in the 100 year flood plain. Such acres lie within the Dry Creek flood plain and is not land intended for future building development.

General Fund Operating History

The Bonds are payable from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon taxable property in the District. The information included in the table below relating to the District's water and sewer system operations (the District's General Fund) is provided for information purposes only.

	FISCAL YEAR ENDING JUNE 30 (a)				
	2022	2021	2020	2019	2018
REVENUES:					
Property Taxes	\$572,058	\$450,334	\$543,852	\$443,010	\$484,471
Water Service	\$291,593	\$215,517	\$104,806	\$50,148	\$22,633
Wastewater Service	\$239,624	\$169,944	\$89,940	\$41,728	\$16,092
Surface Water Revenues	\$240,562	\$140,746	\$72,038	\$25,307	\$25,343
Penalty and Interest	\$16,867	\$18,569	\$4,650	\$4,208	\$350
Permit Violation Revenues	\$0	\$0	\$0	\$0	\$55,827
Tap Connection/Inspection Fees	\$262,300	\$514,192	\$322,480	\$221,375	\$42,300
Investment Revenues	\$4,678	\$2,094	\$16,657	\$27,404	\$7,768
Miscellaneous Revenues	\$54,028	\$15,635	\$45,111	\$18,104	\$1,269
TOTAL REVENUES:	\$1,681,710	\$1,527,031	\$1,199,534	\$831,284	\$656,053
EXPENDITURES:					
Professional Fees	\$193,533	\$137,113	\$111,714	\$92,084	\$128,458
Contracted Services	\$153,332	\$129,897	\$139,376	\$141,037	\$98,641
Utilities	\$71,224	\$53,909	\$40,069	\$36,463	\$40,334
Surface Water Fees	\$309,030	\$195,956	\$100,695	\$37,163	\$43,274
Repairs and Maintenance	\$292,401	\$203,605	\$108,375	\$199,198	\$261,067
Other	\$270,179	\$245,158	\$284,260	\$174,404	\$69,381
Capital Outlay	\$176,850 (b)	\$2,934	\$382,526	\$552,194	\$345,854
TOTAL EXPENDITURES:	\$1,466,549	\$968,572	\$1,167,015	\$1,232,543	\$987,009
EXCESS REVENUES (EXPENDITURES)	\$215,161 (b)	\$558,459	\$32,519	(\$401,259)	(\$330,956)
OTHER FINANCING SOURCES (USES)					
Transfers In (Out)	\$82,226	\$0	\$0	(\$400,000)	(\$300,000)
Developer Advances	\$0	\$0	\$0	\$310,000	\$480,000
Contribution from Others	\$0	\$0	\$0	\$35,000	\$5,125
TOTAL OTHER FINANCING SOURCES (USES)	\$82,226	\$0	\$0	(\$55,000)	\$185,125
OTHER FINANCING SOURCES	\$297,387	\$558,459	\$32,519	(\$456,259)	(\$145,831)
BEGINNING BALANCE	\$1,658,918	\$1,100,459	\$1,067,940	\$1,524,199	\$1,670,030
ENDING FUND BALANCE	\$1,956,305	\$1,658,918	\$1,100,459	\$1,067,940	\$1,524,199

(a) Data is taken from District's audited financial statements. See "APPENDIX A."

(b) As of September 8, 2022, the District's General Fund had a cash and temporary investment balance of approximately \$1,775,105. For the fiscal year ended June 30, 2022 the District's General Fund experienced revenues of \$1,681,710 and expenditures of \$1,466,549; such expenditure budget includes capital improvements of approximately \$176,850. For the fiscal year ending June 30, 2023 the District's General Fund budget calls for revenues and expenditures of \$2,135,600 and \$1,485,758, respectively.

DISTRICT DEBT

9/1/2022 Estimated Taxable Value	\$472,730,465	(a)
2022 Certified Taxable Value	\$438,454,180	(b)
Direct Debt		
Outstanding Bonds (as of August 16, 2022)	\$25,775,000	
Plus the Series 2022 Bonds	<u>\$12,650,000</u>	
Total Direct Debt	\$38,425,000	
Estimated Overlapping Debt	<u>\$45,921,526</u>	
Direct and Estimated Overlapping Debt	\$84,346,526	
Percentage of Direct Debt to:		
9/1/2022 Estimated Taxable Value	8.13%	
2022 Certified Taxable Value	8.76%	
Percentage of Direct Overlapping Debt to:		
9/1/2022 Estimated Taxable Value	17.84%	
2022 Certified Taxable Value	19.24%	
2022 Tax Rate Per \$100 of Assessed Value:		
Debt Service	\$0.65	
Maintenance Tax	<u>\$0.22</u>	
Total 2022 Tax Rate	\$0.87	
Approximate General Fund Cash and Investment Balance as of September 8, 2022	\$1,775,105	
Pro-forma Debt Service Fund Cash and Investment Balance	\$1,385,642	(c)

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- (a) The Estimated Taxable Value as of 9/1/2022 was prepared by MCAD and provided to the District. Such value is not binding on MCAD; the value added after January 1, 2022, will not be included on the District's tax roll until the 2023 tax roll is prepared and certified by MCAD during the second half of 2023. See "TAX DATA" and "TAXING PROCEDURES."
- (b) Reflects the 1/1/2022 Taxable Value according to data supplied by MCAD. The figure above includes \$424,999,720 of taxable value that has been fully certified by MCAD plus 90% of uncertified value of \$14,949,400 that is still in the certification process. See "TAX DATA" and "TAXING PROCEDURES."
- (c) Reflects the unaudited cash and investment balance. The figure above includes \$569,250 of capitalized interest to be funded with Bond proceeds and deposited into the Debt Service Fund on the day of closing of the Bonds. Neither Texas law nor the District's Bond Order requires that the District maintain any particular balance in the Debt Service Fund. See "TAX DATA – Tax Rate Calculations."

Estimated Overlapping Debt

The following table indicates the overlapping indebtedness as of August 16, 2022, defined as outstanding bonds payable from ad valorem taxes of governmental entities within which the District is located and the estimated percentages and amounts of such indebtedness attributable to property within the District.

<u>Taxing Entity</u>	<u>Outstanding Debt</u>	<u>Estimated Overlapping</u>	
		<u>Percent</u>	<u>Amount</u>
Montgomery County	\$464,200,000	0.74%	\$3,422,873
New Caney ISD	\$561,995,000	7.35%	\$41,318,932
Lone Star College System District	\$641,405,000	0.18%	\$1,179,721
Total Estimated Overlapping Debt			\$45,921,526
The District (a)			\$38,425,000
Total Direct & Estimated Overlapping Debt			\$84,346,526

(a) Includes the Bonds.

TAX DATA

Tax Rate and Collections

The following table sets forth the cumulative collection tax information of the District for the years 2017 through 2021 as of August 31, 2022 or each of the respective tax year ends noted. Such table has also been prepared based upon information from District records. Reference is made to such records for further and complete information.

<u>Year</u>	<u>Taxable Valuation</u>	<u>Tax Rate</u>	<u>Tax Levy</u>	<u>Cumulative Collections</u> (a)	<u>Ended</u>
2022	\$438,454,180 (b)	\$0.87	\$3,814,551	(c)	2023
2021	\$256,455,371	\$0.90	\$2,308,098	99.9%	2022
2020	\$197,513,423	\$0.90	\$1,777,621	99.9%	2021
2019	\$148,125,345	\$0.90	\$1,333,128	99.9%	2020
2018	\$126,927,996	\$0.90	\$1,142,352	99.9%	2019
2017	\$124,872,991	\$1.20	\$1,498,476	99.9%	2018

(a) According to the District's records the current tax collections have exceeded 95% each year since 2004.

(b) Reflects the 1/1/2022 Taxable Value according to data supplied by MCAD. The figure above includes \$424,999,720 of taxable value that has been fully certified by MCAD plus 90% of uncertified value of \$14,949,400 that is still in the certification process. See "TAXING PROCEDURES."

(c) The 2022 tax levy is due on or before January 1, 2023.

Tax Rate Distribution

The following table sets forth the tax rate distribution of the District for the years 2018 through 2022.

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Debt Service	\$0.65	\$0.67	\$0.67	\$0.55	\$0.55
Maintenance/Operation	\$0.22	\$0.23	\$0.23	\$0.35	\$0.35
Total	\$0.87	\$0.90	\$0.90	\$0.90	\$0.90

Tax Rate Limitations

Debt Service: Unlimited (no limit as to rate or amount)
Maintenance: A maintenance tax of up to \$1.50 per \$100 assessed valuation has been authorized.

Maintenance Tax

The Board of Directors of the District has the 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. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds and any tax bonds which may be issued by the District in the future. The District's voters have authorized a maintenance tax of up to \$1.50 per \$100 of assessed valuation at an election held on February 1, 2003. In 2022, the District levied a maintenance tax of \$0.22 per \$100 of assessed valuation for operations and maintenance purposes.

Principal Taxpayers

The list of principal taxpayers for 2022 and the other information in this table were provided by the District's Tax Assessor/Collector based on certified tax rolls net of any exemptions.

<u>Taxpayer</u>	<u>Type of Property</u>	<u>2022 Valuation</u>	<u>% Total</u>
The Cubes at EMC Industrial Park LLC	Land, Improvements, Personal Property	\$92,580,000	21.12%
Wal-Mart Real Estate Business Trust	Land, Improvements, Personal Property	\$92,251,790	21.04%
Keysteel LP	Land, Improvements, Personal Property	\$16,330,492	3.72%
Lowe's	Personal Property	\$7,528,150	1.72%
Command Tubular Products LLC	Land, Improvements, Personal Property	\$7,426,938	1.69%
E9 Capital LLC	Land, Improvements, Personal Property	\$6,405,160	1.46%
US Xpress Inc	Land, Improvements, Personal Property	\$6,182,275	1.41%
Met Set Consulting USA Ltd	Land, Improvements, Personal Property	\$5,781,880	1.32%
New Caney Beverage Inc	Personal Property	\$4,875,779	1.11%
D.R. Horton Texas Ltd	Land and Improvements	<u>\$4,873,281</u>	<u>1.11%</u>
		\$244,235,745	55.70%

Analysis of Tax Base

Based on information provided to the District by its Tax Assessor/Collector, the following represents the composition of property comprising the gross tax roll valuations and the exemptions for 2017 through 2022.

<u>Year</u>	<u>Land</u>	<u>Improvements</u>	<u>Personal Property</u>	<u>Assessed Valuations</u>	<u>Exemptions (a)</u>	<u>Taxable Valuations</u>
2022	\$53,437,504	\$312,153,474	\$113,335,011	\$478,925,989	\$40,471,809	\$438,454,180 (b)
2021	\$34,925,262	\$119,200,500	\$119,225,045	\$273,350,807	\$16,895,436	\$256,455,371
2020	\$25,025,681	\$78,786,480	\$108,703,357	\$212,515,518	\$15,002,095	\$197,513,423
2019	\$16,927,258	\$54,760,210	\$86,855,896	\$158,543,364	\$10,418,019	\$148,125,345
2018	\$8,454,800	\$46,579,500	\$83,931,696	\$138,965,996	\$12,038,000	\$126,927,996
2017	\$7,931,720	\$50,077,030	\$79,636,194	\$137,644,944	\$12,771,953	\$124,872,991

(a) Substantially all the exemptions for each year represent timberland exemptions and various inventory personal property exemptions.

(b) Reflects the 1/1/2022 Taxable Value according to data supplied by MCAD. The figure above includes \$424,999,720 of taxable value that has been fully certified by MCAD plus 90% of uncertified value of \$14,949,400 that is still in the certification process. Additionally, the District has received a 9/1/2022 Estimate of Value from MCAD of \$472,730,465.

Tax Adequacy for Debt Service

The calculations shown below assume, solely for purposes of illustration, no increase in taxable valuation and utilize a tax rate adequate to service the District's total debt service requirements, including the Bonds. Surplus balances in the District's Bond Fund, Construction Fund, and the Operating Fund are not reflected in these computations.

Maximum annual debt service requirements on the District's total indebtedness (2032)	\$2,531,932
\$0.57 Tax Rate on 9/1/2022 Estimated Taxable Valuation of \$472,730,465 @ 95% collections produces	\$2,559,835
\$0.61 Tax Rate on 2022 Certified Taxable Valuation of \$438,454,180 @ 95% collections produces	\$2,540,842

Estimated Overlapping Taxes

The following table sets forth all 2021 taxes levied by overlapping taxing jurisdictions and includes the District's 2022 tax rate. No recognition is given to local assessments for civic association dues, fire department contributions, solid waste disposal charges or any other levy by entities other than political subdivisions.

<u>Taxing Jurisdictions</u>	<u>2021 Tax Rate</u>
New Caney ISD	\$1.4603
Montgomery County	\$0.4083
Montgomery County Hospital District	\$0.0567
Lone Star College System	\$0.1078
Montgomery Co. Emergency Service Dist. No. 7	<u>\$0.1000</u>
Overlapping Taxes Total	\$2.1331
The District (2022)	<u>\$0.8700</u>
Estimated Total Tax Rate	\$3.0031

TAXING PROCEDURES

Authority to Levy Taxes

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in an amount sufficient to pay the principal and interest on the Bonds and any additional bonds payable from taxes that the District may hereafter issue (see "RISK FACTORS – 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 in this Official Statement under the caption "THE BONDS – Source and Security for Payment." Under Texas law, the Board may also levy and collect an annual ad valorem tax for the operation and maintenance of the District and its water and wastewater system and include other facilities (see "TAX DATA – Maintenance Tax") and for the payment of certain contractual obligations if authorized by the voters in the District.

Property Tax Code and County-Wide Appraisal District

Title I of the Texas Tax Code (the "Property Tax Code") specifies the taxing procedures of all political subdivisions of the State of Texas, including the District. Provisions of the Property Tax Code are complex and are not fully summarized here. The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas an appraisal district with the responsibility for recording and appraising property for all taxing units in a county and an appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. The Montgomery Central Appraisal District (the "Appraisal District") has the responsibility for appraising property for all taxing units within Montgomery County, including the District. Such appraisal values are subject to review and change by the Montgomery Central Appraisal Review Board (the "Appraisal Review Board").

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes, and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to, property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; certain goods, wares, and merchandise in transit; 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 of certain disabled persons, and travel trailers, to the extent deemed advisable by the Board. The District may be required to offer such an exemption if a majority of voters approve it at an election. The District would be required to call such an election upon petition by 20% of the number of qualified voters who voted in the preceding election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District's obligation to pay tax-supported debt incurred prior to adoption of the exemption by the District. Furthermore, the District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, but only to the maximum extent of \$3,000, or between \$5,000 and \$12,000 depending on the disability rating of the veteran, of taxable valuation. For the 2022 tax year, the District has decided not to grant any exemptions for the elderly and disabled in the District.

Additionally, 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. Effective January 1, 2018, this exemption will also apply to a residence homestead that was donated by a charitable organization at some cost to such veterans. 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.

Effective January 1, 2018, 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 transferrable to a subsequent residence homestead of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

Residential Homestead Exemptions: The Property Tax Code authorizes the governing body of each political subdivision in the State of Texas to exempt up to 20% of the appraised value of residential homesteads from ad valorem taxation, but not less than \$5,000 per homestead. Where ad valorem taxes have previously been pledged for the payment of debt, the assessor and collector 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 July 1. The District has never adopted an order granting a general residential homestead exemption.

Freeport Goods and Goods-in-Transit Exemptions: Freeport goods are goods, wares, merchandise, other tangible personal property, and ores, other than oil, natural gas, and other petroleum products, that have been acquired or brought into the state for assembling, storing, manufacturing, repair, maintenance, processing, or fabricating, or used to repair or maintain aircraft of a certified air carrier, and shipped out of the state within 175 days. Freeport goods are exempted from taxation by the District. A "Goods-in-Transit Exemption" may apply to certain tangible personal property that is acquired in or imported into Texas for assembling, storing, manufacturing or fabrication purposes which is destined to be forwarded to another location in Texas not later than 175 days after acquisition or importation, so long as the location where said goods are detained is not directly or indirectly owned by the owner of the goods. The District has taken action to allow taxation of goods-in-transit, and accordingly, the exemption is not available within the District. A taxpayer may not claim both a Freeport Goods Exemption and a Goods-in-Transit Exemption on the same property.

Tax Abatement

Montgomery County or the City of Conroe may designate all or part of the area within the District as a reinvestment zone. Thereafter, the City of Conroe (after annexation), Montgomery County, New Caney Independent School District, or 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 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, including the District, has discretion to determine terms for its tax abatement agreements without regard to the terms approved by the other taxing jurisdictions. According to the District's Tax Assessor/Collector, no tax abatement agreements exist at this time with any property owners in the District.

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Property Tax Code are to be based on 100% of market value, as such is defined in the Property Tax Code.

The Property Tax Code permits land designated for agricultural use, open space, or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its market value. The Property Tax Code permits, under certain circumstances, that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Landowners wishing to avail themselves of the agricultural use, open space, or timberland designation or residential real property inventory designation must apply for the designation, and the chief appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions while claiming it for another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous three years for agricultural use and taxes for the previous five years for open space land and timberland.

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

District and Taxpayer Remedies

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

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

Levy and Collection of Taxes

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

Taxpayers for homesteads and small businesses damaged as a direct result of a disaster may pay property taxes on the property in four equal quarterly installments by notice to the District before the delinquency date without penalty or interest. Installments must be completed within six months of the delinquency date, which normally is February 1 but could be delayed because of delayed valuations. Quarterly payments by a substantial number of owners could adversely affect a District's collection of taxes for debt services in the year following a disaster.

The District's tax collector is required to enter into an installment payment agreement with any person who is delinquent on the payment of tax on a residence homestead if the person has been granted an exemption under Section 11.13, of the Property Tax Code; requests an installment agreement; and has not entered into an installment agreement with the collector in the preceding 23 months. The installment agreement must provide for payments to be made in monthly installments and must extend for a period of at least 12 months and no more than 36 months.

Effective January 1, 2018, property owners affected by a disaster may pay property taxes in four equal installments following the disaster. In addition, effective September 1, 2017, certain classes of disabled veterans may receive a deferral or abatement of delinquent taxes without penalty during the time they own or occupy the property as their residential homestead.

Rollback of Operation and Maintenance Tax Rate

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

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

Developed Districts. Developed Districts that adopt a total tax rate that would impose more than 1.035 times the amount of the total tax imposed by the district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead, subject to certain homestead exemptions for the preceding tax year, plus any unused increment rates, as

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

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

The District. A determination as to a district's status as a Special Taxing Unit, Developed District or Developing District will be made by the Board of Directors on an annual basis. The Board of Directors designated the District as a Developing District for purposes of setting the 2022 tax rate. The District cannot give any assurances as to what its classification will be at any point in time or whether the District's future tax rates will result in a total tax rate that will reclassify the District into a new classification and new election calculation.

District's Rights in the Event of Tax Delinquencies

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

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

ANNEXATION, STRATEGIC PARTNERSHIP AGREEMENT, AND CONSOLIDATION

Strategic Partnership Agreement & Annexation by the City of Conroe

The District lies partially within the extraterritorial jurisdiction of the City of Conroe (the "City"). In accordance with Texas law, the District entered into a Strategic Partnership Agreement with the City, effective February 10, 2022 (the "SPA"). The SPA provides for limited purpose annexation of the District by the City at any time and full purpose annexation by the City any time on or after December 31, 2061. Upon limited purpose annexation, the City may impose within the District any sales and use tax imposed by the City within its full purpose boundaries, subject to existing sales and use taxes imposed by other taxing authorities within the District. The District shall not be subject to ad valorem taxation by the City prior to full purpose annexation.

Consolidation

The District has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its assets (such as cash and the utility system) and liabilities (such as the Bonds) with the assets and liabilities of districts with which it is consolidating. Notwithstanding the foregoing, upon limited purpose annexation of the District by the City in accordance with the SPA, the District may not transfer any District facilities to another party without the consent of the City. Although no consolidation is presently contemplated by the District, no representation is made concerning the likelihood of consolidation in the future.

TAX MATTERS

Tax Exemption

The delivery of the Bonds is subject to the opinion of Bond Counsel that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), interest on the Bonds is excludable from gross income for federal income tax purposes and interest on the Bonds is not subject to the alternative minimum tax on individuals; however, such interest is taken into account in determining the annual adjusted financial statement income of applicable corporations (as defined in section 59(k) of the Internal Revenue Code of 1986, as amended (the "Code")) for the purpose of determining the alternative minimum tax imposed on corporations for tax years beginning after December 31, 2022.

Except as stated above, Bond Counsel will express no opinion as to any federal, state, or local tax consequences resulting from the ownership of, receipt of interest on, or disposition of the Bonds. The law upon which Bond Counsel has based its opinion is subject to change by the Congress, administrative interpretation by the Department of the Treasury and to subsequent judicial interpretation. There can be no assurance that such law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of ownership of the Bonds.

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

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

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain "S" Corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and individuals otherwise qualifying for the earned income credit. These categories of prospective purchasers should consult their tax advisors as to the applicability of these consequences.

INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIFIC 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.

NOT Qualified Tax-Exempt Obligations

The District did NOT designate the Bonds as "qualified tax-exempt obligations."

State, Local and Foreign Taxes

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

Tax Accounting Treatment of Original Issue Discount and Premium Bonds

The initial public offering price to be paid for one or more maturities of the Bonds is less than the principal amount thereof or one or more periods for the payment of interest on the Bonds may not be equal to the accrued period or be in excess of one year (the "Original Issue Discount Bonds"). The difference between (i) the "stated redemption price at maturity" of each Original Issue Discount

Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond in the initial public offering of the Bonds. The "stated redemption price at maturity" means the sum of all payments to be made on the Bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner. See "Tax Exemption" herein for a discussion of certain collateral federal tax consequences.

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

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

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. ALL OWNERS OF ORIGINAL ISSUE DISCOUNT BONDS SHOULD CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE DETERMINATION FOR FEDERAL, STATE AND LOCAL INCOME TAX PURPOSES OF INTEREST ACCRUED UPON REDEMPTION, SALE OR OTHER DISPOSITION OF SUCH ORIGINAL ISSUE DISCOUNT BONDS AND WITH RESPECT TO THE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP, REDEMPTION, SALE OR OTHER DISPOSITION OF SUCH ORIGINAL ISSUE DISCOUNT BONDS.

The initial public offering price to be paid for certain maturities of the Bonds may be greater than the amount payable on such Bonds at maturity (the "Premium Bonds"). An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity. PURCHASERS OF THE PREMIUM BONDS SHOULD CONSULT WITH THEIR OWN TAX ADVISORS WITH RESPECT TO THE DETERMINATION OF AMORTIZABLE BOND PREMIUM WITH RESPECT TO THE PREMIUM BONDS FOR FEDERAL INCOME TAX PURPOSES AND WITH RESPECT TO THE STATE AND LOCAL TAX CONSEQUENCES OF OWNING PREMIUM BONDS.

LEGAL MATTERS

Legal Opinion

The District will furnish the Underwriters a transcript of certain certified proceedings held incident to the authorization and issuance of the Bonds, including a certified copy of the approving opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Bonds are valid and legally binding obligations of the District. The District will also furnish the legal opinion of Marks Richardson PC ("Bond Counsel") to the effect that, based upon an examination of such transcript, the Bonds are legal, valid and binding obligations of the District and the legal opinion of Bond Counsel to the effect that the interest on the Bonds is exempt from federal income taxation under existing statutes, regulations, published rulings and court decisions, subject to the matters described in "TAX MATTERS" herein. See "TAX MATTERS." Such opinions express no opinion with respect to the sufficiency of the security for or the marketability of the Bonds.

Bond Counsel's opinion is not a guarantee of a result, but represents legal judgment based upon the review of existing statutes, regulations, published rulings, court decisions, and the representations and covenants of the District described above. No ruling has been sought from the Internal Revenue Service (the "Service") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on tax-exempt obligations. If an audit of the Bonds is commenced, under current procedures the Service is likely to treat the District as the "taxpayer," and the Owners would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the District may have different or conflicting interests from the Owners. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

Legal Review

Bond Counsel has reviewed the information appearing in the Official Statement under the captions "THE BONDS," "THE DISTRICT – General" and "Management – Bond Counsel," "TAXING PROCEDURES," "TAX MATTERS," and "LEGAL MATTERS – Legal Opinion" and "Legal Review" solely to determine whether such information fairly summarizes the procedures, laws, and documents referred to therein. Bond Counsel has not, however, independently verified any of the factual information contained in this Official Statement nor has it conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of any information contained herein, other than the matters discussed immediately above.

Bond Counsel has reviewed the information appearing in the Official Statement under the caption "TAX MATTERS" solely to determine whether such information fairly summarizes the procedures, laws, and documents referred to therein. Bond Counsel has not, however, independently verified any of the factual information contained in this Official Statement nor has it conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of any information contained herein, other than the matters discussed immediately above.

Marks Richardson PC acts as General Counsel to the District on matters other than the issuance of bonds. The legal fees paid to Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the bonds actually issued, sold and delivered and, therefore, such fees are contingent upon the sale and delivery of the Bonds.

NO-LITIGATION CERTIFICATE

On the date of delivery of the Bonds, the District will execute and deliver a certificate substantially to the effect that there is not pending, and to the knowledge of the District, there is not threatened, any litigation affecting the validity of the Bonds, or the levy and/or collection of taxes for the payment thereof, or the organization or boundaries of the District, or the title of the officers thereof to their respective offices.

NO MATERIAL ADVERSE CHANGE

The obligation of the Underwriter to take and pay for the Bonds, and of the District to deliver the Bonds, subject to the condition (among certain other customary conditions) 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 financial condition of the District from that set forth or contemplated in the Official Statement, as it may have been supplemented or amended through the date of sale.

REGISTRATION AND QUALIFICATION UNDER SECURITIES LAWS

The offer and sale of the Bonds have not been registered or qualified under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein, and the Bonds have not been registered or qualified under the securities laws of any other jurisdiction. The District assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated 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 provisions.

OFFICIAL STATEMENT

Sources of Information

The information contained in this Official Statement has been obtained primarily from the District's records, the Engineer, the Tax Assessor/Collector and other sources which are believed to be reliable, but no representation is made as to the accuracy or completeness of the information derived from such other sources. The summaries of the statutes, orders, resolutions and engineering and other related reports set forth in the 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.

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

Engineer: The information contained in this Official Statement relating to engineering matters generally and to the description of the System and in particular that information included in the sections entitled "USE OF BOND PROCEEDS," "DESCRIPTION OF THE SYSTEM," and "THE DISTRICT" has been provided by J. A. Costanza and Associates Engineering, Inc., and has been included in reliance upon the authority of such firm as an expert in the field of civil engineering.

Tax Assessor/Collector: The information contained in this Official Statement relating to the assessed valuation of property and, in particular, such information contained in the section captioned "TAX DATA", has been provided by the Montgomery County Appraisal District and by the Montgomery County, Tax Assessor/Collector, in reliance upon their authority as experts in the field of tax assessing and appraising.

Auditors: The financial statements of the District and the accompanying report by McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountants, as shown in the Appendix A, has been published with the agreement of McCall Gibson Swedlund Barfoot PLLC.

Updating of Official Statement

For the period beginning on the date the Final Official Statement for the Bonds to the becomes available and ending on the ninety-first (91st) day after the “end of the underwriting period” as defined in SEC Rule 15c2-12(f)(2), if any event shall occur of which the District has knowledge and as a result of which it is necessary to amend or supplement the Official Statement in order to make the statements therein, in light of the circumstances when the Official Statement is delivered to a prospective purchaser, not misleading, the District will promptly notify the Underwriters of the occurrence of such event and will cooperate in the preparation of a revised Official Statement, or amendments or supplements thereto, so that the statements in the Official Statement, as revised, amended or supplemented, will not, in light of the circumstances when such Official Statement is delivered to a prospective purchaser, be misleading.

Certification as to Official Statement

At the time of payment for and delivery of the Bonds, the District will furnish the Underwriters a certificate, to the effect that to the best of its knowledge and belief: (a) the information, descriptions and statements of or pertaining to the District contained in the Preliminary Official Statement and this Official Statement, on the date thereof and on the date of delivery were and are true and correct in all material respects; (b) insofar as the District and its affairs, including its financial affairs, are concerned, in the Preliminary Official Statement and this Official Statement did not and do not contain an untrue statement of a material fact or omit to state a material fact required to be stated herein or necessary to make the statements herein, in the light of the circumstances under which they were made, not misleading; and (c) insofar as the descriptions and statements, including financial data contained in this Official Statement, of or pertaining to entities other than the District and their activities are concerned, such statements and data have been obtained from sources which the District believes to be reliable and that the District has no reason to believe that they are untrue in any material respect or omit to state any material fact necessary to make the statements herein, in the light of the circumstances under which they were made, not misleading; however, the District has made no independent investigation as to the accuracy or completeness of the information derived from sources other than the District.

This Official Statement was approved by the Board of Directors of East Montgomery County Municipal Utility District No. 3, as of the date shown on the cover page.

APPENDIX A

AUDITED FINANCIAL STATEMENTS OF THE DISTRICT

FOR THE FISCAL YEAR ENDED JUNE 30, 2022

**EAST MONTGOMERY COUNTY
MUNICIPAL UTILITY DISTRICT NO. 3
MONTGOMERY COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
JUNE 30, 2022**

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

EAST MONTGOMERY COUNTY
MUNICIPAL UTILITY DISTRICT NO. 3
MONTGOMERY COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
JUNE 30, 2022

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McCALL GIBSON SWEDLUND BARFOOT PLLC

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
East Montgomery County
Municipal Utility District No. 3
Montgomery County, Texas

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of East Montgomery County Municipal Utility District No. 3 (the "District") as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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 June 30, 2022, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 is the responsibility of management and, 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.

Board of Directors
East Montgomery County
Municipal Utility District No. 3

Supplementary 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 an 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

October 20, 2022

EAST MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 3

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2022

Management's discussion and analysis of East Montgomery County Municipal Utility District No. 3's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2022. 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 like 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 as a whole is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

The Statement of Activities reports how the District's net position changed during the current 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, operating costs and general expenditures. The Debt Service Fund accounts for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes. The Capital Projects Fund accounts for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

EAST MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 3
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2022

FUND FINANCIAL STATEMENTS (Continued)

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

OTHER INFORMATION

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, liabilities exceeded assets and deferred outflows of resources by \$3,463,138 as of June 30, 2022.

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 the assets that is still outstanding). The District uses these assets to provide water and wastewater services.

EAST MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 3
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2022

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

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

	Summary of Changes in the Statement of Net Position		
	2022	2021	Change Positive (Negative)
Current and Other Assets	\$ 16,156,884	\$ 4,854,990	\$ 11,301,894
Capital Assets (Net of Accumulated Depreciation)	27,697,755	25,775,778	1,921,977
Total Assets	\$ 43,854,639	\$ 30,630,768	\$ 13,223,871
Deferred Outflows of Resources	\$ 359,432	\$ 388,852	\$ (29,420)
Due to Developer	\$ 13,541,499	\$ 13,583,935	\$ 42,436
Long -Term Liabilities	25,608,022	19,441,386	(6,166,636)
Other Liabilities	8,527,688	1,182,987	(7,344,701)
Total Liabilities	\$ 47,677,209	\$ 34,208,308	\$ (13,468,901)
Net Position:			
Net Investment in Capital Assets	\$ (7,137,059)	\$ (6,333,158)	\$ (803,901)
Restricted	1,715,128	1,483,736	231,392
Unrestricted	1,958,793	1,660,734	298,059
Total Net Position	\$ (3,463,138)	\$ (3,188,688)	\$ (274,450)

The following table provides a summary of the District's operations for the years ended June 30, 2022, and June 30, 2021.

	Summary of Changes in the Statement of Activities		
	2022	2021	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 2,241,118	\$ 1,763,949	\$ 477,169
Charges for Services	1,061,040	1,080,944	(19,904)
Other Revenues	92,900	21,713	71,187
Total Revenues	\$ 3,395,058	\$ 2,866,606	\$ 528,452
Expenses for Services	3,669,508	3,686,945	17,437
Change in Net Position	\$ (274,450)	\$ (820,339)	\$ 545,889
Net Position, Beginning of Year	(3,188,688)	(2,368,349)	(820,339)
Net Position, End of Year	\$ (3,463,138)	\$ (3,188,688)	\$ (274,450)

EAST MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 3

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2022

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of the fiscal year ended June 30, 2022, were \$8,637,446, an increase of \$4,149,324 from the prior year.

The General Fund fund balance increased by \$297,387, primarily due to property tax collections and operating revenue exceeding operating and capital costs as well as a transfer of funds from the Capital Projects Fund.

The Debt Service Fund fund balance increased by \$394,195 due to the structure of the District's outstanding debt service requirements.

The Capital Projects Fund fund balance increased by \$3,457,742 due to unspent proceeds from the Series 2021A bonds.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors did not amend the budget during the current fiscal year. Actual revenues were \$142,485 more than budgeted revenues. Actual expenditures were \$407,499 more than budgeted expenditures. Transfers in of \$82,226 were not budgeted for. This resulted in a negative budget variance of \$182,788. See the budget to actual comparison on page 32 for further information.

CAPITAL ASSETS

The District's capital assets as of June 30, 2022, amount to \$27,697,755 (net of accumulated depreciation). These capital assets include land, as well as the water, wastewater and drainage systems.

Capital Assets At Year-End, Net of Accumulated Depreciation			
	2022	2021	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 274,650	\$ 274,650	\$
Construction in Progress	747,795	264,816	482,979
Capital Assets, Net of Accumulated Depreciation:			
Water System	4,398,445	4,337,402	61,043
Wastewater System	6,491,087	5,454,201	1,036,886
Drainage System	15,785,778	15,444,709	341,069
Total Net Capital Assets	<u>\$ 27,697,755</u>	<u>\$ 25,775,778</u>	<u>\$ 1,921,977</u>

EAST MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 3
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2022

LONG-TERM DEBT ACTIVITY

As of June 30, 2022, the District had total bond debt payable in the amount of \$26,490,000. The changes in the debt position of the District during the fiscal year ended June 30, 2022, are summarized as follows:

Bond Debt Payable, July 1, 2021	\$ 20,165,000
Add: Bonds Sold - Series 2021A	7,010,000
Less: Bond Principal Paid	<u>685,000</u>
Bond Debt Payable, June 30, 2022	<u><u>\$ 26,490,000</u></u>

The District's Series 2021A bonds carry an "AA" rating from Standard & Poor's by virtue of bond insurance issued by Build America Mutual Assurance Company. The District's other bonds are not rated.

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 East Montgomery County Municipal Utility District No. 3, c/o Marks Richardson PC, 3700 Buffalo Speedway, Suite 830, Houston, Texas 77098.

EAST MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 3
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2022

	<u>General Fund</u>	<u>Debt Service Fund</u>
ASSETS		
Cash	\$ 210,389	\$ 19,330
Investments	1,788,304	1,980,185
Receivables:		
Property Taxes	2,488	7,238
Service Accounts	122,524	
Other	16,161	
Due from Other Funds	59,210	11,572
Prepaid Costs	39,044	
Land		
Construction in Progress		
Capital Assets (Net of Accumulated Depreciation)		
TOTAL ASSETS	<u>\$ 2,238,120</u>	<u>\$ 2,018,325</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Charges on Refunded Bonds	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u><u>\$ 2,238,120</u></u>	<u><u>\$ 2,018,325</u></u>

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>
\$ 310	\$ 230,029	\$	\$ 230,029
11,970,911	15,739,400		15,739,400
	9,726		9,726
	122,524		122,524
	16,161		16,161
	70,782	(70,782)	
	39,044		39,044
		274,650	274,650
		747,795	747,795
		26,675,310	26,675,310
<u>\$ 11,971,221</u>	<u>\$ 16,227,666</u>	<u>\$ 27,626,973</u>	<u>\$ 43,854,639</u>
<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ 359,432</u>	<u>\$ 359,432</u>
<u>\$ 11,971,221</u>	<u>\$ 16,227,666</u>	<u>\$ 27,986,405</u>	<u>\$ 44,214,071</u>

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

EAST MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 3
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2022

	<u>General Fund</u>	<u>Debt Service Fund</u>
LIABILITIES		
Accounts Payable	\$ 172,035	\$ 221
Accrued Interest Payable		
Due to Developer		
Due to Other Funds	11,572	
Security Deposits	95,720	
Bond Anticipation Note Payable		
Long-Term Liabilities:		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
TOTAL LIABILITIES	<u>\$ 279,327</u>	<u>\$ 221</u>
DEFERRED INFLOWS OF RESOURCES		
Property Taxes	<u>\$ 2,488</u>	<u>\$ 7,238</u>
FUND BALANCES		
Nonspendable:		
Prepaid Costs	\$ 39,044	\$
Restricted for Authorized Construction		
Restricted for Debt Service		2,010,866
Unassigned	<u>1,917,261</u>	
TOTAL FUND BALANCES	<u>\$ 1,956,305</u>	<u>\$ 2,010,866</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u><u>\$ 2,238,120</u></u>	<u><u>\$ 2,018,325</u></u>
NET POSITION		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
TOTAL NET POSITION		

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

Capital Projects Fund	Total	Adjustments	Statement of Net Position
\$ 34,820	\$ 207,076	\$	\$ 207,076
31,916	31,916	302,976	334,892
		13,541,499	13,541,499
59,210	70,782	(70,782)	
	95,720		95,720
7,175,000	7,175,000		7,175,000
		715,000	715,000
		25,608,022	25,608,022
<u>\$ 7,300,946</u>	<u>\$ 7,580,494</u>	<u>\$ 40,096,715</u>	<u>\$ 47,677,209</u>
<u>\$ - 0 -</u>	<u>\$ 9,726</u>	<u>\$ (9,726)</u>	<u>\$ - 0 -</u>
\$ 4,670,275	\$ 39,044	\$ (39,044)	\$
	4,670,275	(4,670,275)	
	2,010,866	(2,010,866)	
	1,917,261	(1,917,261)	
<u>\$ 4,670,275</u>	<u>\$ 8,637,446</u>	<u>\$ (8,637,446)</u>	<u>\$ -0-</u>
<u>\$ 11,971,221</u>	<u>\$ 16,227,666</u>		
		\$ (7,137,059)	\$ (7,137,059)
		1,715,128	1,715,128
		1,958,793	1,958,793
		<u>\$ (3,463,138)</u>	<u>\$ (3,463,138)</u>

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

EAST MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 3
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2022

Total Fund Balances - Governmental Funds	\$	8,637,446
--	----	-----------

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

Land, construction in progress and capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.		27,697,755
---	--	------------

Interest paid in advance as part of a refunding bond sale is recorded as a deferred outflow in the governmental activities and systematically charged to interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.		359,432
--	--	---------

Deferred inflows of resources related to property tax revenues on delinquent taxes for the 2021 and prior tax levies became part of recognized revenue in the governmental activities of the District.		9,726
--	--	-------

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

Due to Developer	\$(13,541,499)	
Accrued Interest Payable	(302,976)	
Bonds Payable	<u>(26,323,022)</u>	<u>(40,167,497)</u>
Total Net Position - Governmental Activities		<u><u>\$ (3,463,138)</u></u>

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

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EAST MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 3
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2022

	General Fund	Debt Service Fund
REVENUES		
Property Taxes	\$ 572,058	\$ 1,666,261
Water Service	291,593	
Wastewater Service	239,624	
Surface Water Revenues	240,562	
Penalty and Interest	16,867	10,094
Tap Connection and Inspection Fees	262,300	
Investment Revenues	4,678	5,084
Miscellaneous Revenues	54,028	
TOTAL REVENUES	<u>\$ 1,681,710</u>	<u>\$ 1,681,439</u>
EXPENDITURES/EXPENSES		
Service Operations:		
Professional Fees	\$ 193,533	\$
Contracted Services	153,332	20,169
Utilities	71,224	
Surface Water Fees	309,030	
Repairs and Maintenance	292,401	
Depreciation		
Other	270,179	482
Capital Outlay	176,850	
Developer Interest		
Debt Service:		
Bond Principal		685,000
Bond and Bond Anticipation Note Interest		581,593
Issuance Costs		
TOTAL EXPENDITURES/EXPENSES	<u>\$ 1,466,549</u>	<u>\$ 1,287,244</u>
EXCESS (DEFICIENCY) OF REVENUES OVER		
EXPENDITURES/EXPENSES	<u>\$ 215,161</u>	<u>\$ 394,195</u>
OTHER FINANCING SOURCES (USES)		
Transfer In (Out)	\$ 82,226	\$
Long-Term Debt Issued		
Bond Discount		
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ 82,226</u>	<u>\$ - 0 -</u>
NET CHANGE IN FUND BALANCES	<u>\$ 297,387</u>	<u>\$ 394,195</u>
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION -		
JULY 1, 2021	<u>1,658,918</u>	<u>1,616,671</u>
FUND BALANCES/NET POSITION -		
JUNE 30, 2022	<u><u>\$ 1,956,305</u></u>	<u><u>\$ 2,010,866</u></u>

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 2,238,319	\$ 2,799	\$ 2,241,118
	291,593		291,593
	239,624		239,624
	240,562		240,562
	26,961		26,961
	262,300		262,300
28,843	38,605		38,605
267	54,295		54,295
<u>\$ 29,110</u>	<u>\$ 3,392,259</u>	<u>\$ 2,799</u>	<u>\$ 3,395,058</u>
\$	\$ 193,533	\$	\$ 193,533
	173,501		173,501
	71,224		71,224
	309,030		309,030
	292,401		292,401
		886,178	886,178
318	270,979		270,979
2,673,740	2,850,590	(2,850,590)	
28,340	28,340		28,340
	685,000	(685,000)	
31,916	613,509	197,866	811,375
632,947	632,947		632,947
<u>\$ 3,367,261</u>	<u>\$ 6,121,054</u>	<u>\$ (2,451,546)</u>	<u>\$ 3,669,508</u>
\$ (3,338,151)	\$ (2,728,795)	\$ 2,454,345	\$ (274,450)
\$ (82,226)	\$	\$	\$
7,010,000	7,010,000	(7,010,000)	
(131,881)	(131,881)	131,881	
<u>\$ 6,795,893</u>	<u>\$ 6,878,119</u>	<u>\$ (6,878,119)</u>	<u>\$ - 0 -</u>
\$ 3,457,742	\$ 4,149,324	\$ (4,149,324)	\$
		(274,450)	(274,450)
1,212,533	4,488,122	(7,676,810)	(3,188,688)
<u>\$ 4,670,275</u>	<u>\$ 8,637,446</u>	<u>\$ (12,100,584)</u>	<u>\$ (3,463,138)</u>

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

EAST MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 3
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022

Net Change in Fund Balances - Governmental Funds	\$ 4,149,324
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied.	2,799
--	-------

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.	(886,178)
--	-----------

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.	2,850,590
---	-----------

Governmental funds report bond discounts as other financing uses in the year paid. However, in the Statement of Net Position, the bond discounts are amortized over the life of the bonds and the current year amortized portion is recorded in the Statement of Activities.	131,881
--	---------

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.	685,000
---	---------

Governmental funds report bond proceeds as other financing sources. Issued bonds increase long-term liabilities in the Statement of Net Position.	(7,010,000)
---	-------------

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.	(197,866)
---	-----------

Change in Net Position - Governmental Activities	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block; width: 100%;">\$ (274,450)</div>
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The accompanying notes to the financial
statements are an integral part of this report.

EAST MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1. CREATION OF DISTRICT

East Montgomery County Municipal Utility District No. 3 of Montgomery County, Texas (the “District”) was created on June 16, 2001, by Senate Bill 1784, as passed by the 77th Legislature of the State of Texas. The District is subject to the supervision and oversight of the Texas Natural Resource Conservation Commission, presently known as the Texas Commission on Environmental Quality (the “Commission”). Pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants, and improvements necessary to provide water, sanitary sewer service, storm sewer drainage, irrigation, roads, solid waste collection and disposal, including recycling, and to construct parks and recreational facilities for the residents of the District. The District is also empowered to contract for or employ its own peace officers with powers to make arrests and to establish, operate and maintain a fire department to perform all fire-fighting activities within the District. The Board of Directors held its first meeting on June 26, 2002, and the first bonds were issued on September 19, 2007.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

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

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

Financial Statement Presentation

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

EAST MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

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

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

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

Government-Wide Financial Statements

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

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

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

EAST MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

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

Governmental Funds

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

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

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

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

Basis of Accounting

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

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

EAST MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis.

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 would be acquisition 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:

	<u>Years</u>
Buildings	40
Water System	10-45
Wastewater System	10-45
Drainage System	10-45
All Other Equipment	3-20

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.

EAST MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pensions

The District has not established a pension plan as the District does not have employees. The Internal Revenue Service has determined that fees of office received by Directors are wages subject to federal income tax withholding for 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. Fund balances in governmental funds are classified using the following hierarchy:

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

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

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

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

Unassigned: all other spendable amounts in the General Fund.

EAST MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

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 2015 Refunding	Series 2015A
Amount Outstanding – June 30, 2022	\$4,125,000	\$3,075,000
Interest Rates	2.90% - 4.10%	2.75% - 4.125%
Maturity Date	August 15, 2022/2034	August 15, 2022/2042
Interest Payment Dates	August 15/ February 15	August 15/ February 15
Callable Dates	August 15, 2022*	August 15, 2022*

- * Or on any date thereafter, callable at par plus unpaid accrued interest to the date of redemption in whole or in part at the option of the District. Refunding Series 2015 term bonds due August 15, 2030, 2032 and 2034 are subject to mandatory redemption at a price of par plus accrued interest beginning on August 15, 2029, 2031 and 2033, respectively. Series 2015A term bonds due August 15, 2035, 2039 and 2042 are subject to mandatory redemption at a price of par plus accrued interest beginning on August 15, 2033, 2037 and 2040, respectively

EAST MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 3. LONG-TERM DEBT (Continued)

	Series 2020 Refunding	Series 2021	Series 2021A
Amount Outstanding— June 30, 2022	\$3,420,000	\$8,860,000	\$7,010,000
Interest Rates	2.00% - 3.00%	2.00% - 3.00%	2.50% - 4.50%
Maturity Date	August 15, 2022/2039	August 15, 2028/2050	August 15, 2028/2050
Interest Payment Dates	August 15/ February 15	August 15/ February 15	August 15/ February 15
Callable Dates	August 15, 2025*	August 15, 2028*	August 15, 2028*

* Or on any date thereafter, callable at par plus unpaid accrued interest to the date of redemption in whole or in part at the option of the District. Refunding Series 2020 term bonds due August 15, 2036 and 2039 are subject to mandatory redemption at a price of par plus accrued interest beginning on August 15, 2035 and 2037, respectively. Series 2021 term bonds are due August 15, 2031, 2038, 2041, 2046, 2048 and 2050 are subject to mandatory redemption at a price of par plus accrued interest beginning on August 15, 2030, 2037, 2039, 2042, 2047 and 2049, respectively. Series 2021A term bonds due August 15, 2035, 2037 and 2050 are subject to mandatory redemption at a price of par plus accrued interest beginning on August 15, 2034, 2036 and 2038, respectively.

The following is a summary of transactions regarding bonds payable for the year ended June 30, 2022:

	July 1, 2021	Additions	Retirements	June 30, 2022
Bonds Payable	\$ 20,165,000	\$ 7,010,000	\$ 685,000	\$ 26,490,000
Unamortized Discounts	(38,614)	(131,881)	(3,517)	(166,978)
Bonds Payable, net	<u>\$ 20,126,386</u>	<u>\$ 6,878,119</u>	<u>\$ 681,483</u>	<u>\$ 26,323,022</u>
		Amount Due Within One Year		\$ 715,000
		Amount Due After One Year		<u>25,608,022</u>
		Bonds Payable, net		<u>\$ 26,323,022</u>

EAST MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 3. LONG-TERM DEBT (Continued)

As of June 30, 2022, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2023	\$ 715,000	\$ 798,228	\$ 1,513,228
2024	720,000	778,372	1,498,372
2025	760,000	756,914	1,516,914
2026	760,000	733,558	1,493,558
2027	795,000	708,150	1,503,150
2028-2032	4,490,000	3,112,961	7,602,961
2033-2037	5,190,000	2,311,317	7,501,317
2038-2042	5,190,000	1,518,469	6,708,469
2043-2047	4,200,000	813,236	5,013,236
2048-2051	3,670,000	212,568	3,882,568
	<u>\$ 26,490,000</u>	<u>\$ 11,743,773</u>	<u>\$ 38,233,773</u>

As of June 30, 2022, the District had authorized but unissued tax bonds in the amount of \$130,255,000 and refunding bonds authorized but unissued of \$58,420,000. On November 8, 2016, the residents of the District voted to authorize the issuance of park bonds in the amount of \$20,000,000 and road bonds in the amount of \$16,825,000. The park and road bonds remained authorized but unissued at year-end.

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

During the year ended June 30, 2022, the District levied an ad valorem debt service tax rate of \$0.67 per \$100 of assessed valuation, which resulted in a tax levy of \$1,668,929 on the adjusted taxable valuation of \$248,987,746 for the 2021 tax year. The bond order requires 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.

EAST MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS

The bond orders state that the District is required by the Securities and Exchange Commission to provide continuing disclosure of certain general financial information and operating data with respect to the District to 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.

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 \$230,029 and the bank balance was \$181,871. The District was not exposed to custodial credit risk at year-end. The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at June 30, 2022, as listed below:

	<u>Cash</u>
GENERAL FUND	\$ 210,389
DEBT SERVICE FUND	19,330
CAPITAL PROJECTS FUND	<u>310</u>
TOTAL DEPOSITS	<u>\$ 230,029</u>

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.

EAST MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

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

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. UMB 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 I investments because their fair value is measured by quoted prices in active markets. The fair value of the District's position in the pool is the same as the value of the pool shares. There are no limitations or restrictions on withdrawals from Texas CLASS.

As of June 30, 2022, 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	\$ 1,788,304	\$ 1,788,304
<u>DEBT SERVICE FUND</u>		
Texas CLASS	1,980,185	1,980,185
<u>CAPITAL PROJECTS FUND</u>		
Texas CLASS	<u>11,970,911</u>	<u>11,970,911</u>
TOTAL INVESTMENTS	<u>\$ 15,739,400</u>	<u>\$ 15,739,400</u>

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2022, the District's investment in Texas CLASS was rated AAAM by Standard and Poor's.

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

EAST MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Restrictions

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

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2022:

	July 1, 2021	Increases	Decreases	June 30, 2022
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 274,650		\$	\$ 274,650
Construction in Progress	264,816	2,808,155	2,325,176	747,795
Total Capital Assets Not Being Depreciated	\$ 539,466	\$ 2,808,155	\$ 2,325,176	\$ 1,022,445
Capital Assets Subject to Depreciation				
Water System	\$ 7,227,666	\$ 358,113	\$	\$ 7,585,779
Wastewater System	6,451,801	1,221,827		7,673,628
Drainage System	17,528,759	745,236		18,273,995
Leasehold Improvements	77,741			77,741
Total Capital Assets Subject to Depreciation	\$ 31,285,967	\$ 2,325,176	\$ - 0 -	\$ 33,611,143
Accumulated Depreciation				
Water System	\$ 2,890,264	\$ 297,070	\$	\$ 3,187,334
Wastewater System	997,600	184,941		1,182,541
Drainage System	2,084,050	404,167		2,488,217
Leasehold Improvements	77,741			77,741
Total Accumulated Depreciation	\$ 6,049,655	\$ 886,178	\$ - 0 -	\$ 6,935,833
Total Depreciable Capital Assets, Net of Accumulated Depreciation	\$ 25,236,312	\$ 1,438,998	\$ - 0 -	\$ 26,675,310
Total Capital Assets, Net of Accumulated Depreciation	\$ 25,775,778	\$ 4,247,153	\$ 2,325,176	\$ 27,697,755

NOTE 7. MAINTENANCE TAX

On February 1, 2003, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$1.50 per \$100 of assessed valuation of taxable property within the District. During the fiscal year ended June 30, 2022, the District levied an ad valorem maintenance tax at the rate of \$0.23 per \$100 of assessed valuation, which resulted in a tax levy of \$572,916 on the adjusted taxable valuation of \$248,987,746 for the 2021 tax year.

EAST MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 8. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, 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 9. LONE STAR GROUNDWATER CONSERVATION DISTRICT

The District is located within the boundaries of the Lone Star Groundwater Conservation District (the "Conservation District"). The Conservation District was created under Article 16, Section 59 of the Texas Constitution by House Bill 2362 (the "Act"), as passed by the 77th Texas Legislature, in 2001. The Conservation District was created to conserve, protect, and enhance the groundwater resources of Montgomery County, Texas.

A nine-member board of directors governs the Conservation District. The directors serve staggered four-year terms. Each director must qualify to serve as director in the manner provided by Section 36.055 of the Water Code.

The Conservation District charges production fees based on the amount of water authorized by permit to be withdrawn from a well. This fee enables the Conservation District to fulfill its purpose and regulatory functions. The current permit fee is \$0.085 per 1,000 gallons of water pumped from each well.

NOTE 10. SAN JACINTO RIVER AUTHORITY

On June 29, 2010, the District entered into the Contract for Groundwater Reduction Planning, Alternative Water Supply, and Related Goods and Services with the San Jacinto River Authority (the "Authority"). The District and the Authority operate within the boundaries of the Conservation District. See Note 10. The Authority has developed supplies of surface water that, when taken together with groundwater withdrawals to be permitted by the Conservation District, are reasonably believed to be adequate to satisfy the total water demands of Montgomery County. A surface water treatment and transmission system (the "Project") is proposed to be designed, constructed, operated, and maintained by the Authority in order to provide phased treatment, transmission, and delivery of the Authority's surface water to regulated users for blending with groundwater supplies, so that regulated users may continue to pump groundwater. The Authority will develop a Groundwater Reduction Plan (the "GRP") for all participants. The Authority charges a fee, currently \$2.88 per 1,000 gallons, based on the amount of groundwater and surface water used. This fee enables the Authority to achieve, maintain and implement the GRP. The term of this contract expires on December 31, 2045. During the current fiscal year, the District recorded an expenditure of \$309,030 in relation to this contract.

EAST MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 11. INTERFUND PAYABLES, RECEIVABLES AND TRANSFERS

The Debt Service Fund (Tax Account) recorded a receivable from the General Fund in the amount of \$11,572 for the over transfer of maintenance tax collections and the General Fund recorded a receivable from the Capital Projects Fund in the amount of \$59,210 for bond issuance costs and engineering fees. During the current fiscal year, the Capital Projects Fund transferred \$82,226 to the General Fund to reimburse bond issuance costs.

NOTE 12. UNREIMBURSED COSTS

In accordance with the terms of development financing agreements, Developers within the District have made expenditures on behalf of the District for water, wastewater and drainage facilities for which the District has not sold bonds. Reimbursement to the Developers for these projects is contingent upon approval by the Commission and the future sale of bonds. As of June 30, 2022, the District has recorded an amount of \$13,541,499 due to the Developers for completed projects.

The following table summarizes the current year activity related to unreimbursed Developer costs for completed projects:

Due to Developers, beginning of year	\$ 13,583,935
Additions	1,905,316
Reimbursements	<u>(1,947,752)</u>
Due to Developers, end of year	<u>\$ 13,541,499</u>

NOTE 13. STRATEGIC PARTNERSHIP AGREEMENT

The District lies partially within the extraterritorial jurisdiction of the City of Conroe (the “City”). In accordance with Texas law, the District entered into a Strategic Partnership Agreement with the City, effective February 10, 2022 (the “SPA”). The SPA provides for limited purpose annexation of the District by the City at any time and full purpose annexation by the City any time on or after December 31, 2061. Upon limited purpose annexation, the City may impose within the District any sales and use tax imposed by the City within its full purpose boundaries, subject to existing sales and use taxes imposed by other taxing authorities within the District. The District shall not be subject to ad valorem taxation by the City prior to full purpose annexation.

EAST MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 14. BOND ANTICIPATION NOTE SALE

On April 8, 2022, the District closed on the sale of its \$7,175,000 Series 2022 Bond Anticipation Note (the “BAN”) to Texas Capital Bank. Proceeds from the BAN were used to reimburse Developers for a portion of the costs associated with construction and engineering for water, wastewater and drainage facilities to serve Porters Mill, Sections 2 and 3, Porters Mill Blvd, Phase 2 within Section 2 and Industrial Park, Section 5; and Industrial Park Lift Station, Section 5. Proceeds are also being used for the wastewater treatment plant expansion and water supply plants nos. 1 and 2 capacity improvements. Additional proceeds were used to pay for issuance costs of the BAN. The BAN will be redeemed with proceeds from the Unlimited Tax Bonds, Series 2022. See Note 16.

NOTE 15. BOND SALE

On November 9, 2021, the District issued \$7,010,000 of Unlimited Tax Bonds, Series 2021A. Proceeds from the bonds are being used to fund construction and engineering costs for the wastewater treatment plant expansion, phase 3. Additional proceeds were used to pay for issuance costs of the bonds.

NOTE 16. PENDING BOND SALE

Subsequent to the report date, the District anticipates closing on the sale of \$12,650,000 of Unlimited Tax Bonds, Series 2022. Proceeds from the bonds will be used reimburse Developers for a portion of the costs associated with construction and engineering for water, wastewater and drainage facilities to serve Porters Mill, Sections 2 and 3, Porters Mill Blvd, Phase 2 within Section 2 and Industrial Park, Section 5; and Industrial Park Lift Station, Section 5. Proceeds are also being used for the wastewater treatment plant expansion and water supply plants nos. 1 and 2 capacity improvements. Additional proceeds will be used to redeem the BAN, pay capitalized interest and pay for issuance costs of the BAN and bonds. Delivery of the bonds is expected on or about December 15, 2022.

**EAST MONTGOMERY COUNTY
MUNICIPAL UTILITY DISTRICT NO. 3**

REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2022

EAST MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 3
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2022

	Original and Final Budget	Actual	Variance Positive (Negative)
REVENUES			
Property Taxes	\$ 550,000	\$ 572,058	\$ 22,058
Water Service	200,000	291,593	91,593
Wastewater Service	165,000	239,624	74,624
Surface Water Revenues	135,000	240,562	105,562
Penalty and Interest	15,000	16,867	1,867
Tap Connection and Inspection Fees	377,000	262,300	(114,700)
Investment Revenues	3,100	4,678	1,578
Permit Violation Revenues	10,000		(10,000)
Miscellaneous Revenues	84,125	54,028	(30,097)
TOTAL REVENUES	<u>\$ 1,539,225</u>	<u>\$ 1,681,710</u>	<u>\$ 142,485</u>
EXPENDITURES			
Service Operations:			
Professional Fees	\$ 141,900	\$ 193,533	\$ (51,633)
Contracted Services	198,500	153,332	45,168
Utilities	51,750	71,224	(19,474)
Surface Water Fees	200,000	309,030	(109,030)
Repairs and Maintenance	230,000	292,401	(62,401)
Other	236,900	270,179	(33,279)
Capital Outlay		176,850	(176,850)
TOTAL EXPENDITURES	<u>\$ 1,059,050</u>	<u>\$ 1,466,549</u>	<u>\$ (407,499)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 480,175</u>	<u>\$ 215,161</u>	<u>\$ (265,014)</u>
OTHER FINANCING SOURCES(USES)			
Transfers In (Out)	<u>\$ -0-</u>	<u>\$ 82,226</u>	<u>\$ 82,226</u>
NET CHANGE IN FUND BALANCE	\$ 480,175	\$ 297,387	\$ (182,788)
FUND BALANCE - JULY 1, 2021	<u>1,658,918</u>	<u>1,658,918</u>	
FUND BALANCE - JUNE 30, 2022	<u>\$ 2,139,093</u>	<u>\$ 1,956,305</u>	<u>\$ (182,788)</u>

See accompanying independent auditor's report.

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**EAST MONTGOMERY COUNTY
MUNICIPAL UTILITY DISTRICT NO. 3**

**SUPPLEMENTARY INFORMATION REQUIRED BY THE
WATER DISTRICT FINANCIAL MANAGEMENT GUIDE**

JUNE 30, 2022

FOR THE YEAR ENDED JUNE 30, 2022

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

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

2. RETAIL SERVICE PROVIDERS

a. RETAIL RATES ARE BASED ON A COMMERCIAL METER:

Based on the rate order approved on December 10, 2020.

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate per 1,000 Gallons over Minimum Use	Usage Levels
WATER:	\$ 20.00	5,000	N	\$ 1.25	5,001 to 15,000
				\$ 2.00	15,001 to 30,000
				\$ 2.50	30,001 and up
WASTEWATER (SEWER):	\$ 25.00		Y		
SURCHARGE:					
Lone Star Groundwater Conservation District			N	\$ 0.085	1,000 and up
San Jacinto River Authority			N	\$2.88	1,000 and up
Commission Regulatory Assessments	0.5% of actual water and sewer bill				

District employs winter averaging for wastewater usage?	<u>Yes</u>	<u>X</u> No
---	------------	----------------

Total monthly charges per 10,000 gallons usage: Water: \$26.25 Wastewater: \$25.00 Surcharge: \$29.91 Total: \$81.16

See accompanying independent auditor's report.

EAST MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 3
SERVICES AND RATES
FOR THE YEAR ENDED JUNE 30, 2022

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>762</u>	<u>694</u>	x 1.0	<u>694</u>
1"	<u>14</u>	<u>14</u>	x 2.5	<u>35</u>
1½"	<u>2</u>	<u>2</u>	x 5.0	<u>10</u>
2"	<u>17</u>	<u>15</u>	x 8.0	<u>120</u>
3"			x 15.0	
4"	<u>2</u>	<u>2</u>	x 25.0	<u>50</u>
6"	<u>3</u>	<u>3</u>	x 50.0	<u>150</u>
8"			x 80.0	
10"			x 115.0	
Total Water Connections	<u>800</u>	<u>730</u>		<u>1,059</u>
Total Wastewater Connections	<u>769</u>	<u>736</u>	x 1.0	<u>736</u>

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

Gallons pumped into system:	108,722,000	Water Accountability Ratio: 90.2%
		(Gallons billed/Gallons pumped)
Gallons billed to customers:	98,042,000	

See accompanying independent auditor's report.

EAST MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 3
SERVICES AND RATES
FOR THE YEAR ENDED JUNE 30, 2022

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

Does the District have Debt Service standby fees? Yes _____ No X

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

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes X No _____

County in which District is located:

Montgomery County, Texas

Is the District located within a city?

Entirely _____ Partly _____ Not at all X

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

Entirely _____ Partly X Not at all _____

ETJ in which District is located:

Partially in City of Conroe, Texas

Are Board Members appointed by an office outside the District?

Yes _____ No X

See accompanying independent auditor's report.

EAST MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 3
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2022

PROFESSIONAL FEES:	
Auditing	\$ 14,750
Engineering	36,312
Legal	141,571
Financial Advisor	900
TOTAL PROFESSIONAL FEES	<u>\$ 193,533</u>
CONTRACTED SERVICES:	
Bookkeeping	\$ 28,899
Operations and Billing	84,425
TOTAL CONTRACTED SERVICES	<u>\$ 113,324</u>
UTILITIES:	
Electricity	\$ 69,290
Telephone	1,934
TOTAL UTILITIES	<u>\$ 71,224</u>
REPAIRS AND MAINTENANCE	<u>\$ 292,401</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees	\$ 10,950
Election Costs	13,891
Insurance	15,164
Legal Notices	2,680
Office Supplies and Postage	6,716
Payroll Taxes	838
Travel and Meetings	3,450
Other	12,682
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 66,371</u>

See accompanying independent auditor's report.

EAST MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 3
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2022

CAPITAL OUTLAY	\$ <u>176,850</u>
TAP CONNECTIONS	\$ <u>103,550</u>
SECURITY	\$ <u>40,008</u>
OTHER EXPENDITURES:	
Chemicals	\$ 15,907
Laboratory Fees	26,779
Permit Fees	3,156
Inspection Fees	27,025
Regulatory Assessment	3,428
Sludge Hauling	23,963
Surface Water Fees	<u>309,030</u>
TOTAL OTHER EXPENDITURES	\$ <u>409,288</u>
TOTAL EXPENDITURES	\$ <u><u>1,466,549</u></u>

See accompanying independent auditor's report.

EAST MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 3
INVESTMENTS
JUNE 30, 2022

<u>Funds</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at End of Year</u>
<u>GENERAL FUND</u>					
Texas CLASS	XXXX0001	Varies	Daily	\$ 1,788,304	\$ -0-
<u>DEBT SERVICE FUND</u>					
Texas CLASS	XXXX0003	Varies	Daily	\$ 1,926,269	\$
Texas CLASS	XXXX0004	Varies	Daily	53,916	
TOTAL DEBT SERVICE FUND				\$ 1,980,185	\$ -0-
<u>CAPITAL PROJECTS FUND</u>					
Texas CLASS	XXXX0002	Varies	Daily	\$ 144,866	\$
Texas CLASS	XXXX0006	Varies	Daily	143,244	
Texas CLASS	XXXX0007	Varies	Daily	6,484,445	
Texas CLASS	XXXX0008	Varies	Daily	5,198,356	
TOTAL CAPITAL PROJECTS FUND				\$ 11,970,911	\$ -0-
TOTAL - ALL FUNDS				\$ 15,739,400	\$ -0-

See accompanying independent auditor's report.

EAST MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 3
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED JUNE 30, 2022

	Maintenance Taxes		Debt Service Taxes	
TAXES RECEIVABLE -				
JULY 1, 2021	\$	1,816	\$	5,111
Adjustments to Beginning				
Balance		<u>(186)</u>	<u>(541)</u>	\$ 4,570
Original 2021 Tax Levy	\$	569,466	\$	1,658,880
Adjustment to 2021 Tax Levy		<u>3,450</u>	<u>10,049</u>	<u>1,668,929</u>
TOTAL TO BE				
ACCOUNTED FOR		\$ 574,546		\$ 1,673,499
TAX COLLECTIONS:				
Prior Years	\$	1,101	\$	3,038
Current Year		<u>570,957</u>	<u>1,663,223</u>	<u>1,666,261</u>
TAXES RECEIVABLE -				
JUNE 30, 2022		<u>\$ 2,488</u>		<u>\$ 7,238</u>
TAXES RECEIVABLE BY				
YEAR:				
2021	\$	1,959		\$ 5,706
2020		524		1,526
2010		<u>5</u>		<u>6</u>
TOTAL	\$	<u>2,488</u>		<u>\$ 7,238</u>

See accompanying independent auditor's report.

EAST MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 3
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED JUNE 30, 2022

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
PROPERTY VALUATIONS:				
Land	\$ 34,925,262	\$ 25,025,671	\$ 16,927,258	\$ 8,454,800
Improvements	119,156,680	78,786,480	54,760,210	46,579,500
Personal Property	112,009,367	108,703,357	92,911,306	83,931,696
Exemptions	<u>(17,103,563)</u>	<u>(14,921,318)</u>	<u>(10,418,019)</u>	<u>(12,038,000)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 248,987,746</u>	<u>\$ 197,594,190</u>	<u>\$ 154,180,755</u>	<u>\$ 126,927,996</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.67	\$ 0.67	\$ 0.55	\$ 0.55
Maintenance	<u>0.23</u>	<u>0.23</u>	<u>0.35</u>	<u>0.35</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.90</u>	<u>\$ 0.90</u>	<u>\$ 0.90</u>	<u>\$ 0.90</u>
ADJUSTED TAX LEVY*	<u>\$ 2,241,845</u>	<u>\$ 1,779,659</u>	<u>\$ 1,388,430</u>	<u>\$ 1,142,352</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>99.66 %</u>	<u>99.88 %</u>	<u>100.00 %</u>	<u>100.00 %</u>

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

Maintenance Tax – Maximum tax rate of \$1.50 per \$100 of assessed valuation approved by voters on February 1, 2003.

See accompanying independent auditor's report.

EAST MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 3
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2022

REFUNDING SERIES - 2015			
Due During Fiscal Years Ending June 30	Principal Due August 15	Interest Due August 15/ February 15	Total
2023	\$ 485,000	\$ 138,224	\$ 623,224
2024	490,000	123,842	613,842
2025	505,000	108,285	613,285
2026	510,000	91,153	601,153
2027	545,000	72,145	617,145
2028	560,000	51,564	611,564
2029	145,000	38,255	183,255
2030	140,000	32,715	172,715
2031	135,000	27,352	162,352
2032	135,000	22,020	157,020
2033	155,000	16,220	171,220
2034	160,000	9,840	169,840
2035	160,000	3,280	163,280
2036			
2037			
2038			
2039			
2040			
2041			
2042			
2043			
2044			
2045			
2046			
2047			
2048			
2049			
2050			
2051			
	<u>\$ 4,125,000</u>	<u>\$ 734,895</u>	<u>\$ 4,859,895</u>

See accompanying independent auditor's report.

EAST MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 3
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2022

S E R I E S - 2 0 1 5 A			
Due During Fiscal Years Ending June 30	Principal Due August 15	Interest Due August 15/ February 15	Total
2023	\$ 100,000	\$ 116,787	\$ 216,787
2024	100,000	113,913	213,913
2025	100,000	110,862	210,862
2026	100,000	107,688	207,688
2027	100,000	104,363	204,363
2028	100,000	100,912	200,912
2029	125,000	96,850	221,850
2030	125,000	92,194	217,194
2031	125,000	87,475	212,475
2032	125,000	82,725	207,725
2033	150,000	77,425	227,425
2034	150,000	71,500	221,500
2035	150,000	65,500	215,500
2036	150,000	59,500	209,500
2037	175,000	53,000	228,000
2038	175,000	45,891	220,891
2039	175,000	38,672	213,672
2040	200,000	30,938	230,938
2041	200,000	22,688	222,688
2042	225,000	13,922	238,922
2043	225,000	4,641	229,641
2044			
2045			
2046			
2047			
2048			
2049			
2050			
2051			
	<u>\$ 3,075,000</u>	<u>\$ 1,497,446</u>	<u>\$ 4,572,446</u>

See accompanying independent auditor's report.

EAST MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 3
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2022

REFUNDING SERIES - 2020			
Due During Fiscal Years Ending June 30	Principal Due August 15	Interest Due August 15/ February 15	Total
2023	\$ 130,000	\$ 87,685	\$ 217,685
2024	130,000	85,085	215,085
2025	155,000	82,235	237,235
2026	150,000	79,185	229,185
2027	150,000	76,110	226,110
2028	145,000	72,940	217,940
2029	170,000	69,390	239,390
2030	165,000	65,455	230,455
2031	185,000	61,163	246,163
2032	185,000	56,538	241,538
2033	180,000	51,863	231,863
2034	200,000	46,750	246,750
2035	200,000	41,125	241,125
2036	220,000	34,950	254,950
2037	240,000	28,050	268,050
2038	260,000	20,550	280,550
2039	280,000	12,450	292,450
2040	275,000	4,125	279,125
2041			
2042			
2043			
2044			
2045			
2046			
2047			
2048			
2049			
2050			
2051			
	<u>\$ 3,420,000</u>	<u>\$ 975,648</u>	<u>\$ 4,395,648</u>

See accompanying independent auditor's report.

EAST MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 3
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2022

S E R I E S - 2 0 2 1			
Due During Fiscal Years Ending June 30	Principal Due August 15	Interest Due August 15/ February 15	Total
2023	\$	\$ 248,488	\$ 248,488
2024		248,488	248,488
2025		248,488	248,488
2026		248,488	248,488
2027		248,488	248,488
2028		248,488	248,488
2029	240,000	244,888	484,888
2030	250,000	238,788	488,788
2031	275,000	233,194	508,194
2032	300,000	226,725	526,725
2033	300,000	219,975	519,975
2034	300,000	213,038	513,038
2035	325,000	205,413	530,413
2036	325,000	197,288	522,288
2037	350,000	188,631	538,631
2038	350,000	179,225	529,225
2039	375,000	169,256	544,256
2040	375,000	158,475	533,475
2041	400,000	146,850	546,850
2042	400,000	134,850	534,850
2043	425,000	122,475	547,475
2044	425,000	109,725	534,725
2045	450,000	96,600	546,600
2046	450,000	83,100	533,100
2047	475,000	69,225	544,225
2048	500,000	54,600	554,600
2049	500,000	39,600	539,600
2050	525,000	24,225	549,225
2051	545,000	8,175	553,175
	<u>\$ 8,860,000</u>	<u>\$ 4,855,249</u>	<u>\$ 13,715,249</u>

See accompanying independent auditor's report.

EAST MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 3
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2022

S E R I E S - 2 0 2 1 A			
Due During Fiscal Years Ending June 30	Principal Due August 15	Interest Due August 15/ February 15	Total
2023	\$	\$ 207,044	\$ 207,044
2024		207,044	207,044
2025		207,044	207,044
2026		207,044	207,044
2027		207,044	207,044
2028		207,044	207,044
2029	185,000	202,881	387,881
2030	225,000	194,219	419,219
2031	225,000	184,656	409,656
2032	225,000	174,531	399,531
2033	250,000	163,844	413,844
2034	250,000	152,594	402,594
2035	250,000	143,844	393,844
2036	275,000	137,281	412,281
2037	275,000	130,406	405,406
2038	275,000	123,531	398,531
2039	300,000	116,156	416,156
2040	300,000	108,281	408,281
2041	300,000	100,406	400,406
2042	325,000	92,203	417,203
2043	325,000	83,672	408,672
2044	350,000	74,813	424,813
2045	350,000	65,625	415,625
2046	350,000	56,438	406,438
2047	375,000	46,922	421,922
2048	375,000	37,078	412,078
2049	400,000	26,906	426,906
2050	400,000	16,406	416,406
2051	425,000	5,578	430,578
	<u>\$ 7,010,000</u>	<u>\$ 3,680,535</u>	<u>\$ 10,690,535</u>

See accompanying independent auditor's report.

EAST MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 3
LONG-TERM DEBT SERVICE REQUIREMENTS
JUNE 30, 2022

ANNUAL REQUIREMENTS
FOR ALL SERIES

Due During Fiscal Years Ending June 30	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2023	\$ 715,000	\$ 798,228	\$ 1,513,228
2024	720,000	778,372	1,498,372
2025	760,000	756,914	1,516,914
2026	760,000	733,558	1,493,558
2027	795,000	708,150	1,503,150
2028	805,000	680,948	1,485,948
2029	865,000	652,264	1,517,264
2030	905,000	623,371	1,528,371
2031	945,000	593,840	1,538,840
2032	970,000	562,539	1,532,539
2033	1,035,000	529,327	1,564,327
2034	1,060,000	493,722	1,553,722
2035	1,085,000	459,162	1,544,162
2036	970,000	429,019	1,399,019
2037	1,040,000	400,087	1,440,087
2038	1,060,000	369,197	1,429,197
2039	1,130,000	336,534	1,466,534
2040	1,150,000	301,819	1,451,819
2041	900,000	269,944	1,169,944
2042	950,000	240,975	1,190,975
2043	975,000	210,788	1,185,788
2044	775,000	184,538	959,538
2045	800,000	162,225	962,225
2046	800,000	139,538	939,538
2047	850,000	116,147	966,147
2048	875,000	91,678	966,678
2049	900,000	66,506	966,506
2050	925,000	40,631	965,631
2051	970,000	13,753	983,753
	<u>\$ 26,490,000</u>	<u>\$ 11,743,773</u>	<u>\$ 38,233,773</u>

See accompanying independent auditor's report.

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EAST MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 3
CHANGE IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED JUNE 30, 2022

Description	Original Bonds Issued	Bonds Outstanding July 1, 2021	
East Montgomery County Municipal Utility District No. 3 Unlimited Tax Bonds - Series 2012	\$ 3,800,000	\$ 100,000	
East Montgomery County Municipal Utility District No. 3 Unlimited Tax Refunding Bonds - Series 2015	6,070,000	4,600,000	
East Montgomery County Municipal Utility District No. 3 Unlimited Tax Bonds - Series 2015A	3,300,000	3,150,000	
East Montgomery County Municipal Utility District No. 3 Unlimited Tax Refunding Bonds - Series 2020	3,455,000	3,455,000	
East Montgomery County Municipal Utility District No. 3 Unlimited Tax Bonds - Series 2021	8,860,000	8,860,000	
East Montgomery County Municipal Utility District No. 3 Unlimited Tax Bonds - Series 2021A	7,010,000		
TOTAL	<u>\$ 32,495,000</u>	<u>\$ 20,165,000</u>	
Bond Authority:	<u>Tax Bonds*</u>	<u>Refunding Bonds</u>	<u>Park Bonds</u>
Amount Authorized by Voters	\$ 161,350,000	\$ 58,600,000	\$ 20,000,000
Amount Issued	<u>31,095,000</u>	<u>180,000</u>	
Remaining to be Issued	<u>\$ 130,255,000</u>	<u>\$ 58,420,000</u>	<u>\$ 20,000,000</u>
Debt Service Fund cash, investments and cash with paying agent balances as of June 30, 2022:			<u>\$ 1,999,515</u>
Average annual debt service payment (principal and interest) for remaining term of all debt:			\$ 1,318,406

See accompanying independent auditor's report.

Current Year Transactions				
Bonds Sold	Retirements		Bonds Outstanding June 30, 2022	Paying Agent
	Principal	Interest		
\$	\$ 100,000	\$ 2,000	\$ -0-	Amegy Bank National Association Houston, TX
	475,000	151,669	4,125,000	Amegy Bank National Association Houston, TX
	75,000	119,100	3,075,000	Amegy Bank National Association Houston, TX
	35,000	89,335	3,420,000	Amegy Bank National Association Houston, TX
		164,278	8,860,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
7,010,000		55,211	7,010,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
<u>\$ 7,010,000</u>	<u>\$ 685,000</u>	<u>\$ 581,593</u>	<u>\$ 26,490,000</u>	
Road Bonds				
\$ 16,825,000				
<u>\$ 16,825,000</u>				

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

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

See accompanying independent auditor's report.

EAST MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 3
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS

	Amounts		
	2022	2021	2020
REVENUES			
Property Taxes	\$ 572,058	\$ 450,334	\$ 543,852
Water Service	291,593	215,517	104,806
Wastewater Service	239,624	169,944	89,940
Surface Water Revenues	240,562	140,746	72,038
Penalty and Interest	16,867	18,569	4,650
Permit Violation Revenues			
Tap Connection and Inspection Fees	262,300	514,192	322,480
Investment Revenues	4,678	2,094	16,657
Miscellaneous Revenues	54,028	15,635	45,111
TOTAL REVENUES	<u>\$ 1,681,710</u>	<u>\$ 1,527,031</u>	<u>\$ 1,199,534</u>
EXPENDITURES			
Professional Fees	\$ 193,533	\$ 137,113	\$ 111,714
Contracted Services	153,332	129,897	139,376
Utilities	71,224	53,909	40,069
Surface Water Fees	309,030	195,956	100,695
Repairs and Maintenance	292,401	203,605	108,375
Other	270,179	245,158	284,260
Capital Outlay	176,850	2,934	382,526
TOTAL EXPENDITURES	<u>\$ 1,466,549</u>	<u>\$ 968,572</u>	<u>\$ 1,167,015</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 215,161</u>	<u>\$ 558,459</u>	<u>\$ 32,519</u>
OTHER FINANCING SOURCES (USES)			
Transfers In (Out)	\$ 82,226	\$	\$
Developer Advances			
Contribution from Others			
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ 82,226</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>
NET CHANGE IN FUND BALANCE	\$ 297,387	\$ 558,459	\$ 32,519
BEGINNING FUND BALANCE	<u>1,658,918</u>	<u>1,100,459</u>	<u>1,067,940</u>
ENDING FUND BALANCE	<u>\$ 1,956,305</u>	<u>\$ 1,658,918</u>	<u>\$ 1,100,459</u>

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2019	2018	2022	2021	2020	2019	2018
\$ 443,010	\$ 484,471	34.1 %	29.6 %	45.3 %	53.3 %	73.8 %
50,148	22,633	17.3	14.1	8.7	6.0	3.4
41,728	16,092	14.2	11.1	7.5	5.0	2.5
25,307	25,343	14.3	9.2	6.0	3.1	3.9
4,208	350	1.0	1.2	0.4	0.5	0.1
	55,827					8.5
221,375	42,300	15.6	33.7	26.9	26.6	6.4
27,404	7,768	0.3	0.1	1.4	3.3	1.2
18,104	1,269	3.2	1.0	3.8	2.2	0.2
<u>\$ 831,284</u>	<u>\$ 656,053</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 92,084	\$ 128,458	11.5 %	9.0 %	9.3 %	11.1 %	19.6 %
141,037	98,641	9.1	8.5	11.6	17.0	15.0
36,463	40,334	4.3	3.6	3.4	4.4	6.1
37,163	43,274	18.4	12.8	8.4	4.5	6.6
199,198	261,067	17.4	13.3	9.0	23.9	39.8
174,404	69,381	16.1	16.1	23.7	21.0	10.6
552,194	345,854	10.5	0.2	31.9	66.4	52.7
<u>\$ 1,232,543</u>	<u>\$ 987,009</u>	<u>87.3 %</u>	<u>63.5 %</u>	<u>97.3 %</u>	<u>148.3 %</u>	<u>150.4 %</u>
<u>\$ (401,259)</u>	<u>\$ (330,956)</u>	<u>12.7 %</u>	<u>36.5 %</u>	<u>2.7 %</u>	<u>(48.3) %</u>	<u>(50.4) %</u>
\$ (400,000)	\$ (300,000)					
310,000	480,000					
35,000	5,125					
<u>\$ (55,000)</u>	<u>\$ 185,125</u>					
\$ (456,259)	\$ (145,831)					
1,524,199	1,670,030					
<u>\$ 1,067,940</u>	<u>\$ 1,524,199</u>					

See accompanying independent auditor's report.

EAST MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 3
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FIVE YEARS

	Amounts		
	2022	2021	2020
REVENUES			
Property Taxes	\$ 1,666,261	\$ 1,315,194	\$ 853,597
Penalty and Interest	10,094	21,976	9,806
Investment Revenues	5,084	1,213	11,956
Miscellaneous Revenues	<u>1,889</u>	<u>1,889</u>	<u>1,889</u>
TOTAL REVENUES	<u>\$ 1,681,439</u>	<u>\$ 1,340,272</u>	<u>\$ 875,359</u>
EXPENDITURES			
Tax Collection Expenditures	\$ 17,136	\$ 13,524	\$ 13,135
Debt Service Principal	685,000	620,000	610,000
Debt Service Interest and Fees	585,108	399,658	460,062
Bond Issuance Costs	<u>151,405</u>	<u>151,405</u>	<u>151,405</u>
TOTAL EXPENDITURES	<u>\$ 1,287,244</u>	<u>\$ 1,184,587</u>	<u>\$ 1,083,197</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 394,195</u>	<u>\$ 155,685</u>	<u>\$ (207,838)</u>
OTHER FINANCING SOURCES (USES)			
Transfers In (Out)	\$	\$	\$
Long-Term Debt Issued		248,488	
Refunding Bonds		3,455,000	
Payment to Refunded Bond Escrow Agent		<u>(3,297,391)</u>	
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ - 0 -</u>	<u>\$ 406,097</u>	<u>\$ - 0 -</u>
NET CHANGE IN FUND BALANCE	\$ 394,195	\$ 561,782	\$ (207,838)
BEGINNING FUND BALANCE	<u>1,616,671</u>	<u>1,054,889</u>	<u>1,262,727</u>
ENDING FUND BALANCE	<u><u>\$ 2,010,866</u></u>	<u><u>\$ 1,616,671</u></u>	<u><u>\$ 1,054,889</u></u>
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>730</u>	<u>541</u>	<u>325</u>
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	<u><u>736</u></u>	<u><u>514</u></u>	<u><u>286</u></u>

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2019	2018	2022	2021	2020	2019	2018
\$ 696,473	\$ 1,114,095	99.1 %	98.2 %	97.5 %	96.8 %	95.5 %
2,692	51,481	0.6	1.6	1.1	0.4	4.4
20,395	1,402	0.3	0.1	1.4	2.8	0.1
			0.1			
\$ 719,560	\$ 1,166,978	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %
\$ 16,144	\$ 36,046	1.0 %	1.0 %	1.5 %	2.2 %	3.1 %
505,000	180,000	40.7	46.3	69.7	70.2	15.4
474,631	810,431	34.8	29.8	52.6	66.0	69.5
			11.3			
\$ 995,775	\$ 1,026,477	76.5 %	88.4 %	123.8 %	138.4 %	88.0 %
\$ (276,215)	\$ 140,501	23.5 %	11.6 %	(23.8) %	(38.4) %	12.0 %
\$ 400,000	\$ 300,000					
\$ 400,000	\$ 300,000					
\$ 123,785	\$ 440,501					
1,138,942	698,441					
\$ 1,262,727	\$ 1,138,942					
172	30					
158	18					

See accompanying independent auditor's report.

District Mailing Address - East Montgomery County Municipal Utility District No. 3
c/o Marks Richardson PC
3700 Buffalo Speedway, Suite 830
Houston, TX 77098

District Telephone Number - (713) 942-9922

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

Limit on Fees of Office that a Director may receive during a fiscal year are \$7,200 as set by Board Resolution on August 14, 2003. Fees of Office are the amounts actually paid to a Director during the District's current fiscal year.

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EAST MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 3
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
JUNE 30, 2022

Consultants:	<u>Date Hired</u>	<u>Fees for the year ended June 30, 2022</u>	<u>Title</u>
Marks Richardson PC	01/09/03	\$ 147,795 \$ 257,891	General Counsel Bond Counsel
McCall Gibson Swedlund Barfoot PLLC	07/10/03	\$ 14,750 \$ 11,250	Auditor Bond Related
Municipal Accounts & Consulting, LP	06/26/02	\$ 42,088	Bookkeeper
J.A. Costanza and Associates	06/26/02	\$ 581,202	Engineer
The GMS Group	07/10/08	\$ 184,185	Financial Advisor
Mark Burton	12/2005	\$ -0-	Investment Officer
TNG Utility Corporation	11/9/06	\$ 460,746	Operator
Montgomery Co. Tax Office	5/8/03	\$ 301	Tax Assessor/ Collector

See accompanying independent auditor's report.

APPENDIX B

SPECIMEN MUNICIPAL BOND INSURANCE POLICY



MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

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

Effective Date: _____

Risk Premium: \$ _____

Member Surplus Contribution: \$ _____

Total Insurance Payment: \$ _____

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

On the later of the day on which such principal and interest becomes Due for Payment or the first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of such principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in BAM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent (as defined herein) are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless BAM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration) and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means delivery to BAM of a notice of claim and certificate, by certified mail, email or telecopy as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

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

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

This Policy sets forth in full the undertaking of BAM and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

1 World Financial Center, 27th floor
200 Liberty Street
New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN