

OFFICIAL STATEMENT DATED FEBRUARY 13, 2024

IN THE OPINION OF BOND COUNSEL, THE BONDS ARE VALID OBLIGATIONS OF MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 111, AND INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR PURPOSES OF FEDERAL INCOME TAXATION UNDER STATUTES, REGULATIONS, PUBLISHED RULINGS AND COURT DECISIONS EXISTING ON THE DATE OF SUCH OPINION, SUBJECT TO THE MATTERS DESCRIBED UNDER “LEGAL MATTERS” HEREIN, INCLUDING THE ALTERNATIVE MINIMUM TAX ON CERTAIN CORPORATIONS. SEE “LEGAL MATTERS” HEREIN FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL.

THE BONDS HAVE **NOT** BEEN DESIGNATED AS “QUALIFIED TAX-EXEMPT OBLIGATIONS” FOR FINANCIAL INSTITUTIONS.

NEW ISSUE-Book-Entry-Only

Insured Rating (AGM): S&P “AA” (stable outlook)
See “MUNICIPAL BOND RATING” and “MUNICIPAL BOND INSURANCE” herein.

\$5,000,000
MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 111
(A political subdivision of the State of Texas located within Montgomery County)
UNLIMITED TAX ROAD BONDS
SERIES 2024

The bonds described above (the “Bonds”) are obligations solely of Montgomery County Municipal Utility District No. 111 (the “District”) and are not obligations of the State of Texas, Montgomery County, the City of Conroe or any entity other than the District. THE PURCHASE AND OWNERSHIP OF THE BONDS ARE SUBJECT TO SPECIAL RISK FACTORS AND ALL PROSPECTIVE PURCHASERS ARE URGED TO EXAMINE CAREFULLY THIS ENTIRE OFFICIAL STATEMENT WITH RESPECT TO THE INVESTMENT SECURITY OF THE BONDS, INCLUDING PARTICULARLY THE SECTION CAPTIONED “RISK FACTORS.”

Dated: March 1, 2024

Due: September 1, as shown below

Interest Accrual Date: Date of Delivery

Principal of the Bonds is payable at maturity or earlier redemption at the principal payment office of the paying agent/registrar, initially The Bank of New York Mellon Trust Company, N.A. in Dallas, Texas (the “Paying Agent/Registrar”). Interest on the Bonds accrues from the initial date of delivery, which is expected to be on or about March 14, 2024 (the “Date of Delivery”), and is payable each September 1 and March 1, commencing September 1, 2024, until maturity or prior redemption. The Bonds will be issued only in fully registered form in denominations of \$5,000 each or integral multiples thereof. The Bonds are subject to redemption prior to their maturity, as shown below.

The Bonds will be registered and delivered only in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Bonds. Beneficial Owners (as defined herein under “BOOK-ENTRY-ONLY SYSTEM”) of the Bonds will not receive physical certificates representing the Bonds, but will receive a credit balance on the books of the DTC participants. So long as Cede & Co. is the registered owner of the Bonds, the principal of and interest on the Bonds will be paid by the Paying Agent/Registrar, as herein defined, directly to DTC, which will, in turn, remit such principal and interest to its participants for subsequent disbursement to the Beneficial Owners of the Bonds. See “BOOK-ENTRY-ONLY SYSTEM.”



The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by ASSURED GUARANTY MUNICIPAL CORP. (“AGM” or the “Insurer”). See “MUNICIPAL BOND INSURANCE” herein.

MATURITY SCHEDULE

| Principal Amount | Maturity (September 1) | Interest Rate | Initial Reoffering Yield(a) | CUSIP Number(b) | Principal Amount | Maturity (September 1) | Interest Rate | Initial Reoffering Yield(a) | CUSIP Number(b) |
|------------------|------------------------|---------------|-----------------------------|-----------------|------------------|------------------------|---------------|-----------------------------|-----------------|
| \$ 100,000 | 2025 | 5.500 % | 3.30 % | 61370S GD8 | *** | *** | *** % | *** % | *** |
| 105,000 | 2026 | 5.500 | 3.25 | 61370S GE6 | 220,000 | 2040 (c) | 4.000 | 4.05 | 61370S GU0 |
| 110,000 | 2027 | 5.000 | 3.20 | 61370S GF3 | 230,000 | 2041 (c) | 4.000 | 4.09 | 61370S GV8 |
| 115,000 | 2028 | 5.000 | 3.20 | 61370S GG1 | 245,000 | 2042 (c) | 4.000 | 4.12 | 61370S GW6 |
| 120,000 | 2029 | 5.000 | 3.25 | 61370S GH9 | 255,000 | 2043 (c) | 4.000 | 4.15 | 61370S GX4 |
| 130,000 | 2030 | 5.000 | 3.30 | 61370S GJ5 | 270,000 | 2044 (c) | 4.000 | 4.18 | 61370S GY2 |
| *** | *** | *** | *** | *** | 285,000 | 2045 (c) | 4.000 | 4.20 | 61370S GZ9 |
| 150,000 | 2033 (c) | 4.000 | 3.45 | 61370S GM8 | 300,000 | 2046 (c) | 4.000 | 4.22 | 61370S HA3 |
| 160,000 | 2034 (c) | 4.000 | 3.50 | 61370S GN6 | 315,000 | 2047 (c) | 4.125 | 4.24 | 61370S HB1 |
| 165,000 | 2035 (c) | 4.000 | 3.60 | 61370S GP1 | 335,000 | 2048 (c) | 4.125 | 4.25 | 61370S HC9 |
| 175,000 | 2036 (c) | 4.000 | 3.70 | 61370S GQ9 | 355,000 | 2049 (c) | 4.125 | 4.26 | 61370S HD7 |
| 185,000 | 2037 (c) | 4.000 | 3.75 | 61370S GR7 | | | | | |

\$ 275,000 Term Bonds due September 1, 2032 (c), 61370S GL0 (b), 4.000% Interest Rate, 3.40% Yield (a)

\$ 400,000 Term Bonds due September 1, 2039 (c), 61370S GT3 (b), 4.000% Interest Rate, 4.00% Yield (a)

- (a) Initial reoffering yield represents the initial offering yield to the public, which has been established by the Underwriter for offers to the public and which may be subsequently changed by the Underwriter and is the sole responsibility of the Underwriter. The initial reoffering yields indicated above represent the lower of the yields resulting when priced to maturity or to the first call date.
- (b) CUSIP Numbers have been assigned to the Bonds by CUSIP Global Services and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Underwriter shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.
- (c) Bonds maturing on or after September 1, 2031, are subject to redemption prior to maturity at the option of the District, in whole or, from time to time, in part, on September 1, 2030, or on any date thereafter, at a price equal to par plus accrued interest from the most recent interest payment date to the date fixed for redemption. The Term Bonds (as defined herein) are also subject to mandatory sinking fund redemption as more fully described herein. See “THE BONDS—Redemption Provisions.”

The Bonds, when issued, will constitute valid and legally binding obligations of the District and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District, as further described herein. 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. Investment in the Bonds is subject to special risk factors described herein. See “RISK FACTORS.”

The Bonds are offered when, as and if issued by the District, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Schwartz, Page & Harding, L.L.P., Houston, Texas, Bond Counsel. Delivery of the Bonds in book-entry form through DTC is expected on or about March 14, 2024.

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USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

All of the summaries of the statutes, orders, contracts, audited financial statements, engineering and other related reports set forth in this OFFICIAL STATEMENT are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from Schwartz, Page & Harding, L.L.P., 1300 Post Oak Boulevard, Suite 2400, Houston, Texas, 77056 upon payment of the costs of duplication therefor.

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

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

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

SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Bonds, the District accepted the bid resulting in the lowest net effective interest rate, which bid was tendered by SAMCO Capital Markets, Inc. (the "Underwriter") bearing the interest rates shown on the cover page hereof, at a price of 97.0009% of the par value thereof which resulted in a net effective interest rate of 4.260891% as calculated pursuant to Chapter 1204, Texas Government Code (the IBA method).

Prices and Marketability

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

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

Securities Laws

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

OFFICIAL STATEMENT SUMMARY

The following is a brief summary of certain information contained herein which is qualified in its entirety by the more detailed information and financial statements appearing elsewhere in this OFFICIAL STATEMENT. The summary should not be detached and should be used in conjunction with more complete information contained herein. A full review should be made of the entire OFFICIAL STATEMENT and of the documents summarized or described therein.

THE DISTRICT

| | |
|---|--|
| <i>Description...</i> | <p>The District is a political subdivision of the State of Texas operating as a municipal utility district pursuant to Article XVI, Section 59 of the Texas Constitution. The District was created by an order of the Texas Commission on Environmental Quality (the "TCEQ") dated March 13, 2006. The District is vested with all the rights, privileges, authority and functions conferred by the laws of the State of Texas applicable to municipal utility districts, including without limitation those conferred by Article XVI, Section 59, and Article III, Section 52 of the Texas Constitution, Senate Bill 2002, 84th Texas Legislature, Regular Session, 2015, codified as Chapter 8390, Texas Special District Local Laws Code (the "Act") and Chapters 49 and 54 of the Texas Water Code, as amended. The District consists currently of approximately 719 acres of land. See "THE DISTRICT."</p> |
| <i>Location...</i> | <p>The District is located in Montgomery County, approximately 31 miles northeast of the central downtown business district of the City of Houston, 10 miles from the central downtown business district of the City of Conroe, and within the extraterritorial jurisdiction of the City of Conroe and within the boundaries of the Conroe Independent School District. The District is generally bounded by Texas State Highway 242 on the north, Farm-to-Market 1314 to the west and Old Houston Road to the east. See "THE DISTRICT" and "AERIAL LOCATION MAP."</p> |
| <i>Artavia...</i> | <p>The District is part of the development of an approximately 2,187 acre master-planned community known as "Artavia." Artavia is comprised of the District, Montgomery County Municipal Utility District No. 157 ("MUD 157" or the "Master District"), Montgomery County Municipal Utility District No. 106 ("MUD 106") and Montgomery County Municipal Utility District 158 ("MUD 158"). The District, MUD 157, MUD 106 and MUD 158 are collectively referred to as the "Artavia Districts." See "ARTAVIA."</p> |
| <i>The Developer and Principal Landowner...</i> | <p>The developer of Artavia is Artavia Development Company, a Texas corporation ("ADC" or the "Developer"). The undeveloped land within the Artavia project boundaries is owned by Pilot Land Acquisitions, LLC, a Nevada limited liability company ("PLA"), which acts solely as a land holding company. PLA sells land to the Developer as needed for development. As of January 1, 2024, the Developer had purchased 1,551 acres within the Artavia project boundaries, including all of the land in the District. AIRIA Development Company, a Texas corporation ("AIRIA") manages the development of Artavia for the Developer and PLA. The controlling interests in AIRIA, ADC, and PLA are primarily lineal descendants (or their trusts) of Lester Benny Binion and Phyllis Cope. The President of AIRIA and ADC is E. Travis Stone, Jr. See "THE DEVELOPER."</p> |
| <i>Status of Development...</i> | <p>The land within the District is being developed primarily as the single-family residential community of Artavia, currently consisting of 1,425 single-family residential lots on approximately 431 acres. As of December 1, 2023, the District consisted of 1,005 completed homes (885 homes occupied and 120 homes complete but not occupied), 94 homes under construction or continue to be in a builder's name, and 326 vacant developed lots available for home construction. According to the Developer, homes within the District range in sales price from approximately \$300,000 to over \$700,000.</p> <p>Approximately 208 acres within the District are undeveloped and developable, and the remaining approximately 80 acres are not developable (street easements, drainage detention, parks and recreation space, right-of-way and utility sites). See "THE DISTRICT—Land Use" and "—Status of Development."</p> |

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| <i>Homebuilding...</i> | Homebuilders active within the District include Beazer Homes, Chesmar Homes, Coventry Homes, David Weekly Homes, Highland Homes, J. Patrick Homes, Lennar Homes, Perry Homes, Ravenna Homes and Westin Homes. See “THE DISTRICT—Status of Development—Homebuilders.” |
| <i>Regional Facilities...</i> | The Master District has contracted with the Artavia Districts to provide water supply and wastewater treatment as well as regional water distribution, wastewater collection trunk lines and storm water collection trunk lines necessary to serve Artavia (collectively, the “Master District Facilities”). See “WATER, WASTEWATER AND DRAINAGE.” |
| <i>Payment Record...</i> | The District has previously issued three series of unlimited tax road bonds totaling \$21,465,000 principal amount and three series of unlimited tax water, sewer and drainage bonds totaling \$28,885,000, of which \$49,265,000 is collectively outstanding as of the date hereof (the “Outstanding Bonds”). The District capitalized twelve (12) months of interest from the Series 2023 Road Bonds in May 2023 and the Series 2023 Bonds in November 2023, and twelve (12) months of interest will be capitalized from Bond proceeds for payment of debt service on the Bonds. The District has never defaulted on the Outstanding Bonds debt service payments. See “USE AND DISTRIBUTION OF BOND PROCEEDS” and “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED).” |

THE BONDS

| | |
|----------------------------------|--|
| <i>Description...</i> | Montgomery County Municipal Utility District No. 111 Unlimited Tax Road Bonds, Series 2024, in the aggregate principal amount of \$5,000,000 maturing serially on September 1 in each of the years 2025 through 2030, both inclusive, 2033 through 2037, both inclusive, 2040 through 2049, both inclusive, and as term bonds maturing on September 1 in each of the years 2032 and 2039 (the “Term Bonds”). The Bonds are dated March 1, 2024, and interest on the Bonds accrues from the Date of Delivery at the rates per annum set forth on the cover page hereof, and is payable on September 1, 2024, and each March 1 and September 1 thereafter until the earlier of stated maturity or redemption. The Bonds will be issued as fully registered bonds, pursuant to an order authorizing the issuance of the Bonds (the “Bond Order”), adopted by the Board of Directors of the District (the “Board”), in fully registered form only, in denominations of \$5,000 or any integral multiple of \$5,000. See “THE BONDS—General.” |
| <i>Book-Entry-Only System...</i> | 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 and will be deposited with DTC. See “BOOK-ENTRY-ONLY SYSTEM.” |
| <i>Redemption...</i> | Bonds maturing on or after September 1, 2031, are subject to redemption at the option of the District prior to their maturity dates in whole, or from time to time in part, on September 1, 2030, or on any date thereafter, at a price of par plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. The Term Bonds are also subject to mandatory sinking fund redemption as more fully described herein. See “THE BONDS—Redemption Provisions.” |
| <i>Use of Proceeds...</i> | Proceeds of the Bonds will be used to pay construction costs outlined herein under “USE AND DISTRIBUTION OF BOND PROCEEDS,” to pay interest on funds that have been advanced by the Developer on behalf of the District; and to pay legal fees, financial advisory fees, administrative costs, and certain other costs and engineering fees related to the issuance of the Bonds. In addition, Bond proceeds will be used to capitalize twelve (12) months of interest on the Bonds. |
| <i>Authority for Issuance...</i> | The Bonds are the fourth series of bonds issued out of an aggregate of \$94,100,000 principal amount of unlimited tax bonds authorized by the District’s voters on May 5, 2018, for the purpose of acquiring or constructing road facilities to serve the land within its boundaries. The Bonds are issued by the District pursuant to the terms and conditions of the Bond Order (herein defined), Article III, Section 52 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, the Act, and the general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas. See “THE BONDS—Authority for Issuance” and “Issuance of Additional Debt” and “RISK FACTORS—Future Debt.” |

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| <i>Source of Payment...</i> | Principal of and interest on the Bonds, the Outstanding Bonds, and such additional tax bonds as may hereafter be issued by the District are payable from the proceeds of a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District. See “THE BONDS—Source of and Security for Payment.” |
| <i>Municipal Bond Rating and Municipal Bond Insurance...</i> | S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC, (“S&P”) has assigned a municipal bond insured rating of “AA” (stable outlook) to the Bonds with the understanding that, upon delivery of the Bonds, a Policy insuring the timely payment of the principal of and interest on the Bonds will be issued by ASSURED GUARANTY MUNICIPAL CORP. (“AGM”) for the Bonds. An explanation of the rating may be obtained from S&P. No application has been made to a municipal rating company for an underlying rating on the Bonds, nor is it expected that the District would have received an investment grade rating if application had been made. See “RISK FACTORS—Municipal Bond Insurance Risk Factors,” “MUNICIPAL BOND RATING,” “MUNICIPAL BOND INSURANCE” and “APPENDIX B.” |
| <i>Not Qualified Tax-Exempt Obligations...</i> | The District has not designated the Bonds as "qualified tax-exempt obligations" pursuant to Section 265(b) of the Internal Revenue Code of 1986, as amended. See "LEGAL MATTERS—Not Qualified Tax-Exempt Obligations.” |
| <i>Bond Counsel...</i> | Schwartz, Page & Harding, L.L.P., Bond Counsel, Houston, Texas. See “MANAGEMENT OF THE DISTRICT” and “LEGAL MATTERS.” |
| <i>Disclosure Counsel...</i> | McCall, Parkhurst & Horton L.L.P., Houston, Texas. |
| <i>Financial Advisor...</i> | Masterson Advisors LLC, Houston, Texas. See “MANAGEMENT OF THE DISTRICT” and “PREPARATION OF OFFICIAL STATEMENT.” |
| <i>Paying Agent/Registrar...</i> | The Bank of New York Mellon Trust Company, N.A. in Dallas, Texas. See “THE BONDS—Method of Payment of Principal and Interest.” |

RISK FACTORS

THE PURCHASE AND OWNERSHIP OF THE BONDS ARE SUBJECT TO SPECIAL RISK FACTORS AND ALL PROSPECTIVE PURCHASERS ARE URGED TO EXAMINE CAREFULLY THIS ENTIRE OFFICIAL STATEMENT WITH RESPECT TO THE INVESTMENT SECURITY OF THE BONDS, INCLUDING PARTICULARLY THE SECTION CAPTIONED “RISK FACTORS.”

SELECTED FINANCIAL INFORMATION (UNAUDITED)

| | | |
|---|-------------------|-----|
| 2023 Certified Taxable Assessed Valuation | \$359,800,690 | (a) |
| Estimated Taxable Assessed Valuation as of December 1, 2023 | \$476,890,016 | (b) |
| | | |
| Gross Direct Debt Outstanding | \$54,265,000 | (c) |
| Estimated Overlapping Debt | <u>13,736,778</u> | (d) |
| Gross Direct Debt and Estimated Overlapping Debt | \$68,001,778 | |
| | | |
| Ratios of Gross Direct Debt to: | | |
| 2023 Certified Taxable Assessed Valuation | 15.08% | |
| Estimated Taxable Assessed Valuation as of December 1, 2023 | 11.38% | |
| Ratios of Gross Direct Debt and Estimated Overlapping Debt to: | | |
| 2023 Certified Taxable Assessed Valuation | 18.90% | |
| Estimated Taxable Assessed Valuation as of December 1, 2023 | 14.26% | |
| | | |
| Funds Available for Debt Service as of February 6, 2024: | | |
| Water, Sewer and Drainage Debt Service Fund | \$858,826 | (e) |
| Road Debt Service Fund | 596,035 | (e) |
| Capitalized Interest from Bond proceeds (Twelve Months) | <u>209,081</u> | (f) |
| Total Funds Available for Debt Service | \$1,663,942 | (e) |
| | | |
| Available General Operating Funds as of February 6, 2024 | \$1,445,643 | (g) |
| Available Capital Projects Funds as of February 6, 2024 | \$19,236 | |
| | | |
| 2023 Debt Service Tax Rate | \$0.80 | |
| 2023 Maintenance Tax Rate | \$0.55 | |
| 2023 Total Tax Rate | \$1.35 | |
| | | |
| Average Annual Debt Service Requirement (2024-2049) | \$3,280,284 | (h) |
| Maximum Annual Debt Service Requirement (2025) | \$3,812,615 | (h) |
| | | |
| Tax Rate Required to Pay Average Annual Debt Service (2024-2049) at a 95% Collection Rate | | |
| Based upon 2023 Certified Taxable Assessed Valuation | \$0.96 | (h) |
| Based upon Estimated Taxable Assessed Valuation as of December 1, 2023 | \$0.73 | (h) |
| Tax Rate Required to Pay Maximum Annual Debt Service (2025) at a 95% Collection Rate | | |
| Based upon 2023 Certified Taxable Assessed Valuation | \$1.12 | (h) |
| Based upon Estimated Taxable Assessed Valuation as of December 1, 2023 | \$0.85 | (h) |
| | | |
| Status of Development as of December 1, 2023 (i): | | |
| Total Developed Lots | 1,425 | |
| Total Completed Homes (885 Occupied) | 1,005 | |
| Homes Under Construction or in builder's name | 94 | (i) |
| Vacant Developed Lots Available for Home Construction | 326 | (i) |
| Estimated Population | 3,097 | (j) |

- (a) As certified by the Montgomery Central Appraisal District (the "Appraisal District"). See "TAXING PROCEDURES."
- (b) As provided by the Appraisal District. Such amount is only an estimate of the taxable assessed value on December 1, 2023, and may be revised upward or downward once certified by the Appraisal District. Increases in value occurring between January 1, 2023 and December 1, 2023 will be certified as of January 1, 2024 in the summer of 2024. See "TAXING PROCEDURES."
- (c) After issuance of the Bonds. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)."
- (d) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt."
- (e) Although all of the District's debt, including the Outstanding Bonds and the Bonds, is payable from an unlimited tax pledge on an equal basis, a pro rata portion of the District's ad valorem tax revenue will be allocated to bonds sold for water, sewer and drainage facilities ("Water, Sewer and Drainage Bonds") and a pro rata portion will be allocated to bonds sold for road facilities ("Road Bonds"), including the Bonds. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements."
- (f) The District will capitalize twelve (12) months of interest from the Bond proceeds and deposit such funds in the Road Debt Service Fund. See "USE AND DISTRIBUTION OF BOND PROCEEDS."
- (g) See "RISK FACTORS—Operating Funds."
- (h) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements" and "TAX DATA—Tax Adequacy for Debt Service."
- (i) See "THE DISTRICT—Land Use—Status of Development."
- (j) Based upon 3.5 persons per occupied single-family residence.

OFFICIAL STATEMENT

\$5,000,000

MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 111
(A political subdivision of the State of Texas located within Montgomery County)

UNLIMITED TAX ROAD BONDS
SERIES 2024

This OFFICIAL STATEMENT provides certain information in connection with the issuance by Montgomery County Municipal Utility District No. 111 (the "District") of its \$5,000,000 Unlimited Tax Road Bonds, Series 2024 (the "Bonds").

The District is a political subdivision of the State of Texas operating as a municipal utility district pursuant to Article XVI, Section 59 of the Texas Constitution. The District was created by an order of the TCEQ dated March 13, 2006. The Bonds are issued pursuant to Article III, Section 52 of the Texas Constitution, Senate Bill 2002, 84th Texas Legislature, Regular Session, 2015, codified as Chapter 8390, Texas Special District Local Laws Code (the "Act"), Chapters 49 and 54 of the Texas Water Code, as amended, the general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas, an order authorizing the issuance of the Bonds (the "Bond Order") adopted by the Board of Directors of the District (the "Board"), and an election held within the District.

This OFFICIAL STATEMENT includes descriptions, among others, of the Bonds and certain other information about AIRIA Development Company ("AIRIA"), Artavia Development Company ("ADC" or the "Developer") and development activity in the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of documents may be obtained from Schwartz, Page & Harding, L.L.P. ("Bond Counsel"), 1300 Post Oak Boulevard, Suite 2400, Houston, Texas, 77056 upon payment of the costs of duplication therefore.

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. 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 will be dated March 1, 2024, with interest payable on September 1, 2024, and on each March 1 and September 1 thereafter (each an "Interest Payment Date") until the earlier of maturity or redemption. Interest on the Bonds initially accrues from the Date of Delivery, and thereafter, from the most recent Interest Payment Date. The Bonds mature on September 1 of the years and in the amounts shown under "MATURITY SCHEDULE" on the cover page hereof. The Bonds are issued in fully registered form only in denominations of \$5,000 or any integral multiple of \$5,000 for any one maturity. The Bonds will be registered and delivered only to The Depository Trust Company, New York, New York, in its nominee name of Cede & Co., pursuant to the book-entry system described herein ("Registered Owners"). No physical delivery of the Bonds will be made to the purchasers thereof. See "BOOK-ENTRY-ONLY SYSTEM." Interest calculations are based upon a three hundred sixty (360) day year comprised of twelve (12) thirty (30) day months.

Authority for Issuance

At an election held within the District on May 5, 2018, voters of the District authorized a total of \$94,100,000 in bonds for the purpose of acquiring or constructing road facilities. The Bonds constitute the fourth issuance of bonds from such authorization. After the issuance of the Bonds, a total of \$67,635,000 in principal amount of unlimited tax bonds for road facilities will remain authorized but unissued. The Bonds are issued by the District pursuant to the terms and provisions of the Bond Order; Article III, Section 52 and Article XVI, Section 59 of the Texas Constitution; the Act; Chapters 49 and 54 of the Texas Water Code, as amended; the general laws of the State of Texas relating to the issuance of the bonds by political subdivisions of the State of Texas.

Source and Security for Payment

The Bonds, together with the Outstanding Bonds (hereinafter defined) and any additional bonds payable from ad valorem taxes, are secured by and payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property located within the District. See “TAX PROCEDURES.” Investment in the Bonds involves 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. See “RISK FACTORS.” 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.

Record Date

The record date for payment of the interest on any regularly scheduled Interest Payment Date is defined as the 15th day of the month (whether or not a business day) next preceding such Interest Payment Date.

Funds

The Bond Order confirms the prior creation of the District's Debt Service Fund, including the sub-accounts which are used to separate funds received to pay debt service on bonds issued to finance water, wastewater and storm drainage (“WSD Bonds”) from funds received to pay debt service on bonds issued to finance road facilities (“Road Bonds”), including the Bonds. The Bond Order also confirms the District's Construction Fund, including the sub-accounts which are used to separate proceeds from WSD Bonds and Road Bonds. Twelve (12) months of capitalized interest on the Bonds will be deposited from the proceeds from sale of the Bonds into the sub-account of the Debt Service Fund created in respect of Road Bonds. All remaining proceeds of the Bonds will be deposited in the sub-account of the Construction Fund created in respect of Road Bonds.

The proceeds from all taxes levied, appraised and collected for and on account of the Bonds authorized by the Bond Order shall be deposited, as collected, into the sub-account of the Debt Service Fund created in respect of Road Bonds. The Debt Service 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 funds in the sub-accounts created in respect of Road Bonds are to be used for payment of debt service on the Bonds and any of the District's duly authorized Road Bonds, whether heretofore, hereunder, or hereafter issued, payable in whole or part from taxes. Amounts on deposit in the sub-accounts of the Debt Service Fund created in respect of Road Bonds may also be used to pay the fees and expenses of the Paying Agent/Registrar, to defray the expenses of assessing and collecting taxes levied for payment of interest on and principal of the Bonds and any of the Districts duly authorized Road Bonds, whether heretofore, hereunder, or hereafter issued, payable in whole or in part from taxes, and to pay any tax anticipation notes issued in respect of debt service due to or become due on Road Bonds, together with interest thereon, as such tax anticipation notes become due. Funds otherwise on deposit in the Debt Service Fund, including funds in a sub-account created in respect of WSD Bonds, will not be allocated to the payment of the Bonds.

Redemption Provisions

Mandatory Redemption: The Bonds maturing on September 1 in each of the years 2032 and 2039 (the “Term Bonds”) shall be redeemed, at a price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption, on September 1 in each of the years and in the principal amounts set forth in the following schedule (with each such scheduled principal amount reduced by the principal amount as may have been previously redeemed through the exercise of the District's reserved right of optional redemption, as provided under “Optional Redemption” below):

| <u>\$275,000 Term Bonds</u> | | <u>\$400,000 Term Bonds</u> | |
|-------------------------------------|-------------------------|-------------------------------------|-------------------------|
| <u>Due September 1, 2032</u> | | <u>Due September 1, 2039</u> | |
| <u>Mandatory</u> | <u>Principal</u> | <u>Mandatory</u> | <u>Principal</u> |
| <u>Redemption Date</u> | <u>Amount</u> | <u>Redemption Date</u> | <u>Amount</u> |
| 2031 | \$ 135,000 | 2038 | \$ 195,000 |
| 2032 (maturity) | 140,000 | 2039 (maturity) | 205,000 |

Notice of the mandatory redemption of Term Bonds will be provided at least thirty (30) calendar days prior to the date fixed for redemption, with the particular portions of the Term Bonds to be redeemed to be selected by lot or other customary method in accordance with the procedures of DTC so long as the Bonds are registered in accordance with the Book-Entry-Only System. See “BOOK-ENTRY-ONLY SYSTEM.”

Optional Redemption: The District reserves the right, at its option, to redeem the Bonds (including any Term Bonds) maturing on or after September 1, 2031, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000, on September 1, 2030, or any date thereafter, at a price equal to the principal amount thereof plus accrued interest thereon 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. If fewer than all of the Serial Bonds of the same maturity are to be redeemed, the particular Bonds shall be selected by DTC in accordance with its procedures, so long as the Bonds are registered in accordance with the Book-Entry-Only System. See "BOOK-ENTRY-ONLY SYSTEM." If less than all of the entire outstanding principal amount of a Term Bond is to be redeemed, the District will notify the Paying Agent/Registrar of the reductions in the remaining mandatory redemption amounts to result from the optional redemption. Notice of each exercise of the reserved right of optional redemption shall be given at least thirty (30) calendar days prior to the date fixed for redemption, in the manner specified in the Bond Order.

Effects of Redemption: By the date fixed for redemption, due provision shall be made with the Paying Agent/Registrar for payment of the principal of the Bonds (including any Term Bonds) or portions thereof to be redeemed, plus accrued interest to the date fixed for redemption. When Bonds have been called for redemption in whole or in part and due provision has been made to redeem the same as herein provided, the Bonds or portions thereof so redeemed shall no longer be regarded as outstanding except for the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the Registered Owners to collect interest which would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption..

Registration

Section 149(a) of the Internal Revenue Code of 1986, as amended, requires that all tax exempt obligations (with certain exceptions that do not include the Bonds) be in registered form in order for the interest payable on such obligations to be excludable from a Beneficial Owner's income for federal income tax purposes. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. pursuant to the Book-Entry-Only System described herein. One fully-registered Bond will be issued for each maturity of the Bonds and will be deposited with DTC. See "BOOK-ENTRY-ONLY SYSTEM." So long as any Bonds remain outstanding, the District will maintain at least one paying agent/registrars in the State of Texas for the purpose of maintaining the Register on behalf of the District.

Method of Payment of Principal and Interest

The Board has appointed The Bank of New York Mellon Trust Company, N.A., having its principal corporate trust office and its principal payment office in Dallas, Texas, as the initial Paying Agent/Registrar for the Bonds. The principal of and interest on the Bonds shall be paid to DTC, which will make distribution of the amounts so paid. See "BOOK-ENTRY-ONLY SYSTEM."

Replacement of Paying Agent/Registrar

Provision is made in the Bond Order for replacement of the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, the new paying agent/registrars shall be required to accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any paying agent/registrars selected by the District shall be a duly qualified and competent trust or banking corporation or organization organized and doing business under the laws of the United States of America or of any State thereof, with a combined capital and surplus of at least \$25,000,000, which is subject to supervision of or examination by federal or state banking authorities, and which is a transfer agent duly registered with the United States Securities and Exchange Commission.

Issuance of Additional Debt

The District's voters have authorized the issuance of a total of \$94,100,000 unlimited tax road bonds for the purpose of acquiring or constructing road facilities and could authorize additional amounts. Following the issuance of the Bonds, the District will have \$67,635,000 of unlimited tax bonds authorized but unissued for said improvements and facilities. The District's voters have also authorized issuance of a total of \$179,900,000 unlimited tax bonds for the purpose of acquiring or constructing water, sewer and drainage facilities and could authorize additional amounts. \$151,015,000 of unlimited tax bonds for said improvements and facilities remain authorized but unissued. The District's voters have also authorized issuance of a total of \$51,450,000 unlimited tax bonds for the purpose of acquiring or constructing recreational facilities and could authorize additional amounts. No bonds have been issued from said recreational facilities authorization. The District's voters have also authorized refunding bonds in an amount not in excess of one and one-half times the amount of bonds or other evidence of indebtedness previously issued by the District for (i) water, sewer, and drainage facilities, (ii) road improvements, and (iii) recreational facilities, for the purpose of refunding outstanding bonds of the District and could authorize additional amounts.

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.

Financing Road Facilities

Pursuant to the provisions of the Texas Constitution and the Act, as defined herein, the District is authorized to develop and finance with property taxes certain road facilities following a successful District election to approve the issuance of road bonds payable from taxes. At an election held within the District on May 5, 2018, voters of the District authorized a total of \$94,100,000 unlimited tax bonds for financing and constructing road facilities. After the issuance of the Bonds, the District will have issued \$26,465,000 in road bonds from said authorization and could issue additional amounts. See "Issuance of Additional Debt" herein and "RISK FACTORS—Future Debt." Issuance of additional bonds for road facilities may dilute the investment security for the Bonds.

Financing Recreational Facilities

Conservation and reclamation districts in certain counties are authorized to develop and finance with property taxes certain recreational facilities after a district election has been successfully held to approve the issuance of bonds payable from taxes and/or a maintenance tax to support recreational facilities.

The District is authorized to issue bonds payable from an ad valorem tax to pay for the development and maintenance of recreational facilities if (i) the District duly adopts a plan for the facilities; (ii) the bonds are authorized at an election; (iii) the bonds payable from any source do not exceed 1% of the value of the taxable property in the District at the time of issuance of the bonds, or, in the event the District meets certain conditions, 3% of the value of the taxable property in the District at the time of issuance of the bonds, but in no event in an amount greater than the estimated cost in the plan; (iv) the District obtains any necessary governmental consents allowing the issuance of such bonds; (v) the issuance of the bonds is approved by the TCEQ in accordance with its rules with respect to same; and (vi) 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. In addition, the District is authorized to levy an operation and maintenance tax to support recreational facilities at a rate not to exceed 10 cents per \$100 of assessed valuation of taxable property in the District, after such tax is approved at an election. Said maintenance tax is in addition to any other maintenance tax authorized to be levied by the District.

At an election held within the District on May 5, 2018, voters of the District authorized a total of \$51,450,000 in unlimited tax bonds for the purpose of acquiring or constructing recreational facilities and could authorize additional amounts.

Issuance of bonds for recreational facilities could dilute the investment security for the Bonds.

Annexation

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Conroe, the District may be annexed for full purposes by the City of Conroe, subject to compliance by the City of Conroe with various requirements of Chapter 43 of the Texas Local Government Code, as amended. Such requirements may include the requirement that the City of Conroe hold an election in the District whereby the qualified voters of the District approve the proposed annexation. If the District is annexed, the City of Conroe must assume the District's assets and obligations (including the Bonds and the Outstanding Bonds) and abolish the District within ninety (90) days of the date of annexation. Annexation of territory by the City of Conroe is a policy-making matter within the discretion of the Mayor and City Council of the City of Conroe, and, therefore, the District makes no representation that the City of Conroe will ever attempt to annex the District for limited or full purposes and assume its debt. Moreover, no representation is made concerning the ability of the City of Conroe to make debt service payments should annexation occur. Under the terms of the SPA (as hereinafter defined) between the District and the City of Conroe, the City may annex the territory of the District for full purposes (a "full-purpose annexation") at any time on or after December 31, 2034, or at any earlier time that the District has achieved 90% build out as defined in the SPA. See "THE DISTRICT—Strategic Partnership Agreement." The District could consent to a full purpose annexation prior to that time by agreeing to amend the SPA to such effect, however, the District currently has no intention to do so.

Consolidation

The District has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its water and wastewater systems with the water and wastewater systems of the district or districts with which it is consolidating, subject to voter approval. In their consolidation agreement, the consolidating districts may agree to assume each other's bonds, notes and other obligations. If each district assumes the other's bonds, notes and other obligations, taxes may be levied uniformly on all taxable property within the consolidated district in payment of same. If the districts do not assume each other's bonds, notes and other obligations, each district's taxes are levied on property in each of the original districts to pay said debts created by the respective original district as if no consolidation had taken place. No representation is made concerning whether the District will consolidate with any other district, but the District currently has no plans to do so.

Remedies in Event of Default

If the District defaults in the payment of principal, interest, or the redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Order, or defaults in the observance or performance of any other covenants, conditions, or obligations set forth in the Bond Order, the Registered Owners have the right to seek 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. Certain traditional legal remedies may also not be available. See “RISK FACTORS—Registered Owners’ Remedies and Bankruptcy Limitations to Registered Owners’ Rights.”

Legal Investment and Eligibility to Secure Public Funds in Texas

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

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

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

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

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

Defeasance

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

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

There is no assurance that the current law will not be changed in 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.

BOOK-ENTRY-ONLY SYSTEM

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

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a rating of "AA+" from S&P Global Ratings. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owners") 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 Owners entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

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

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

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

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

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

USE AND DISTRIBUTION OF BOND PROCEEDS

The construction costs below were prepared by LJA Engineering, Inc. (the “Engineer”). Non-construction costs are based upon either contract amounts or estimates of various costs from the Engineer and Masterson Advisors LLC (the “Financial Advisor”). The actual amounts to be reimbursed by the District and the non-construction costs will be finalized after the sale of the Bonds and agreed-upon procedures are completed by an independent accountant. The surplus funds, if any, may be expended for any lawful purpose for which surplus construction funds may be used.

I. CONSTRUCTION COSTS

| | | |
|---|-----------|------------------|
| • Road Construction Costs | \$ | 2,654,381 |
| • Land Acquisition | | 851,135 |
| • Engineering, Geotechnical and Construction Phase Services | | 408,873 |
| Total Construction Costs | \$ | 3,914,389 |

II. NON-CONSTRUCTION COSTS

| | | |
|--|-----------|----------------|
| • Underwriter's Discount (a) | \$ | 149,957 |
| • Capitalized Interest (12 Months) (a) | | 209,081 |
| • Developer Interest | | 360,611 |
| Total Non-Construction Costs | \$ | 719,649 |

III. ISSUANCE COSTS AND FEES

| | | |
|--|-----------|------------------|
| • Issuance Costs and Professional Fees | \$ | 275,000 |
| • Application Preparation Costs | | 20,000 |
| • State Regulatory Fees | | 5,000 |
| • Contingency (a) | | 65,962 |
| Total Issuance Costs and Fees | \$ | 365,962 |
| TOTAL BOND ISSUE | \$ | 5,000,000 |

(a) Contingency represents the difference between the estimated and actual amounts of Underwriter’s discount and capitalized interest.

ARTAVIA

General

Artavia is an approximately 2,187 acre master-planned community located 31 miles northeast of downtown Houston, Texas. Artavia includes four (4) municipal utility districts: the District, Montgomery County Municipal Utility District No. 157 (“MUD 157” or the “Master District”), Montgomery County Municipal Utility District No. 106 (“MUD 106”) and Montgomery County Municipal Utility District No. 158 (“MUD 158”) (collectively, the “Artavia Districts”). A majority of the development occurring within Artavia is currently within the District. Each of the Artavia Districts has the authority to provide water, wastewater, drainage and recreational facilities as well as the roads within its boundaries. MUD 157 also acts as the “Master District” and has additional powers related to providing regional water, wastewater and drainage services to the Artavia Districts. See “WATER, WASTEWATER AND DRAINAGE—Master District.”

THE DISTRICT

General

The District is a political subdivision of the State of Texas operating as a municipal utility district pursuant to Article XVI, Section 59 of the Texas Constitution. The District was created by an order of the TCEQ dated March 13, 2006. The District is vested with all the rights, privileges, authority and functions conferred by the laws of the State of Texas applicable to municipal utility districts, including without limitation those conferred by Article XVI, Section 59 and Article III, Section 52 of the Texas Constitution, the Act, and Chapters 49 and 54 of the Texas Water Code, as amended. The District is empowered to, among other things, purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply of water; the collection, transportation and treatment of wastewater; the control and diversion of storm water; to finance, develop and maintain parks and recreational facilities, and to acquire, construct, finance, improve and operate road facilities, among other things. The District may also provide solid waste collection and disposal service and contract for or employ peace officers. The District may operate and maintain a fire department, independently or with one or more other conservation and reclamation districts or other political subdivision, if approved by the voters and the TCEQ. The District is subject to the continuing supervision of the TCEQ.

The District is required to observe certain requirements of the City of Conroe which limit the purposes for which the District may sell bonds to the acquisition, construction, and improvement of waterworks, wastewater, drainage, recreational, road and firefighting facilities and the refunding of outstanding debt obligations; limit the net effective interest rate on such bonds and other terms of such bonds; require approval by the City of Conroe of District construction plans; and permit connections only to lots and reserves described in plats which have been approved by the City of Conroe and filed in the real property records of Montgomery County, Texas. The District is also required to obtain TCEQ approvals prior to acquiring, constructing and financing water, wastewater, drainage, recreation and fire-fighting facilities. See “WATER, WASTEWATER AND DRAINAGE—Regulation.”

Description and Location

The District consists currently of approximately 719 acres of land. The District is located in Montgomery County, entirely in the extraterritorial jurisdiction of the City of Conroe and within the boundaries of Conroe Independent School District. The District is located approximately 31 miles northeast of the central downtown business district of the City of Houston and 10 miles from the central downtown business district of the City of Conroe. The District is generally bounded by Texas State Highway 242 on the north, Farm-to-Market 1314 to the west and south and Old Houston Road to the east. See “AERIAL LOCATION MAP” herein.

Land Use

The following table has been provided by the Engineer and represents the current land use within the District.

| <u>Single-Family Residential</u> | <u>Approximate Acres</u> | <u>Total Lots</u> |
|----------------------------------|------------------------------|-----------------------|
| Artavia, Section One | 27 | 102 |
| Artavia, Section Two | 38 | 108 |
| Artavia, Section Three | 28 | 97 |
| Artavia, Section Four | 20 | 60 |
| Artavia, Section Five | 22 | 60 |
| Artavia, Section Six | 10 | 31 |
| Artavia, Section Seven | 26 | 89 |
| Artavia, Section Eight | 22 | 120 |
| Artavia, Section Nine | 34 | 81 |
| Artavia, Section Ten | 36 | 95 |
| Artavia, Section Eleven | 32 | 90 |
| Artavia, Section Twelve | 18 | 89 |
| Artavia, Section Thirteen | 17 | 52 |
| Artavia, Section Fourteen | 22 | 95 |
| Artavia, Section Fifteen | 19 | 61 |
| Artavia, Section Sixteen | 11 | 29 |
| Artavia, Section Seventeen | 29 | 114 |
| Artavia, Section Twenty One | 13 | 34 |
| Artavia, Section Twenty Two | <u>7</u> | <u>18</u> |
| Subtotal | 431 | 1,425 |
| Future Development | 208 | --- |
| Undevelopable Acreage (a) | <u>80</u> | <u>---</u> |
| Total District Acreage | 719 | 1,425 |

(a) Consists of street easements, drainage detention, parks and recreation space, right-of-way and utility sites.

Status of Development

Single Family Residential: The development in the District currently includes 1,425 single-family residential lots on approximately 431 acres. As of December 1, 2023, the District consisted of 1,005 completed homes (885 homes occupied and 120 homes complete but not occupied), 94 homes under construction or continue to be in a builder's name, and 326 vacant developed lots available for home construction. Homes within the District range in price from approximately \$300,000 to over \$700,000. The estimated population within the District is 3,097 based upon 3.5 persons per occupied single-family residence.

Homebuilders

Homebuilders active within the District include: Beazer Homes, Chesmar Homes, Coventry Homes, David Weekley Homes, Highland Homes, J. Patrick Homes, Lennar Homes, Perry Homes, Ravenna Homes and Westin Homes. Pursuant to lot sales agreements with the homebuilders in the District, each builder that is required to make an earnest money deposit is subject to lot takedown requirements of generally four lots per quarter. Each builder is also required to build models and/or speculative homes. According to the Developer, each of the homebuilders is in substantial compliance with all of the terms of its respective lot sales contract.

Future Development

Approximately 208 developable acres of land in the District are not yet fully served with water, wastewater, and drainage facilities, park and recreational facilities, and roads necessary for the construction of taxable improvements. While the District anticipates future development of this acreage, there can be no assurances if and when any of such undeveloped land will ultimately be developed. The District anticipates issuing additional bonds to fund water, wastewater, drainage, road, and park and recreational facilities within the District necessary to serve the land at full development. The Engineer has stated that under current development plans, the remaining authorized but unissued bonds (\$270,100,000) should be sufficient to finance the construction of water, wastewater, and drainage facilities, park and recreational facilities, and roads for the District. See “THE ROAD SYSTEM,” “WATER, WASTEWATER AND DRAINAGE” and “RISK FACTORS—Future Debt.”

Strategic Partnership Agreement

The District and the City entered into a Strategic Partnership (“SPA”) on or about November 8, 2018, pursuant to Chapter 43 of the Texas Local Government Code. The SPA provides for the terms and conditions for annexation of the District by the City and controls over any other law. The SPA terminates on the earlier of (i) 40 years from the effective date of the Agreement, or (ii) the date the District ceases to exist.

Under the SPA the City may at any time annex the territory of the District for limited purposes (a “limited purpose annexation”). After a limited purpose annexation, the City may impose a sales and use tax within the District but the District is not subject to property taxation by the City.

Under the SPA the City may annex the territory of the District for full purposes (a “full-purpose annexation”) at any time on or after December 31, 2034, or at any earlier time that the District has achieved 90% build out as defined in the SPA. Upon full-purpose annexation the City may either (i) abolish and District and assume its debts and obligations or (ii) continue the District as a limited district under the terms of the SPA. The District cannot be abolished until it achieves 90% build out. The term “90% build out” means that the public water, sewer and drainage facilities and roads for 90% of the developable land in the District have been constructed and the District has fully reimbursed the Developer for such infrastructure.

If the District is continued as a limited district after full-purpose annexation, the District may operate and remain responsible for its obligations. It will continue to have the power to levy and collect taxes to pay its debt and operating expenses. Upon 90% build out, the City may dissolve the limited district, take over its assets, assume its obligations, and perform its functions.

MANAGEMENT OF THE DISTRICT

Board of Directors

The District is governed by the Board consisting of five (5) directors, which has control over and management supervision of all affairs of the District. Directors are elected to staggered four-year terms and elections are held on the first Saturday of May of even numbered years. All of the Board members own land within the District subject to a note and deed of trust in favor of the Developer. The current members and officers of the Board along with their titles and terms are listed as follows:

| <u>Name</u> | <u>District Board Title</u> | <u>Term Expires</u> |
|--------------------|-----------------------------|---------------------|
| Brett D. Beardsley | President | May 2026 |
| Kurt Granhold | Vice President | May 2026 |
| Ryan Lesikar | Secretary | May 2026 |
| Weston Harlan | Assistant Secretary | May 2024 |
| Nicholas Carroll | Assistant Secretary | May 2024 |

District Consultants

The District does not have a general manager or other full-time employees, but contracts for certain necessary services as described below.

Bond Counsel and General Counsel: Schwartz, Page & Harding, L.L.P. serves as Bond Counsel to the District. The fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. In addition, Schwartz, Page & Harding, L.L.P. serves as general counsel to the District on matters other than the issuance of bonds.

Financial Advisor: Masterson Advisors LLC serves as the District's Financial Advisor. The fee for services rendered in connection with the issuance of the Bonds is based on a percentage of the Bonds actually issued, sold and delivered and, therefore, such fee is contingent upon the sale and delivery of the Bonds.

Auditor: The financial statements of the District as of April 30, 2023, and for the year then ended, included in this offering document, have been audited by FORVIS, LLP, independent auditors, as stated in their report appearing herein. See "APPENDIX A."

Engineer: The District's consulting engineer is LJA Engineering, Inc.

Tax Appraisal and Collections: The Montgomery Central Appraisal District has the responsibility of appraising all property within the District. See "TAXING PROCEDURES."

Tax Assessor/Collector: The District has appointed an independent tax assessor/collector to perform the tax collection function. Assessments of the Southwest, Inc. (the "Tax Assessor/Collector") has been employed by the District to serve in this capacity.

Bookkeeper: The District has contracted with Municipal Accounts & Consulting, LP (the "Bookkeeper") for bookkeeping services.

Operator: The operation and maintenance of the District's water and wastewater systems are overseen by Inframark Infrastructure Management Services (the "Operator").

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

THE DEVELOPER

Role of a Developer

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 required by the TCEQ to pave streets in areas being financed with bond proceeds, 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.

Description of the Developer and Principal Landowner

The developer of Artavia is Artavia Development Company, a Texas corporation ("ADC" or the "Developer"). A portion of the undeveloped land within the Artavia project boundaries is owned by Pilot Land Acquisitions, LLC, a Nevada limited liability company ("PLA"), which acts solely as a land holding company. PLA sells land to the Developer as needed for development. As of January 1, 2024, the Developer had purchased 1,551 acres within the Artavia project boundaries, including all of the land in the District. AIRIA Development Company, a Texas corporation ("AIRIA") manages the development of Artavia for the Developer and PLA. The controlling interests in AIRIA, ADC, and PLA are primarily lineal descendants (or their trusts) of Lester Benny Binion and Phyllis Cope. The President of AIRIA and ADC is E. Travis Stone, Jr.

Neither the Developer, nor any affiliates of the Developer are responsible for, liable for, or have made any commitment for payment of the Bonds or other obligations of the District. Neither the Developer, nor any affiliates of the Developer have any legal commitment to the District or the owners of the Bonds to continue development of the land within the District, and the Developer may sell or otherwise dispose of property within the District, or any assets, at any time. Further, the financial condition of the Developer is subject to change.

Acquisition and Development Financing

The Developer acquired approximately 314 acres of land on October 1, 2018 to develop as the first phase of Artavia. The acquisition was funded through a loan from PLA in the amount of \$12,257,958.95. The loan is secured by a lien on the property, which is released by PLA as the Developer sells parcels to third parties.

According to the Developer, its source of construction funding is a \$120,000,000 note with SR Lender, LLC, a Nevada limited liability company, which is due on June 1, 2029. According to the Developer, the outstanding principal balance of the loan as of December 15, 2023 was \$86,705,037.23 and the Developer is in compliance with all terms.

WATER, WASTEWATER AND DRAINAGE

Water Supply

The District's water supply is provided by MUD 157, which serves as the Master District. Water Plant No. 1 consists of a 1,511 gallon per minute ("gpm") water well, a 1,200 gpm water well, 25,000 gallons of pressure tank capacity, 500,000 gallons of ground storage tank capacity and 4,000 gpm of booster pump capacity. The Master District water supply facilities adequately serve 1,250 equivalent single-family connections. As of December 2023, the Master District was servicing approximately 1,099 active connections (including 1,005 active residential connections and 94 under construction or in a builder's name), all of which are located within the District.

Wastewater Treatment

The District's wastewater is treated by the Master District's 250,000-gallon Wastewater Treatment Plant No. 1 ("WWTP No. 1"). The District's current capacity in WWTP No. 1 will adequately serve approximately 1,470 equivalent single-family connections. As of December 2023, the Master District was servicing approximately 1,099 active connections (including 1,005 which are active residential connections and 94 homes under construction or in a builder's name), all of which are located within the District.

Water Distribution, Wastewater, Collection and Storm Drainage

Water distribution, wastewater collection and storm drainage facilities have been constructed to serve 1,425 single-family residential lots. See "THE DISTRICT – Land Use."

Flood Protection

"Flood Insurance Rate Map" or "FIRM" means an official map of a community on which the Federal Emergency Management Agency (FEMA) has delineated the appropriate areas of flood hazards. The 1% chance of probable inundation, also known as the 100-year flood plain, is depicted on these maps. The "100-year flood plain" (or 1% chance of probable inundation) as shown on the FIRM is the estimated geographical area that would be flooded by a rainstorm of such intensity to statistically have a one percent chance of occurring in any given year. Generally speaking, homes must be built above the 100-year flood plain in order to meet local regulatory requirements and to be eligible for federal flood insurance. An engineering or regulatory determination that an area is above the 100-year flood plain is not an assurance that homes built in such area will not be flooded, and a number of neighborhoods in the greater Houston area that are above the 100-year flood plain have flooded multiple times in the last several years. According to the Engineer, none of the land within the District is within the 100-year flood plain. See "RISK FACTORS—Severe Weather."

Master District

As of February 2, 2018, the District entered into a regional contract (the "Contract") with MUD 157. Under the terms of the Contract, MUD 157 serves as the "Master District" and provides or causes to be provided the regional water supply and delivery facilities, the regional waste collection, treatment and disposal facilities, and the regional drainage facilities to serve the Artavia Districts. Under the terms of the Contract, the Master District will charge the participants a monthly operational fee based on connections. The Master District will assess a master district connection fee to the District to pay for its pro-rata share of regional capital projects.

Regulation

Construction and operation of the District's water, wastewater, and storm drainage system as it now exists or as it may be expanded from time to time is subject to regulatory jurisdiction of federal, state and local authorities. The TCEQ exercises continuing, supervisory authority over the District. Discharge of treated sewage into Texas waters is also subject to the regulatory authority of the TCEQ and the United States Environmental Protection Agency. Montgomery County, the City of Conroe, and the Texas Department of Health also exercise regulatory jurisdiction over the District's water, wastewater and storm drainage facilities.

Lone Star Groundwater Conservation District

The District is included in the boundaries of the Lone Star Groundwater Conservation District ("LSGCD"), a Montgomery County-wide regulatory agency. LSGCD has adopted a regulatory plan which requires groundwater users within Montgomery County to develop a groundwater reduction plan and reduce their groundwater usage. Currently the Master District, which owns two groundwater wells and provides water to the District, is exempt from having to enter into a groundwater reduction plan because of the small amount of water it pumps. The Master District and the District are currently exploring various options for complying with the LSGCD plan in the future when their groundwater usage increases. The District expects to pass through any fee charged for groundwater usage under a groundwater reduction plan to its customers in their water bills.

Waterworks and Sewer System Operating Statement

The Bonds are payable from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District. Net revenues, if any, derived from the operation of the District's water and wastewater operations are not pledged to the payment of the Bonds but are available for any lawful purpose including payment of debt service on the Bonds, at the discretion and upon action of the Board. It is not anticipated that any significant revenues will be available for the payment of debt service on the Bonds. The following statement sets forth in condensed form the historical results of operation of the District's General Fund as derived from the District's audited financial statements for the fiscal years ended April 30, 2020 through 2023, and an unaudited summary for the eight-month period ended December 31, 2023, provided by the District's bookkeeper. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Reference is made to "APPENDIX A" for further and complete information.

| | 5/1/2023 | Fiscal Year Ended | | | |
|-----------------------------------|---------------------------------|-----------------------|---------------------|---------------------|---------------------|
| | to 12/31/2023 (Unaudited) | 4/30/2023 | 4/30/2022 | 4/30/2021 | 4/30/2020 |
| Revenues: | | | | | |
| Property Taxes | \$ 84,374 | \$ 1,250,822 | \$ 802,092 | \$ 501,445 | \$ 54,662 |
| Water Service | 339,488 | 252,797 | 136,976 | 79,928 | 17,472 |
| Sewer Service | 418,709 | 439,478 | 262,637 | 140,877 | 26,321 |
| Penalty and Interest | 26,855 | 28,136 | 11,842 | 6,227 | 1,744 |
| Investment Income | 646 | 7,178 | 402 | 244 | 229 |
| Tap Connection & Inspection | 454,256 | 505,458 | 448,427 | 382,134 | 248,971 |
| Miscellaneous | 32,238 | 9,875 | 4,683 | 3,706 | 1,037 |
| Total Revenue | \$ 1,356,565 | \$ 2,493,744 | \$ 1,667,059 | \$ 1,114,561 | \$ 350,436 |
| Expenditures: | | | | | |
| Professional Fees | \$ 82,688 | \$ 99,484 | \$ 75,397 | \$ 46,608 | \$ 6,251 |
| Purchased Services | 965,562 | 1,515,594 | 910,562 | 696,959 | 117,657 |
| Tap Connections | 301,559 | 285,949 | 199,921 | 97,221 | 101,451 |
| Repairs and Maintenance | 613,575 | 618,581 | 338,565 | 320,742 | 41,629 |
| Capital Outlay | 125,175 | 789,798 | - | - | 385,983 |
| Contracted Services | 202,993 | 283,427 | 168,408 | 102,190 | 161,965 |
| Other Expenses | 17,658 | 34,348 | 42,080 | 22,371 | 19,464 |
| Debt issuance costs | 1,700 | 9,900 | 30,000 | 28,285 | - |
| Total Expenditures | \$ 2,310,910 | \$ 3,637,081 | \$ 1,764,933 | \$ 1,314,376 | \$ 834,400 |
| NET REVENUES | \$ (954,344) | \$ (1,143,337) | \$ (97,874) | \$ (199,815) | \$ (483,964) |
| Other Financing Sources | \$ 986,134 (a) | \$ 675,000 (b) | \$ 196,145 (c) | \$ 348,116 (d) | 479,450 (e) |
| General Operating Fund | | | | | |
| Balance (Beginning of Year) | \$ (223,856) | \$ 244,481 | \$ 146,210 | \$ (2,091) | \$ 2,423 |
| General Operating Fund (f) | | | | | |
| Balance (End of Year) | \$ (192,066) | \$ (223,856) | \$ 244,481 | \$ 146,210 | \$ (2,091) |

- (a) Includes a developer advance of \$986,134.
- (b) Includes a developer advance of \$645,000 and an interfund transfer of \$30,000.
- (c) Includes a developer advance of \$154,000 and an interfund transfer of \$42,145.
- (d) Includes a developer advance of \$347,000 and an interfund transfer of \$1,116.
- (e) Includes a developer advance of \$177,000 and a payment in connection with a construction settlement in the amount of \$302,450.
- (f) See "RISK FACTORS—Operating Funds."

THE ROAD SYSTEM

The road system (the "Roads") serves the residents of the District by providing access to major thoroughfares and collectors within Artavia and the surrounding area. The internal subdivision streets provide access to several collectors including Artavia Parkway and Aspire Way. These internal streets and collectors convey the residents of the District to Texas State Highway 242 and Farm-to-Market 1314. All Roads are maintained or will be maintained by Montgomery County. See "USE AND DISTRIBUTION OF BOND PROCEEDS."

FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)

| | | |
|---|-------------------|-----|
| 2023 Certified Taxable Assessed Valuation | \$359,800,690 | (a) |
| Estimated Taxable Assessed Valuation as of December 1, 2023 | \$476,890,016 | (b) |
| Gross Direct Debt Outstanding | \$54,265,000 | (c) |
| Estimated Overlapping Debt | <u>13,736,778</u> | (d) |
| Gross Direct Debt and Estimated Overlapping Debt | \$68,001,778 | |
| Ratios of Gross Direct Debt to: | | |
| 2023 Certified Taxable Assessed Valuation | 15.08% | |
| Estimated Taxable Assessed Valuation as of December 1, 2023 | 11.38% | |
| Ratios of Gross Direct Debt and Estimated Overlapping Debt to: | | |
| 2023 Certified Taxable Assessed Valuation | 18.90% | |
| Estimated Taxable Assessed Valuation as of December 1, 2023 | 14.26% | |
| Funds Available for Debt Service as of February 6, 2024: | | |
| Water, Sewer and Drainage Debt Service Fund | \$858,826 | (e) |
| Road Debt Service Fund | 596,035 | (e) |
| Capitalized Interest from Bond proceeds (Twelve Months) | <u>209,081</u> | (f) |
| Total Funds Available for Debt Service | \$1,663,942 | (e) |
| Available General Operating Funds as of February 6, 2024 | \$1,445,643 | (g) |
| Available Capital Projects Funds as of February 6, 2024 | \$19,236 | |

- (a) As certified by the Montgomery Central Appraisal District (the "Appraisal District"). See "TAXING PROCEDURES."
- (b) As provided by the Appraisal District. Such amount is only an estimate of the taxable assessed value on December 1, 2023, and may be revised upward or downward once certified by the Appraisal District. Increases in value occurring between January 1, 2023 and December 1, 2023 will be certified as of January 1, 2024 in the summer of 2024. See "TAXING PROCEDURES."
- (c) After issuance of the Bonds. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)."
- (d) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt."
- (e) Although all of the District's debt, including the Outstanding Bonds and the Bonds, is payable from an unlimited tax pledge on an equal basis, a pro rata portion of the District's ad valorem tax revenue will be allocated to bonds sold for water, sewer and drainage facilities ("Water, Sewer and Drainage Bonds") and a pro rata portion will be allocated to bonds sold for road facilities ("Road Bonds"), including the Bonds. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements."
- (f) The District will capitalize twelve (12) months of interest from the Bond proceeds and deposit such funds in the Road Debt Service Fund.
- (g) See "RISK FACTORS—Operating Funds."

Investments of the District

The District has adopted an Investment Policy as required by the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended. The District's goal is to preserve principal and maintain liquidity while securing a competitive yield on its portfolio. Funds of the District will be invested in short term U.S. Treasuries, certificates of deposit insured by the Federal Deposit Insurance Corporation ("FDIC") or secured by collateral evidenced by perfected safekeeping receipts held by a third-party bank, and public funds investment pools rated in the highest rating category by a nationally recognized rating service. The District does not currently own, nor does it anticipate, the inclusion of long-term securities or derivative products in the District's investment portfolio.

Outstanding Bonds

The District has previously issued three series of unlimited tax road bonds totaling \$21,465,000 principal amount and three series of unlimited tax water, sewer and drainage bonds totaling \$28,885,000, of which \$49,265,000 is collectively outstanding as of the date hereof (the "Outstanding Bonds"). The following table lists the original principal amount of the bonds issued by the District and the Outstanding Bonds.

| Series | | Original Principal Amount | Outstanding Bonds as of 1/1/2024 |
|--------|-----|---------------------------------|--|
| 2020 | (a) | \$ 8,000,000 | \$ 7,565,000 |
| 2021 | | 10,030,000 | 9,765,000 |
| 2022 | (a) | 9,565,000 | 9,180,000 |
| 2022 | | 9,355,000 | 9,355,000 |
| 2023 | (a) | 3,900,000 | 3,900,000 |
| 2023 | | <u>9,500,000</u> | <u>9,500,000</u> |
| Total | | \$ 50,350,000 | \$ 49,265,000 |

(a) Road Bonds.

Debt Service Requirements

The following sets forth the debt service on the Outstanding Bonds and the Bonds. This schedule does not reflect the fact that the District capitalized twelve (12) months of interest from the Series 2023 Road Bonds in May 2023 and \$451,250 of interest from the Series 2023 Bonds in November 2023, and will capitalize twelve (12) months of interest from proceeds of the Bonds. See “USE AND DISTRIBUTION OF BOND PROCEEDS.”

| Year | Outstanding Bonds | The Bonds | | | Total |
|-------|------------------------------|-----------------|-----------------|-----------------|------------------------------|
| | Debt Service Requirements | Principal | Interest | Total | Debt Service Requirements |
| 2024 | \$ 3,215,135.57 | | \$ 96,990.47 | \$ 96,990.47 | \$ 3,312,126.04 |
| 2025 | 3,503,533.75 | \$ 100,000 | 209,081.25 | 309,081.25 | 3,812,615.00 |
| 2026 | 3,459,083.75 | 105,000 | 203,581.25 | 308,581.25 | 3,767,665.00 |
| 2027 | 3,413,568.75 | 110,000 | 197,806.25 | 307,806.25 | 3,721,375.00 |
| 2028 | 3,365,631.25 | 115,000 | 192,306.25 | 307,306.25 | 3,672,937.50 |
| 2029 | 3,327,853.75 | 120,000 | 186,556.25 | 306,556.25 | 3,634,410.00 |
| 2030 | 3,297,243.75 | 130,000 | 180,556.25 | 310,556.25 | 3,607,800.00 |
| 2031 | 3,280,268.75 | 135,000 | 174,056.25 | 309,056.25 | 3,589,325.00 |
| 2032 | 3,261,331.25 | 140,000 | 168,656.25 | 308,656.25 | 3,569,987.50 |
| 2033 | 3,239,000.00 | 150,000 | 163,056.25 | 313,056.25 | 3,552,056.25 |
| 2034 | 3,230,212.50 | 160,000 | 157,056.25 | 317,056.25 | 3,547,268.75 |
| 2035 | 3,208,300.00 | 165,000 | 150,656.25 | 315,656.25 | 3,523,956.25 |
| 2036 | 3,188,200.00 | 175,000 | 144,056.25 | 319,056.25 | 3,507,256.25 |
| 2037 | 3,165,000.00 | 185,000 | 137,056.25 | 322,056.25 | 3,487,056.25 |
| 2038 | 3,149,118.75 | 195,000 | 129,656.25 | 324,656.25 | 3,473,775.00 |
| 2039 | 3,130,087.50 | 205,000 | 121,856.25 | 326,856.25 | 3,456,943.75 |
| 2040 | 3,113,381.25 | 220,000 | 113,656.25 | 333,656.25 | 3,447,037.50 |
| 2041 | 3,093,856.25 | 230,000 | 104,856.25 | 334,856.25 | 3,428,712.50 |
| 2042 | 3,070,837.50 | 245,000 | 95,656.25 | 340,656.25 | 3,411,493.75 |
| 2043 | 3,054,875.00 | 255,000 | 85,856.25 | 340,856.25 | 3,395,731.25 |
| 2044 | 3,040,050.00 | 270,000 | 75,656.25 | 345,656.25 | 3,385,706.25 |
| 2045 | 3,021,137.50 | 285,000 | 64,856.25 | 349,856.25 | 3,370,993.75 |
| 2046 | 2,993,731.25 | 300,000 | 53,456.25 | 353,456.25 | 3,347,187.50 |
| 2047 | 2,502,393.75 | 315,000 | 41,456.25 | 356,456.25 | 2,858,850.00 |
| 2048 | 672,000.00 | 335,000 | 28,462.50 | 363,462.50 | 1,035,462.50 |
| 2049 | - | 355,000 | 14,643.75 | 369,643.75 | 369,643.75 |
| Total | \$ 76,995,831.82 | \$ 5,000,000.00 | \$ 3,291,540.47 | \$ 8,291,540.47 | \$ 85,287,372.29 |

Average Annual Debt Service Requirements (2024-2049) \$3,280,284
 Maximum Annual Debt Service Requirement (2025) \$3,812,615

Estimated Overlapping Debt

The following table indicates the outstanding debt 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. Debt figures equated herein to outstanding obligations payable from ad valorem taxes are based upon data obtained from individual jurisdictions or Texas Municipal Reports compiled and published by the Municipal Advisory Council of Texas. Furthermore, certain entities listed below may have issued additional obligations since the date listed and may have plans to incur significant amounts of additional debt. Political subdivisions overlapping the District are authorized by Texas law to levy and collect ad valorem taxes for the purposes of operation, maintenance and/or general revenue purposes in addition to taxes for the payment of debt service, and the tax burden for operation, maintenance and/or general revenue purposes is not included in these figures. The District has no control over the issuance of debt or tax levies of any such entities.

| <u>Taxing Jurisdiction</u> | <u>Outstanding Bonds</u> | <u>As of</u> | <u>Overlapping</u> | |
|--|--------------------------|--------------|--------------------|-------------------|
| | | | <u>Percent</u> | <u>Amount</u> |
| Montgomery County..... | \$ 441,665,000 | 11/30/2023 | 0.383% | \$ 1,689,929 |
| Conroe Independent School District..... | 1,534,095,000 | 11/30/2023 | 0.741% | 11,372,666 |
| Lone Star College System..... | 579,730,000 | 11/30/2023 | 0.116% | 674,183 |
| Total Overlapping Debt..... | | | | \$ 13,736,778 |
| The District..... | 54,265,000 | (a) | 100.00% | <u>54,265,000</u> |
| Total Direct and Estimated Overlapping Debt..... | | | | \$ 68,001,778 |

Direct and Estimated Overlapping Debt as a Percentage of:
 2023 Certified Taxable Assessed Valuation of \$359,800,690 18.90%
 Estimated Taxable Assessed Valuation as of December 1, 2023 of \$476,890,016..... 14.26%

(a) Includes the Bonds and the Outstanding Bonds.

Overlapping Taxes

Property within the District is subject to taxation by several taxing authorities in addition to the District. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties and interest imposed on such property. The lien exists in favor of each taxing unit, including the District, having the power to tax the property. The District’s tax lien is on a parity with tax liens of taxing authorities shown below. In addition to ad valorem taxes required to pay debt service on bonded debt of the District and other taxing authorities (see “Estimated Overlapping Debt” above), certain taxing jurisdictions, including the District, are also authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administrative and/or general revenue purposes.

Set forth below are the taxes levied for the 2023 tax year by all entities overlapping the District and the District. No recognition is given to local assessments for civic association dues, fire department contributions or any other levy of entities other than political subdivisions.

| | <u>Tax Rate</u> <u>per \$100 of Taxable</u> <u>Assessed Valuation</u> |
|--|---|
| Montgomery County..... | \$ 0.36960 |
| Montgomery County Hospital District..... | 0.04980 |
| Conroe Independent School District..... | 0.96210 |
| Lone Star College System..... | 0.10760 |
| Montgomery County ESD No. 9..... | <u>0.10000</u> |
| Total Overlapping Tax Rate..... | \$ 1.58910 |
| The District(a)..... | <u>1.35000</u> |
| Total Tax Rate..... | \$ 2.93910 |

(a) See “TAX DATA—Debt Service Tax” and “—Maintenance and Operations Tax.”

TAX DATA

Debt Service Tax

The Board covenants in the Bond Order to levy and assess, for each year that all or any part of the Bonds remain outstanding and unpaid, the tax adequate to provide funds to pay the principal of and interest on the Bonds. See “Tax Rate Distribution” and “Tax Roll Breakdown” below.

Maintenance and Operations Tax

The Board has the statutory authority to levy and collect an annual ad valorem tax for the operation and maintenance of the District, if such a maintenance tax is authorized by the District’s voters. A maintenance tax election was conducted May 13, 2006, and voters of the District authorized the Board, among other things, to levy a maintenance tax at a rate not to exceed \$1.35 per \$100 appraised valuation. A maintenance tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds. See “Debt Service Tax” above.

Tax Exemption

The District currently grants no tax exemptions.

Tax Rate Distribution

| | 2023 | 2022 | 2021 | 2020 | 2019 |
|-------------------------|---------|---------|---------|---------|---------|
| Debt Service Tax | \$ 0.80 | \$ 0.76 | \$ 0.46 | \$ - | \$ - |
| Maintenance Tax | 0.55 | 0.59 | 0.89 | 1.35 | 1.35 |
| Total District Tax Rate | \$ 1.35 | \$ 1.35 | \$ 1.35 | \$ 1.35 | \$ 1.35 |

Historical Tax Collections

The following statement of tax collections sets forth in condensed form the historical tax experience of the District. Such table has been prepared for inclusion herein based upon information obtained from the Tax Assessor/Collector. Reference is made to such statements and records for further and complete information. See “Tax Roll Breakdown” below.

| | Certified Taxable Assessed Valuation (a) | Tax Rate | Total Tax Levy | Total Collections As of December 31, 2023 (b) | |
|------|---|-------------|-------------------|--|---------|
| | | | | Amount | Percent |
| 2019 | \$ 4,198,410 | \$ 1.35 | \$ 56,679 | \$ 56,679 | 100.00% |
| 2020 | 37,350,349 | 1.35 | 504,388 | 502,222 | 99.57% |
| 2021 | 92,431,322 | 1.35 | 1,281,829 | 1,281,578 | 99.98% |
| 2022 | 211,481,331 | 1.35 | 2,870,912 | 2,847,738 | 99.19% |
| 2023 | 359,800,690 | 1.35 | 4,857,309 | (c) | (c) |

(a) As certified by the Appraisal District.

(b) Unaudited.

(c) In the process of collection. Taxes for the 2023 tax year are due January 31, 2024.

Tax Roll Breakdown

The District’s appraised value as of January 1 of each year is used by the District in establishing its tax rate. See “TAXING PROCEDURES—Valuation of Property for Taxation.” The following represents the composition of property comprising the 2021 through 2023 Certified Taxable Assessed Valuations. A breakdown of the Estimated Taxable Assessed Valuation as of December 1, 2023 of \$476,890,016 is not available from the Appraisal District.

| | 2023 Certified Taxable Assessed Valuation | 2022 Certified Taxable Assessed Valuation | 2021 Certified Taxable Assessed Valuation |
|--------------------------|---|---|---|
| Land | \$ 94,065,426 | \$ 71,596,298 | \$ 34,463,430 |
| Improvements | 307,537,030 | 166,012,740 | 63,667,550 |
| Personal Property | <u>2,174,324</u> | <u>1,206,029</u> | <u>889,896</u> |
| Gross Assessed Valuation | \$ 403,776,780 | \$ 238,815,067 | \$ 99,020,876 |
| Exemptions(a) | <u>(43,976,090)</u> | <u>(27,333,736)</u> | <u>(6,589,554)</u> |
| Total | \$ 359,800,690 | \$ 211,481,331 | \$ 92,431,322 |

(a) See “TAXING PROCEDURES.”

Principal Taxpayers

The following table represents the ten principal taxpayers and their taxable appraised value as a percentage of the 2023 Certified Taxable Assessed Valuation of \$359,800,690. This represents certified ownership as of January 1, 2023. An accurate principal taxpayer list related to the Estimated Taxable Assessed Valuation as of December 1, 2023 of \$476,890,016 is not available.

| Taxpayer | 2023 Certified Taxable Assessed Valuation | % of 2023 Certified Taxable Assessed Valuation |
|---|---|--|
| Artavia Development Company (a) | \$ 12,866,907 | 3.58% |
| J. Patrick Homes Ltd. (b) | 5,402,420 | 1.50% |
| Westin Homes and Properties LP (b) | 4,807,000 | 1.34% |
| Highland Homes Houston LLC (b) | 3,728,667 | 1.04% |
| Perry Homes LLC (b) | 3,080,857 | 0.86% |
| Weekley Homes LLC (b) | 3,002,214 | 0.83% |
| Ravenna Homes LLC (b) | 2,905,920 | 0.81% |
| DFH Coventry LLC (b) | 2,564,300 | 0.71% |
| Lennar Homes of Texas Land & Construction (b) | 1,921,140 | 0.53% |
| Sienergy | <u>1,606,300</u> | <u>0.45%</u> |
| Total | \$ 41,885,725 | 11.64% |

(a) See “THE DEVELOPER.”

(b) See “THE DISTRICT—Homebuilders.”

Tax Adequacy for Debt Service

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 of taxable assessed valuation which would be required to meet average annual and maximum annual debt service requirements on the Bonds and the Outstanding Bonds if no growth in the District’s tax base occurred beyond the 2023 Certified Taxable Assessed Valuation of \$359,800,690 and the Estimated Taxable Assessed Valuation as of December 1, 2023, of \$476,890,016. The calculations contained in the following table merely represent the tax rates required to pay principal and interest on the Bonds and the Outstanding Bonds when due, assuming no further increase or any decrease in taxable values in the District, collection of ninety-five percent (95%) of taxes levied, and the sale of no additional bonds. See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements” and “RISK FACTORS—Possible Impact on District Tax Rates.”

| | |
|---|-------------|
| Average Annual Debt Service Requirement (2024-2049)..... | \$3,280,284 |
| \$0.96 Tax Rate on 2023 Certified Taxable Assessed Valuation | \$3,281,382 |
| \$0.73 Tax Rate on Estimated Taxable Assessed Valuation as of December 1, 2023..... | \$3,307,232 |
| | |
| Maximum Annual Debt Service Requirement (2025)..... | \$3,812,615 |
| \$1.12 Tax Rate on 2023 Certified Taxable Assessed Valuation | \$3,828,279 |
| \$0.85 Tax Rate on Estimated Taxable Assessed Valuation as of December 1, 2023..... | \$3,850,887 |

No representation or suggestion is made that the Estimated Taxable Assessed Valuation as of December 1, 2023, will be certified as taxable value by the Appraisal District, and no person should rely upon such amount or their inclusion herein as assurance of their attainment. See “TAXING PROCEDURES.”

TAXING PROCEDURES

Property Tax Code and County-Wide Appraisal District

The Texas Tax Code (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 a single appraisal district with the responsibility for recording and appraising property for all taxing units within a county and a single appraisal review board with the responsibility for reviewing and equalizing the values established by the appraisal district. The Montgomery Central Appraisal District (the “Appraisal District”) has the responsibility for appraising property for all taxing units wholly within Montgomery County, including the District. Such appraisal values are subject to review and change by the Montgomery County Appraisal Review Board (the “Appraisal Review Board”). Under certain circumstances, taxpayers and taxing units (such as the District) may appeal the orders of the Appraisal Review Board by filing a 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. Absent any such appeal, the appraisal roll, as prepared by the Appraisal District and approved by the Appraisal Review Board, must be used by each taxing jurisdiction in establishing its tax roll and tax rate. The District is eligible, along with all other conservation and reclamation districts within Montgomery County, to participate in the nomination of and vote for a member of the Board of Directors of the Appraisal District.

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property and tangible personal property in the District is subject to taxation by the District; however, it is expected that no effort will be made by the District to collect taxes on personal property other than on personal property rendered for taxation, business inventories and the property of privately owned utilities. Principal categories of exempt property include: 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; farm products owned by the producer; all oil, gas and mineral interests owned by an institution of higher education; certain property owned by exclusively charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; solar and wind-powered energy devices; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years or older or under a disability for purposes of payment of disability insurance benefits under the Federal Old-Age Survivors and Disability Insurance Act to the extent deemed advisable by the Board. The District would be required to call an election on such residential homestead exemption upon petition by at least twenty percent (20%) of the number of qualified voters who voted in the District’s preceding election and would be required to offer such an exemption if a majority of voters approve it at such election. For the 2023 tax year, the District has not granted any such exemptions. The District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between \$5,000 and \$12,000 of assessed valuation depending upon the disability rating of the veteran, if such rating is less than 100%. A veteran who receives a disability rating of 100% is entitled to an exemption for the full value of the veteran’s residence homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran’s residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran’s exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran’s disability rating if (i) the residence

homestead was donated by a charitable organization at no cost to the disabled veteran or, (ii) the residence was donated by a charitable organization at some cost to the disabled veteran if such cost is less than or equal to fifty percent (50%) of the total good faith estimate of the market value of the residence as of the date the donation is made. Also, the surviving spouse of a member of the armed forces or, a first responder, as defined under Texas law, who was (i) killed in action, or (ii) fatally injured in the line of duty, 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.

A "Freeport Exemption" applies to goods, wares, merchandise, other tangible personal property and ores, other than oil, natural gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining oil or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A "Goods-in-Transit" Exemption is applicable to certain tangible personal property, as defined by the Property Tax Code, acquired in or imported into Texas for storage purposes and which is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. The exemption excludes oil, natural gas, petroleum products, aircraft and certain special inventory including dealer's motor vehicles, dealer's vessel and outboard motor vehicle, dealer's heavy equipment and retail manufactured housing inventory. The exemption applies to covered property if it is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit personal property. A taxing unit must exercise its option to tax goods-in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law. However, taxing units who took official action as allowed by prior law before October 1, 2011, to tax goods-in-transit property, and who pledged such taxes for the payment of debt, may continue to impose taxes against the goods-in-transit property until the debt is discharged without further action, if cessation of the imposition would impair the obligations of the contract by which the debt was created. The District has taken official action to allow taxation of all such goods-in-transit personal property, but may choose to exempt same in the future by further official action.

Tax Exemption Provided to Public Facility Corporations and Certain Lessees

Chapter 303 of the Texas Local Government Code (the "PFC Act") authorizes cities, counties, school districts, housing authorities and special districts (a "Sponsor") to create a sponsored Public Facility Corporation ("PFC") to acquire, construct, rehabilitate, renovate, repair, equip, furnish and place in service public facilities. These activities may be financed through certain obligations of either the Sponsor or the PFC. Under the PFC Act, a "public facility" includes any real, personal, or mixed property, or an interest in property devoted or to be devoted to public use, and authorized to be financed under the PFC Act. A public facility, including a leasehold estate in a public facility, that is owned by a PFC is exempt from taxation by the State or a municipality or other political subdivision of the State, including the District. This exemption applies to both ad valorem and sales taxes levied by such taxing authorities. Subject to certain restrictions, a leasehold or other possessory interest granted by the PFC to the user of a PFC-owned multifamily residential development entitles that user to this same exemption. The 88th Texas Legislature passed H.B. 2071, which became effective June 18, 2023, to amend the PFC Act. H.B. 2071 significantly revised the PFC Act's requirements for the lessee of a multifamily residential development to qualify for this exemption and provides that the exemption for such projects does not apply to taxes imposed by a conservation and reclamation district providing water, sewer or drainage services to the development, unless an agreement is entered into with the district concerning payments in lieu of taxation. Projects for which PFC or Sponsor approval was received prior to the effective date of H. B. 2071 are governed by the prior law and are not subject to the same requirements. The District is not aware of any public facilities located within the boundaries of the District that are either owned or leased by a PFC.

General Residential Homestead Exemption

Texas law authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) of the appraised value of residential homesteads, but not less than \$5,000 if any exemption is granted, from ad valorem taxation. The law provides, however, that where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. For the 2023 tax year, the District has not granted a general residential homestead exemption.

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. Assessments under the Property Tax Code are to be based upon one hundred percent (100%) of market value. The appraised value of residential homestead property may be limited to the lesser of the market value of the property, or the sum of the appraised value of the property for the last year in which it was appraised, plus ten percent (10%) of such appraised value multiplied by the number of years since the last appraisal, plus the market value of all new improvements to the property. Once an appraisal roll is prepared and approved by the Appraisal Review Board, it is used by the District in establishing its tax rate. The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraised values. The plan must provide for appraisal of all real property by the Appraisal District at least once every three (3) years. It is not known what frequency of reappraisal will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone or county-wide basis.

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

District and Taxpayer Remedies

Under certain circumstances, taxpayers and taxing units, including the District, may appeal orders of the Appraisal Review Board by filing a petition for review in district court within forty-five (45) days after notice is received that a final order has been entered. In such event, the property value in question may be determined by the court, or by a jury, if requested by any party. Additionally, taxing units may bring suit against the Appraisal District to comply with the Property Tax Code. The District may challenge the exclusion of property from the appraisal rolls or the grant, in whole or in part, of an exemption.

Texas law provides for notice and hearing procedures prior to the adoption of an ad valorem tax rate by the District. Additionally, under certain circumstances, an election would be required to determine whether to approve the adopted total tax rate. See "TAXING PROCEDURES—Rollback of Operations and Maintenance Tax Rate." 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.

Agricultural, Open Space, Timberland and Inventory Deferment

The Property Tax Code permits land designated for agricultural use (including wildlife management), open space, or timberland to be appraised at its value based on the land's capacity to produce agriculture or timber products rather than at its fair market value. The Property 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 any of such designations must apply for the designation, and the Appraisal District 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 and not as to others. If a claimant receives the designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use for the three (3) years prior to the loss of the designation for agricultural, timberland or open space land. According to the District's Tax Assessor/Collector, as of January 1, 2023, 91 acres of the land within the District are designated for timberland. See "TAX DATA—Tax Roll Breakdown."

Tax Abatement

The City of Conroe and Montgomery County may designate all or part of the District as a reinvestment zone, and the District, Montgomery County, and (if it were to annex the area) the City of Conroe may thereafter enter into tax abatement agreements with the owners of property within the zone. The tax abatement agreements may exempt from ad valorem tax, by the applicable taxing jurisdictions, and by the District, for a period of up to ten (10) years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with a comprehensive plan. According to the District's Tax Assessor/Collector, to date, none of the area within the District has been designated as a reinvestment zone.

Levy and Collection of Taxes

The District is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. The District adopts its tax rate each year after it receives a tax roll certified by the Appraisal District. Taxes are due upon receipt of a bill therefor, and become delinquent after January 31 of the following year or 30 days after the date billed, whichever is later, or, if billed after January 10, they are delinquent on the first day of the month next following the 21st day after such taxes are billed. A delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid beginning the first calendar month it is delinquent. A delinquent tax also incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent plus a one percent (1%) penalty 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. However, a tax delinquent on July 1 incurs a total penalty of twelve percent (12%) of the amount of the delinquent tax without regard to the number of months the tax has been delinquent, which penalty remains at such rate without further increase. If the tax is not paid by July 1, an additional penalty of up to the amount of the compensation specified in the District's contract with its delinquent tax collection attorney, but not to exceed twenty percent (20%) of the total tax, penalty and interest, may, under certain circumstances, be imposed by the District. With respect to personal property taxes that become delinquent on or after February 1 of a year and that remain delinquent sixty (60) days after the date on which they become delinquent, as an alternative to the penalty described in the foregoing sentence, an additional penalty on personal property of up to the amount specified in the District's contract with its delinquent tax attorney, but not to exceed twenty percent (20%) of the total tax, penalty and interest, may, under certain circumstances, be imposed by the District prior to July 1. The District's contract with its delinquent tax collection attorney currently specifies a twenty percent (20%) additional penalty. The District may waive penalties and interest on delinquent taxes only for the items specified in the Texas Property Tax Code. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency of taxes under certain circumstances. The owner of a residential homestead property who is (i) a person sixty-five (65) years of age or older, (ii) under a disability for purpose of payment of disability insurance benefits under the Federal Old Age Survivors and Disability Insurance Act, or (iii) qualifies as a disabled veteran under Texas law, is also entitled by law to pay current taxes on a residential homestead in installments or to defer the payment of taxes without penalty during the time of ownership. Additionally, a person who is delinquent on taxes for a residential homestead is entitled to an agreement with the District to pay such taxes in installments over a period of between 12 and 36 months (as determined by the District) when such person has not entered into another installment agreement with respect to delinquent taxes with the District in the preceding 24 months.

Rollback of Operation and Maintenance Tax Rate

Chapter 49 of the Texas Water Code classifies municipal utility districts differently based on their current operation and maintenance tax rate or on the percentage of projected build-out that a 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 herein as "Low Tax Rate Districts." Districts that have financed, completed, and issued bonds to pay for all land, improvements and facilities necessary to serve at least 95% of the projected build-out of the district are classified as "Developed Districts." Districts that do not meet either of the classifications previously discussed can be classified herein as "Developing Districts." The impact each classification has on the ability of a district to increase its maintenance and operations tax rate is described for each classification below. Debt service and contract tax rates cannot be reduced by a rollback election held within any of the districts described below. See "TAX DATA" for a description of the District's current total tax rate.

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

Developed Districts: Developed Districts that adopt a total tax rate that would impose more than 1.035 times the amount of the total tax imposed by the district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead in the district, subject to certain homestead exemptions, 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 the operation and maintenance tax rate that would impose 1.035 times the amount of operation and maintenance tax imposed by the district in the preceding year on a residence homestead appraised at the average appraised value of a residence homestead in the district in that year, subject to certain homestead exemptions, plus any unused increment rates. In addition, if any part of a Developed District lies within an area declared for disaster by the Governor of Texas or President of the United States, alternative procedures and rate limitations may apply for a temporary period. If a district qualifies as both a Low Tax Rate District and a Developed District, the district will be subject to the operation and maintenance tax threshold applicable to Low Tax Rate Districts.

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

The District: A determination as to a district’s status as a Low Tax Rate District, Developed District or Developing District will be made by the Board of Directors on an annual basis. For the 2023 tax year, the Board designated the District as a Developing District. The District cannot give any assurances as to what its classification will be at any point in time or whether the District’s future tax rates will result in a total tax rate that will reclassify the District into a new classification and new election calculation.

District’s Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property against which the tax is levied. In addition, on January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of each taxing unit, including the District, having power to tax the property. The District’s tax lien is on a parity with tax liens of other such taxing units. See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt.” 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. Further, personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalties, 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 Collection Limitations.”

RISK FACTORS

General

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

Undeveloped Acreage and Vacant Lots

There are approximately 208 developable acres that have not been fully provided with water, wastewater and storm drainage facilities and paving necessary to the construction of taxable improvements. In addition, 326 developed single-family residential lots remain vacant. The District makes no representation as to when or if development of this acreage will occur or the timing of new home construction. Failure of the Developer to develop the developable land or of builders to construct homes on the developed lots could impact the rate of growth of taxable values in the District. See “THE DISTRICT—Land Use—Status of Development.”

Dependence on Principal Taxpayers

The ten principal taxpayers in the District represent \$41,885,725 or 11.64% of the 2023 Certified Taxable Assessed Valuation within the District, which represents ownership as of January 1, 2023. See “THE DEVELOPER,” “THE DISTRICT—Homebuilders,” and “TAX DATA—Principal Taxpayers.” A principal taxpayer list related to the Estimated Taxable Assessed Valuation as of December 1, 2023, of \$476,890,016 is not available. The ability of any principal taxpayer 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, any one or more principal taxpayers do not pay taxes due or do not pay in a timely manner, the District may need to levy additional taxes or use other funds available for debt service purposes. However, 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 to allow for any such delinquencies. Therefore, failure by one or more principal taxpayers to pay their taxes on a timely basis could have a material adverse effect upon the District’s ability to pay debt service on the Bonds on a current basis.

The Developer has informed the District that its current plans are to continue building homes and marketing lots. Neither the Developer nor any future developer is obligated to implement development plans on any particular schedule, or at all. Thus, the furnishing of any information related to any proposed development should not be interpreted as a commitment. The District makes no representation about the probability of development continuing in a timely manner or about the ability of the Developer to implement any plan of development. Furthermore, there is no restriction on any landowner’s right to sell land. The District can make no prediction as to the effects that current or future economic conditions or governmental circumstances may have on any plans of the Developer or any other landowners.

Operating Funds

The District’s current primary source of operating revenue is maintenance tax revenue and advances from the Developer. The District levied a total tax rate in 2023 consisting of a maintenance tax in the amount of \$0.55 per \$100 of taxable assessed valuation and a debt service tax in the amount of \$0.80 per \$100 of taxable assessed valuation. The District’s unaudited General Fund balance as of February 6, 2024 was \$1,445,643. The revenue produced from the maintenance tax rate may not be sufficient to offset the operating expenses of the District. Continued maintenance of a positive General Fund balance may depend upon (1) cash subsidies from the Developer, and (2) continued development and increased amounts of maintenance tax revenue. If funds from these sources are not forthcoming, the District would have to increase its maintenance tax rate. See “Dependence on Principal Taxpayers” herein, “THE DEVELOPER,” and “THE SYSTEM—Water and Wastewater Operations.”

Economic Factors and Interest Rates

A substantial percentage of the taxable value of the District results from the current market value of single-family residences, undeveloped land and developed lots. The market value of such development is related to general economic conditions in the Houston region and the national economy. Demand for lots and the construction of taxable improvements thereon can be significantly affected by factors such as interest rates, credit availability, construction costs, energy availability and the prosperity and demographic characteristics of the urban center toward which the marketing of such property is directed. Decreased levels of construction activity would tend to restrict the growth of property values in the District or could adversely impact such values. See “Credit Markets and Liquidity in the Financial Markets” below and “THE DEVELOPER.”

Credit Markets and Liquidity in the Financial Markets

Interest rates and the availability of mortgage and development funding have a direct impact on the construction activity, particularly short-term interest rates at which developers are able to obtain financing for development costs. Interest rate levels may affect the ability of a landowner with undeveloped property to undertake and complete construction activities within the District. Because of the numerous and changing factors affecting the availability of funds, particularly the liquidity in the national credit markets, the District is unable to assess the future availability of such funds for continued construction within the District. In addition, since the District is located approximately 31 miles from the central downtown business district of the City of Houston, the success of development within the District and growth of District taxable property values are, to a great extent, a function of the Houston metropolitan and regional economies and national credit and financial markets. A downturn in the economic conditions of Houston and decline in the nation’s real estate and financial markets could adversely affect development and home-building plans in the District and restrain the growth or reduce the value of the District’s property tax base.

Competition

The demand for and construction of single-family homes in the District, which is 31 miles from downtown Houston, could be affected by competition from other residential developments, including other residential developments located in Montgomery County and the Houston metropolitan area. In addition to competition for new home sales from other developments, there are numerous previously owned homes in the area of the District and in more established neighborhoods closer to downtown Houston. Such homes could represent additional competition for new homes proposed to be sold within the District.

The competitive position of the Developer or any other landowner in the sale of developed lots within the District is affected by most of the factors discussed in this section. Such a competitive position directly affects the growth and maintenance of taxable values in the District.

Landowner Obligation to the District

There are no commitments from or obligations of the Developer, or any other landowner to the District to proceed at any particular rate or according to any specified plan with the construction of improvements in the District, and there is no restriction on any landowner's right to sell its land. Failure to construct taxable improvements on developed tracts of land or developed lots could restrict the rate of growth of taxable values in the District. The District cannot and does not make any representations that over the life of the Bonds the District will increase or maintain its taxable property. The District can make no prediction as to the effects that current or future economic or governmental circumstances may have on any plans of the Developer and other landowners. See "THE DEVELOPER."

Potential Effects of Oil Price Fluctuations on the Houston Area

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. The District cannot predict the impact that negative conditions in the oil industry could have on property values in the District.

Specific Flood Type Risks

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

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

Severe Weather

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.

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.

Atlas 14

In 2018, the National Weather Service completed a rainfall study known as NOAA Atlas 14, Volume 11 Precipitation-Frequency Atlas of the United States ("Atlas 14"). Floodplain boundaries within the District may be redrawn based upon the Atlas 14 study, which is based upon a higher statistical rainfall amount, resulting in interim floodplain regulations applying to a larger number of properties. 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. See "WATER, WASTEWATER AND DRAINAGE."

Possible Impact on District Tax Rate

Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of owners of property within the District to pay their taxes. The 2023 Certified Taxable Assessed Valuation is \$359,800,690. After issuance of the Bonds, the maximum debt service requirement will be \$3,812,615 (2025), and the average annual debt service requirement will be \$3,280,284 (2024-2049 inclusive). Assuming no increase or decrease from the 2023 Certified Taxable Assessed Valuation, the issuance of no additional debt, and no other funds available for the payment of debt service, tax rates of \$1.12 and \$0.96 per \$100 of appraised valuation at a ninety-five percent (95%) collection rate would be necessary to pay the maximum debt service requirement and the average annual debt service requirement, respectively. See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements” and “TAX DATA—Tax Adequacy for Debt Service.”

The Estimated Taxable Assessed Valuation as of December 1, 2023 is \$476,890,016, which reduces the above tax calculations to \$0.85 and \$0.73 per \$100 of taxable assessed valuation, respectively. No representation or suggestion is made that the Estimated Taxable Assessed Valuation as of December 1, 2023 will be the amount finally certified by the Appraisal District and no person should rely upon such amounts or their inclusion herein as assurance of their attainment. See “TAXING PROCEDURES”

Tax Collection Limitations

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

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 Beneficial Owners have the right to seek 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 Beneficial 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 Beneficial Owners.

Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages so that in the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Order may not be reduced to a judgment for money damages. Even if a judgment against the District for money damages could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the Beneficial 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 Beneficial 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

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: (1) is authorized to file for federal bankruptcy protection by Texas law; (2) is insolvent or unable to meet its debts as they mature; (3) desires to effect a plan to adjust such debts; and (4) has either obtained the agreement of or negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiation is impracticable. Under Texas law, the District must also obtain the approval of the Commission prior to filing bankruptcy. Such law requires that the Commission investigate the financial conditions 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, the District could file a voluntary bankruptcy petition under Chapter 9, thereby invoking the protection of the automatic stay until the bankruptcy court, after a hearing, dismisses the petition. A federal bankruptcy court is a court of equity and federal bankruptcy judges have considerable discretion in the conduct of bankruptcy proceedings and in making the decision of whether to grant the petitioning District relief from its creditors. While such a decision might be appealable, the concomitant delay and loss of remedies to the Registered Owner could potentially and adversely impair the value of the Registered Owner's claim.

If the District decides in the future to proceed voluntarily under the federal Bankruptcy Code, the District could develop and file a plan for the adjustment of its debts. If such a plan were confirmed by the bankruptcy court, it could, among other things, affect the Registered Owners by reducing or eliminating the interest rate or the principal amount, 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 such Registered Owner's claim against the District.

A district may not be forced into bankruptcy involuntarily.

Future Debt

The District has the right to issue obligations other than the Bonds, including tax anticipation notes and bond anticipation notes, and to borrow for any valid corporate purpose. After reimbursements with proceeds of the Bonds, the District will continue to owe the Developer approximately \$50,000,000 plus interest for advances made for engineering and construction of water, wastewater, drainage, road and park facilities, which will be financed with future bond issues. A total of \$94,100,000 principal amount of unlimited tax bonds for the purpose of financing road facilities, \$179,900,000 principal amount of unlimited tax bonds for financing water, wastewater and drainage facilities, and \$51,450,000 principal amount of unlimited tax bonds for financing park and recreational facilities has been authorized by the District's voters. After issuance of the Bonds, \$67,635,000 principal amount of road bonds, \$151,015,000 principal amount of water, wastewater and drainage bonds, and all of the park bonds will remain authorized but unissued.

In addition, voters may authorize the issuance of additional bonds secured by ad valorem taxes. The District is authorized to issue bonds to refund or redeem its outstanding debt. The District does not employ any formula with respect to appraised valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue. The issuance of bonds for water, wastewater and drainage facilities and park and recreational facilities is subject to approval by the TCEQ pursuant to its rules regarding issuance and feasibility of bonds, but the issuance of road bonds is not. In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District. See "THE BONDS—Issuance of Additional Debt." The issuance of additional obligations may increase the District's tax rate and adversely affect the security for, and the investment quality and value of, the Bonds.

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 Issue: Air quality control measures required by the United States Environmental Protection Agency (the “EPA”) and the TCEQ may impact new industrial, commercial and residential development in the Houston area. Under the Clean Air Act (“CAA”) Amendments of 1990, the eight-county Houston-Galveston-Brazoria area (“HGB Area”)—Harris, Galveston, Brazoria, Chambers, Fort Bend, Waller, Montgomery and Liberty Counties—has been designated a nonattainment area under two separate federal ozone standards: the 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.

The HGB Area is currently designated as a “severe” nonattainment area under the 2008 Ozone Standard, with an attainment deadline of July 20, 2027. 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 “moderate” nonattainment area under the 2015 Ozone Standard, with an attainment deadline of August 3, 2024. For purposes of the 2015 Ozone Standard, the HGB Area consists of only six counties: Brazoria, Chambers, Fort Bend, Galveston, Harris, and Montgomery Counties.

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

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

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

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

Texas Pollutant Discharge Elimination System (“TPDES”) permits set limits on the type and quantity of discharge, in accordance with state and federal laws and regulations. The TCEQ reissued the TPDES Construction General Permit (TXR150000), with an effective date of March 5, 2018, which is a general permit authorizing the discharge of stormwater runoff associated with small and large construction sites and certain 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’s stormwater discharges currently maintain permit coverage through the Municipal Separate Storm System Permit (the “Current Permit”) issued to the City of Conroe. In the event that at any time in the future the District is not included in the Current Permit, it may be required to seek independent coverage under the TCEQ’s General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the “MS4 Permit”), which authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems. If the District’s inclusion in 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.

On May 25, 2023, the Supreme Court of the United States issued its decision in *Sackett v. EPA*, which clarified the definition of “waters of the United States” and significantly restricted the reach of federal jurisdiction under the CWA. Under the *Sackett* decision, “waters of the United States” includes only geographical features that are described in ordinary parlance as “streams, oceans, rivers, and lakes” and to adjacent wetlands that are indistinguishable from such bodies of water due to a continuous surface connection.

While the *Sackett* decision removed a great deal of uncertainty regarding the ultimate scope of “waters of the United States” and the extent of EPA and USACE jurisdiction, operations of municipal utility districts, including the District, could potentially be subject to additional restrictions and requirements, including additional permitting requirements, in the future.

Flood Protection: According to the Engineer, none of the land within the District is located within the 100-year floodplain.

Marketability of the Bonds

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

Continuing Compliance with Certain Covenants

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

Risk Factors Related to the Purchase of Municipal Bond Insurance

The Underwriter (as defined herein) has entered into an agreement with Assured Guaranty Municipal Corp. (“AGM” or the “Insurer”) for the purchase of a municipal bond insurance policy (the “Policy”) for the Bonds. At the time of entering into the agreement, the Insurer was rated “AA” (stable outlook) by S&P. See “MUNICIPAL BOND INSURANCE.”

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

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

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

Future and Proposed Legislation

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

LEGAL MATTERS

Legal Opinions

The District will furnish to the Underwriter a transcript of certain certified proceedings incident to the issuance and authorization of the Bonds, including a certified copy of the approving legal 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 Attorney General has examined a transcript of proceedings authorizing the issuance of the Bonds, and that based upon such examination, the Bonds are valid and binding obligations of the District payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District. The District will also furnish the approving legal opinion of Schwartz, Page & Harding, L.L.P., Houston, Texas, Bond Counsel, to the effect that, based upon an examination of such transcript, the Bonds are valid and binding obligations of the District under the Constitution and laws of the State of Texas, except to the extent that enforcement of the rights and remedies of the Registered Owners of the Bonds may be limited by laws relating to bankruptcy, reorganization, or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District and to the effect that interest on the Bonds is excludable from gross income for federal income tax purposes under the statutes, regulations, published rulings and court decisions existing on the date of such opinion, assuming compliance by the District with certain covenants relating to the use and investment of the proceeds of the Bonds. See "Tax Exemption" below. The legal opinion of Bond Counsel will further state that the Bonds are payable, both as to principal and interest, from the levy of ad valorem taxes, without legal limitation as to rate or amount, upon all taxable property within the District. Bond Counsel's opinion will also address the matters described below.

In addition to serving as Bond Counsel, Schwartz, Page & Harding, L.L.P., also serves as counsel to the District on matters not related to the issuance of bonds. The legal fees to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds are based upon a percentage of bonds actually issued, sold and delivered, and, therefore, such fees are contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed upon for the District by McCall, Parkhurst & Horton L.L.P., Houston, Texas, as Disclosure Counsel.

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

Legal Review

In its capacity as Bond Counsel, Schwartz, Page & Harding, L.L.P., has reviewed the information appearing in this Official Statement under the captioned sections "THE BONDS," "THE DISTRICT—General," "MANAGEMENT OF THE DISTRICT—Bond Counsel and General Counsel," "TAXING PROCEDURES," and "LEGAL MATTERS" solely to determine whether such information fairly summarizes the law and documents referred to therein. Such firm has not independently verified factual information contained in this Official Statement, nor has such firm conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon such firm's limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the other information contained herein.

Tax Exemption

On the date of initial delivery of the Bonds, Bond Counsel will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof, and (2) the Bonds will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under Section 57(a)(5) of the Internal Revenue Code of 1986, as amended (the "Code"). 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.

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

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

Not Qualified Tax-Exempt Obligations

The District has not designated the Bonds as “qualified tax-exempt obligations” within the meaning of Section 265(b) of the Code.

Collateral Federal Income Tax Consequences

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

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences. The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, including financial institutions, life insurance and property and casualty insurance companies, owners of interests in a FASIT, 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, certain S corporations with accumulated earnings and profits and excess passive investment income, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health-insurance premium assistance credit, and individuals allowed an earned income credit. THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. 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.

Interest on the Bonds may be includable in certain corporation's "adjusted financial statement income" determined under Section 56A of the Code to calculate the alternative minimum tax imposed by Section 55 of the Code.

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.

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 is 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.

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 registration or 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.

NO MATERIAL ADVERSE CHANGE

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

NO LITIGATION CERTIFICATE

With the delivery of the Bonds, the President or Vice President and Secretary or Assistant Secretary of the Board will, on behalf of the District, execute and deliver to the Underwriter a certificate dated as of the date of delivery, to the effect that no litigation of any nature of which the District has notice is pending against or, to the knowledge of the District's certifying officers, threatened against the District, either in state or federal courts, contesting or attacking the Bonds; restraining or enjoining the authorization, execution or delivery of the Bonds; affecting the provision made for the payment of or security for the Bonds; in any manner questioning the authority or proceedings for the authorization, execution or delivery of the Bonds; or affecting the validity of the Bonds, the corporate existence or boundaries of the District or the title of the then present officers and directors of the Board.

MUNICIPAL BOND RATING

S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC, (“S&P”) has assigned a municipal bond rating of “AA” (stable outlook) to the issue of Bonds with the understanding that upon delivery of the Bonds, a Policy ensuring the timely payment of the principal of and interest on the Bonds will be issued by Assured Guaranty Municipal Corp. No application has been made to a municipal rating company for an underlying rating on the Bonds, nor is it expected that the District would have received an investment grade rating if application had been made. See “INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance” and “MUNICIPAL BOND INSURANCE.”

There is no assurance that such rating will continue for any given period of time or that it will not be revised or withdrawn entirely by S&P if in their judgment, circumstances so warrant. Any such revisions or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

MUNICIPAL BOND INSURANCE

Bond Insurance Policy

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

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

Assured Guaranty Municipal Corp.

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

AGM’s financial strength is rated “AA” (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”), “AA+” (stable outlook) by Kroll Bond Rating Agency, Inc. (“KBRA”) and “A1” (stable outlook) by Moody’s Investors Service, Inc. (“Moody’s”). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM’s long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings

On October 20, 2023, KBRA announced it had affirmed AGM’s insurance financial strength rating of “AA+” (stable outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

On July 13, 2023, S&P announced it had affirmed AGM’s financial strength rating of “AA” (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On March 18, 2022, Moody’s announced it had upgraded AGM’s insurance financial strength rating to “A1” (stable outlook) from “A2” (stable outlook). AGM can give no assurance as to any further ratings action that Moody’s may take.

For more information regarding AGM’s financial strength ratings and the risks relating thereto, see AGL’s Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

Capitalization of AGM

At September 30, 2023:

- The policyholders' surplus of AGM was approximately \$2,569 million.
- The contingency reserve of AGM was approximately \$908 million.
- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately \$2,048 million. Such amount includes (i) 100% of the net unearned premium reserve and net deferred ceding commission income of AGM, and (ii) the net unearned premium reserves and net deferred ceding commissions of AGM's wholly owned subsidiary Assured Guaranty UK Limited ("AGUK") and its 99.9999% owned subsidiary Assured Guaranty (Europe) SA ("AGE").

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

Incorporation of Certain Documents by Reference

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

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2022 (filed by AGL with the SEC on March 1, 2023);
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2023 (filed by AGL with the SEC on May 10, 2023);
- (iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2023 (filed by AGL with the SEC on August 9, 2023); and
- (iv) the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2023 (filed by AGL with the SEC on November 8, 2023).

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

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

Miscellaneous Matters

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

PREPARATION OF OFFICIAL STATEMENT

Sources and Compilation of Information

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

Financial Advisor

Masterson Advisors LLC is employed as the Financial Advisor to the District to render certain professional services, including advising the District on a plan of financing and preparing the OFFICIAL STATEMENT, the OFFICIAL NOTICE OF SALE and the OFFICIAL BID FORM for the sale of the Bonds. In its capacity as Financial Advisor, Masterson Advisors LLC has compiled and edited this OFFICIAL STATEMENT. The Financial Advisor has reviewed the information in this OFFICIAL STATEMENT in accordance with, and as a part of, its responsibilities to the District and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

Bond Counsel

Schwartz, Page & Harding, L.L.P. is employed as Bond Counsel for the District and has reviewed the information appearing in this OFFICIAL STATEMENT under the captions "THE BONDS," "THE DISTRICT-General," "TAXING PROCEDURES," "LEGAL MATTERS," AND "CONTINUING DISCLOSURE OF INFORMATION." Bond Counsel has reviewed the information under the aforementioned sections solely to determine whether such information fairly summarizes the law or documents referred to in such sections. Bond Counsel has not independently verified other factual information contained in this OFFICIAL STATEMENT nor 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 the limited participation of such firm as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the other information contained herein.

Consultants

In approving this OFFICIAL STATEMENT, the District has relied upon the following consultants that have provided information used herein.

Engineer: The information contained in this OFFICIAL STATEMENT relating to engineering and to the description of the System and, in particular that information included in the sections entitled "THE DISTRICT," "ROAD SYSTEM," and "WATER, WASTEWATER AND DRAINAGE" has been provided by LJA Engineering, Inc., consulting engineers and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

Auditor: The financial statements of the District as of April 30, 2023, and for the year then ended, included in this offering document, have been audited by FORVIS, LLP, independent auditors, as stated in their report appearing herein. See "APPENDIX A."

Tax Appraisal and Collections: The Montgomery Central Appraisal District has the responsibility of appraising all property within the District. See "TAXING PROCEDURES."

Tax Assessor/Collector: The information contained in this OFFICIAL STATEMENT relating to the historical breakdown of the District's assessed valuations and certain other historical data concerning tax rates and tax collections has been provided by Assessments of the Southwest, Inc. and is included herein in reliance upon the authority of such firm as an expert in assessing property values and collecting taxes.

Bookkeeper: The information related to the unaudited summary of the District's General Operating Fund as it appears in "WATER, WASTEWATER AND DRAINAGE" has been provided from records of Municipal Accounts & Consulting L.P. and is included herein in reliance upon the authority of such firm as experts in the tracking and managing the various funds of municipal utility districts.

Updating the Official Statement

For the period beginning on the date of the award of the sale of the Bonds to the Underwriter and ending on the ninety-first (91st) day after the “end of the underwriting period,” (as defined in Rule 15c(2)-12(f)(2) of the United States Securities and Exchange Commission (the “SEC”)), if any event shall occur of which the District has knowledge and as a result of which it is necessary to amend or supplement this Official Statement in order to make the statements herein, in light of the circumstances when this OFFICIAL STATEMENT is delivered to a prospective purchaser, not materially misleading, the District will promptly notify the Underwriter of the occurrence of such event and will cooperate in the preparation of a revised OFFICIAL STATEMENT, or amendments or supplements hereto, so that the statements in this Official Statement, as revised, amended or supplemented, will not, in light of the circumstances when this OFFICIAL STATEMENT is delivered to a prospective purchaser, be materially misleading. The District assumes no responsibility for supplementing this OFFICIAL STATEMENT thereafter.

Certification of Official Statement

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

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

The District will provide certain financial information and operating data annually to the MSRB through EMMA. The financial information and operating data which will be provided with respect to the District includes all quantitative financial information and operating data of the general type included in this OFFICIAL STATEMENT under the headings “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED),” except for “Estimated Overlapping Debt” and “Overlapping Taxes,” “TAX DATA,” and in APPENDIX A (Independent Auditor’s Report and Financial Statements of the District). The District will update and provide this information within six months after the end of each fiscal year ending in or after 2024. Any financial statements so provided shall be prepared in accordance with generally accepted accounting principles or other such principles as the District may be required to employ from time to time pursuant to state law or regulation, and audited if the audit report is completed within the period during which it must be provided. If the audit report is not complete within such period, then the District shall provide unaudited financial statements for the applicable period to the MSRB within such six month period, and audited financial statements when the audit report becomes available.

The District’s current fiscal year end is April 30. Accordingly, it must provide updated information by October 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.

Specified Event Notices

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other events affecting the tax-exempt status of the Bonds; (7) modifications to rights of Beneficial Owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of CFR § 240.15c2-12 (the “Rule”); (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional

trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the 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 a financial obligation of the obligated person, any of which reflect financial difficulties. The terms “financial obligation” and “material” when used in this paragraph shall have the meanings ascribed to them under federal securities laws.

Neither the Bonds nor the Bond Order makes any provision for debt service reserves or liquidity enhancement. 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 MSRB

The District has agreed to provide the foregoing information only to the MSRB. The MSRB makes the information available to the public without charge through its Electronic Municipal Market Access internet portal at www.emma.msrb.org.

Limitations and Amendments

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

The District may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or operations of the District, but only if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with SEC Rule 15c2-12, taking into account any amendments and interpretations of SEC Rule 15c2-12 to the date of such amendment, as well as changed circumstances, and either the Holders of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the District (such as a nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. The District may also amend or repeal the agreement if the SEC amends or repeals the applicable provisions of SEC Rule 15c2-12 or a court of final jurisdiction determines that such provisions are invalid but in either case, only to the extent that its right to do so would not prevent the Underwriter from lawfully purchasing the Bonds in the offering described herein. If the District so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under “Annual Reports” an explanation, in narrative form, of the reason for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance with Prior Undertakings

Since its first issuance of bonds in 2020, the District has complied in all material respects with its continuing disclosure agreements made in accordance with SEC Rule 15c2-12.

MISCELLANEOUS

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

This OFFICIAL STATEMENT was approved by the Board of Directors of Montgomery County Municipal Utility District No. 111, as of the date shown on the cover page.

/s/ Brett D. Beardsley
President, Board of Directors

ATTEST:

/s/ Ryan Lesikar
Secretary, Board of Directors

AERIAL LOCATION MAP
(Approximate Boundaries as of January 2024)



**MONTGOMERY COUNTY
MUNICIPAL UTILITY
DISTRICT No. 111**

F.M. 242

F.M. 1314



PHOTOGRAPHS OF THE DISTRICT
(Taken January 2024)














APPENDIX A

Independent Auditor's Report and Financial Statements of the District for the year ended April 30, 2023



Montgomery County Municipal
Utility District No. 111
Montgomery County, Texas

**Independent Auditor's Report and
Financial Statements**

April 30, 2023



Montgomery County Municipal Utility District No. 111
April 30, 2023

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Independent Auditor's Report

Board of Directors
Montgomery County Municipal Utility District No. 111
Montgomery County, Texas

Opinions

We have audited the financial statements of the governmental activities and each major fund of Montgomery County Municipal Utility District No. 111 (the District), as of and for the year ended April 30, 2023, 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 accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District, as of April 30, 2023, and the respective changes in financial position thereof 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 (GAAS). 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 these 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 12 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 GAAS 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 GAAS, 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 budgetary comparison schedule, as listed in the table of contents, 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.

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 accompanying schedules required by the Texas Commission on Environmental Quality listed in the table of contents are presented for purposes of additional analysis and are 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. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

FORVIS, LLP

Houston, Texas
September 7, 2023

Montgomery County Municipal Utility District No. 111

Management's Discussion and Analysis

April 30, 2023

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. This report also contains supplementary information required by the Governmental Accounting Standards Board and other information required by the District's state oversight agency, the Texas Commission on Environmental Quality (the "Commission").

In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program, such as the provision of water, sanitary sewer and drainage services. Other activities, such as the provision of recreation facilities and solid waste collection, are minor activities and are not budgeted or accounted for as separate programs. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented on the left side of the statements, a column for adjustments is to the right of the fund financial statements, and the government-wide financial statements are presented to the right side of the adjustments column. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

Government-wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the District. The District's government-wide financial statements include the statement of net position and statement of activities, which are prepared using accounting principles that are similar to commercial enterprises. The purpose of the statement of net position is to attempt to report all of the assets, liabilities, and deferred inflows and outflows of resources of the District. The District reports all of its assets when it acquires or begins to maintain the assets and reports all of its liabilities when they are incurred.

The difference between the District's assets, liabilities, and deferred inflows and outflows of resources is labeled as net position and this difference is similar to the total stockholders' equity presented by a commercial enterprise.

The purpose of the statement of activities is to present the revenues and expenses of the District. Again, the items presented on the statement of activities are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied and expenses are reported when incurred by the District. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues are reported even when they may not be collected for several months or years after the end of the accounting period and expenses are recorded even though they may not have used cash during the current year.

Montgomery County Municipal Utility District No. 111
Management's Discussion and Analysis (Continued)
April 30, 2023

Although the statement of activities looks different from a commercial enterprise's statement of income, the financial statement is different only in format, not substance. Whereas the bottom line in a commercial enterprise is its net income, the District reports an amount described as change in net position, essentially the same thing

Fund Financial Statements

Unlike government-wide financial statements, the focus of fund financial statements is directed to specific activities of the District rather than the District as a whole. Except for the general fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties or governmental statutes or regulations.

Governmental Funds

Governmental-fund financial statements consist of a balance sheet and a statement of revenues, expenditures and changes in fund balances and are prepared on an accounting basis that is significantly different from that used to prepare the government-wide financial statements.

In general, these financial statements have a short-term emphasis and, for the most part, measure and account for cash and other assets that can easily be converted into cash. For example, amounts reported on the balance sheet include items such as cash and receivables collectible within a very short period of time, but do not include capital assets such as land and water, sewer and drainage systems. Fund liabilities include amounts that are to be paid within a very short period after the end of the fiscal year. The difference between a fund's assets, liabilities, and deferred inflows and outflows of resources is labeled the fund balance and generally indicates the amount that can be used to finance the next fiscal year's activities. Likewise, the operating statement for governmental funds reports only those revenues and expenditures that were collected in cash or paid with cash, respectively, during the current period or very shortly after the end of the fiscal year.

Because the focus of the government-wide and fund financial statements is different, there are significant differences between the totals presented in these financial statements. For this reason, there is an analysis in the notes to financial statements that describes the adjustments to fund balances to arrive at net position presented in the governmental activities column on the statement of net position. Also, there is an analysis in the notes to financial statements that reconciles the total change in fund balances for all governmental funds to the change in net position, as reported in the governmental activities column in the statement of activities.

Notes to Financial Statements

The notes to financial statements provide additional information that is essential to a full understanding of the data found in the government-wide and fund financial statements.

Montgomery County Municipal Utility District No. 111
Management's Discussion and Analysis (Continued)
April 30, 2023

Financial Analysis of the District as a Whole

The District's overall financial position and activities for the past two years are summarized as follows, based on the information included in the government-wide financial statements.

Summary of Net Position

| | <u>2023</u> | <u>2022</u> |
|----------------------------------|------------------------|------------------------|
| Current and other assets | \$ 2,646,855 | \$ 1,908,766 |
| Capital assets | <u>58,051,852</u> | <u>39,881,876</u> |
| Total assets | <u>\$ 60,698,707</u> | <u>\$ 41,790,642</u> |
| Long-term liabilities | \$ 74,535,048 | \$ 52,963,629 |
| Other liabilities | <u>679,770</u> | <u>429,534</u> |
| Total liabilities | <u>75,214,818</u> | <u>53,393,163</u> |
| Net position: | | |
| Net investment in capital assets | (15,863,901) | (12,182,850) |
| Restricted | 1,537,889 | 305,536 |
| Unrestricted | <u>(190,099)</u> | <u>274,793</u> |
| Total net position | <u>\$ (14,516,111)</u> | <u>\$ (11,602,521)</u> |

The total net position of the District decreased by \$2,913,590, or about 25 percent. The majority of the decrease in net position is related to the conveyance of capital assets to another governmental entity for maintenance, depreciation expense on the District's capital assets and debt service expenses. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Summary of Changes in Net Position

| | <u>2023</u> | <u>2022</u> |
|----------------------|--------------------|--------------------|
| Revenues: | | |
| Property taxes | \$ 2,871,489 | \$ 1,255,289 |
| Charges for services | 692,275 | 399,613 |
| Other revenues | <u>625,825</u> | <u>468,914</u> |
| Total revenues | <u>4,189,589</u> | <u>2,123,816</u> |

Montgomery County Municipal Utility District No. 111
Management's Discussion and Analysis (Continued)
April 30, 2023

Summary of Changes in Net Position (Continued)

| | 2023 | 2022 |
|---------------------------------|-----------------|-----------------|
| Expenses: | | |
| Services | \$ 3,026,018 | \$ 1,760,722 |
| Connection fees | - | 8,229,930 |
| Conveyance of capital assets | 645,000 | - |
| Depreciation | 1,325,012 | 934,226 |
| Debt service | 2,107,149 | 927,396 |
| Total expenses | 7,103,179 | 11,852,274 |
| Change in net position | (2,913,590) | (9,728,458) |
| Net position, beginning of year | (11,602,521) | (1,874,063) |
| Net position, end of year | \$ (14,516,111) | \$ (11,602,521) |

Financial Analysis of the District's Fund

The District's combined fund balances as of the end of the fiscal year ended April 30, 2023, were \$2,133,073, an increase of \$612,007 from the prior year.

The general fund's fund balance decreased by \$468,337, primarily due to service operations and capital outlay expenditures exceeding property taxes and services revenues as well as developer advances received.

The debt service fund's fund balance increased by \$1,312,925, due to property tax revenues and proceeds received from the sale of bonds exceeding bond principal and interest requirements.

The capital projects fund's fund balance decreased by \$232,581, due to capital outlay expenditures, debt issuance costs and repayment of developer advances exceeding net proceeds received from the sale of bonds.

General Fund Budgetary Highlights

There were several differences between the final budgetary amounts and actual amounts. The major differences between budget and actual were due to property taxes and water and sewer service revenues, tap connection and inspection fees revenues and related expenditures, and purchased and contracted services, repairs and maintenance and capital outlay expenditures being greater than anticipated. In addition, interfund transfers in and developer advances received were not included in the current year budget. The fund balance as of April 30, 2023, was expected to be \$326,159 and the actual end-of-year fund balance deficit was (\$223,856).

Montgomery County Municipal Utility District No. 111
Management's Discussion and Analysis (Continued)
April 30, 2023

Capital Assets and Related Debt

Capital Assets

Capital assets held by the District at the end of the current and previous fiscal year are summarized below:

Capital Assets (Net of Accumulated Depreciation)

| | 2023 | 2022 |
|-----------------------------------|---------------|---------------|
| Land and improvements | \$ 5,958,185 | \$ 2,956,654 |
| Water facilities | 4,094,298 | 2,666,687 |
| Wastewater facilities | 6,861,373 | 4,534,005 |
| Drainage facilities | 18,339,658 | 14,030,777 |
| Road and paving facilities | 22,038,637 | 14,886,571 |
| Parks and recreational facilities | 759,701 | 807,182 |
| Total capital assets | \$ 58,051,852 | \$ 39,881,876 |

During the current year, additions to capital assets were as follows:

| | |
|--|---------------|
| Clearing and grubbing to serve Artavia Parkway, Phase 3, Astaire Parkway, Phase 1, Watercolor Way, Artavia Sections 14, 17, 18, 21 and 22, and Watercolor Way, Phase 2 | \$ 536,176 |
| Land including, 4.481-acre site to serve Artavia, Section 7, 4.162-acre site to serve Artavia, Section 9, 5.763-acre site to serve Artavia, Section 10, 7.423-acre site to serve Artavia, Section 11 and 2.955-acre site to serve Artavia Parkway, Phase 2 | 2,465,355 |
| Water, sewer, drainage and road and paving facilities to serve Artavia, Sections 1, 2, 3, 7, 11, 14, 15, 16, 17, 21 and 22, Artavia Parkway, Phase 1 Collector Road A, Artavia Parkway, Phase 3, Astaire Parkway, Phase 1, Watercolor Way and Artavia Parkway, Phase 2 | 16,493,457 |
| Total additions to capital assets | \$ 19,494,988 |

The developer within the District has constructed facilities on behalf of the District under the terms of the contracts with the District. The District has agreed to purchase these facilities from the proceeds of future bond issues subject to the approval of the Commission, if required. As of April 30, 2023, a liability for developer constructed capital assets of \$37,385,220 was recorded in the government-wide financial statements.

Montgomery County Municipal Utility District No. 111
Management's Discussion and Analysis (Continued)
April 30, 2023

Debt

The changes in the debt position of the District during the fiscal year ended April 30, 2023, are summarized as follows:

| | |
|---|----------------------|
| Long-term debt payable, beginning of year | \$ 52,963,629 |
| Increases in long-term debt | 34,406,287 |
| Decreases in long-term debt | <u>(12,834,868)</u> |
| Long-term debt payable, end of year | <u>\$ 74,535,048</u> |

At April 30, 2023, the District had \$160,515,000 of unlimited tax bonds authorized, but unissued, for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District, \$51,450,000 of unlimited tax bonds authorized, but unissued, for the purposes of constructing parks and recreational facilities and \$76,535,000 of unlimited tax bonds authorized, but unissued, for the purpose of constructing road and paving facilities.

The District's bonds do not carry an underlying rating. The Series 2021 and Road Series 2022 bonds carry a "AA" rating from Standard and Poor's by virtue of bond insurance issued by Build America Mutual Assurance Company. The Series 2022 bonds carry a "AA" rating from Standard and Poor's by virtue of bond insurance issued by Assured Guaranty Municipal Corp.

Developer Advances

Since inception, the developer has advanced \$1,377,000 to the District for operations and construction, net of repayments. These advances have been recorded as liabilities in the government-wide financial statements.

Other Relevant Factors

Relationship to the City of Conroe

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Conroe (the "City"), the District must conform to the City ordinance consenting to the creation of the District under a Strategic Partnership Agreement (the "Agreement") between the District and the City. The District consented to limited purpose annexation at any time and to full-purpose annexation of the District by the City on or after December 31, 2034, or at any earlier time after the District has achieved 90 percent build out as defined in the Agreement.

Montgomery County Municipal Utility District No. 111
Management's Discussion and Analysis (Continued)
April 30, 2023

Contingencies

The developer of the District is constructing facilities within the boundaries of the District. The District has agreed to reimburse the developer for a portion of these costs, plus interest, from the proceeds of future bond sales, to the extent approved by the Commission, if required. Current construction contract amounts are approximately \$1,448,000. This amount has not been recorded in the financial statements since the facilities are not complete or operational.

Subsequent Event

On May 11, 2023, the District sold its \$3,900,000 Unlimited Tax Road Bonds, Series 2023 at a net effective interest rate of approximately 4.23 percent. The bonds were sold to repay the developer of the District for construction of road and paving projects within the District.

Montgomery County Municipal Utility District No. 111
Statement of Net Position and Governmental Funds Balance Sheet
April 30, 2023

| | General Fund | Debt Service Fund | Capital Projects Fund | Total | Adjustments | Statement of Net Position |
|---|-------------------------|----------------------------------|--------------------------------------|---------------------|----------------------|--|
| Assets | | | | | | |
| Cash | \$ 120,178 | \$ 91,467 | \$ 460 | \$ 212,105 | \$ - | \$ 212,105 |
| Short-term investments | 25,705 | 2,293,255 | 4,833 | 2,323,793 | - | 2,323,793 |
| Receivables: | | | | | | |
| Property taxes | 33,757 | 39,764 | - | 73,521 | - | 73,521 |
| Service accounts | 37,436 | - | - | 37,436 | - | 37,436 |
| Interfund receivables | 20,622 | - | - | 20,622 | (20,622) | - |
| Capital assets (net of accumulated depreciation): | | | | | | |
| Land and improvements | - | - | - | - | 5,958,185 | 5,958,185 |
| Infrastructure | - | - | - | - | 29,295,329 | 29,295,329 |
| Roads and paving | - | - | - | - | 22,038,637 | 22,038,637 |
| Parks and recreation | - | - | - | - | 759,701 | 759,701 |
| Total assets | <u>\$ 237,698</u> | <u>\$ 2,424,486</u> | <u>\$ 5,293</u> | <u>\$ 2,667,477</u> | <u>\$ 58,031,230</u> | <u>\$ 60,698,707</u> |

Montgomery County Municipal Utility District No. 111
Statement of Net Position and Governmental Funds Balance Sheet (Continued)
April 30, 2023

| | General Fund | Debt Service Fund | Capital Projects Fund | Total | Adjustments | Statement of Net Position |
|---|-------------------|-------------------------|-----------------------------|---------------------|------------------------|---------------------------------|
| Liabilities | | | | | | |
| Accounts payable | \$ 349,188 | \$ 12,049 | \$ 415 | \$ 361,652 | \$ - | \$ 361,652 |
| Accrued interest payable | - | - | - | - | 239,509 | 239,509 |
| Retainage payable | 3,459 | - | - | 3,459 | - | 3,459 |
| Customer deposits | 75,150 | - | - | 75,150 | - | 75,150 |
| Interfund payables | - | 20,622 | - | 20,622 | (20,622) | - |
| Long-term liabilities: | | | | | | |
| Due within one year | - | - | - | - | 870,000 | 870,000 |
| Due after one year | - | - | - | - | 73,665,048 | 73,665,048 |
| Total liabilities | <u>427,797</u> | <u>32,671</u> | <u>415</u> | <u>460,883</u> | <u>74,753,935</u> | <u>75,214,818</u> |
| Deferred Inflows of Resources | | | | | | |
| Deferred property tax revenues | <u>33,757</u> | <u>39,764</u> | <u>0</u> | <u>73,521</u> | <u>(73,521)</u> | <u>0</u> |
| Fund Balances (Deficit)/Net Position | | | | | | |
| Fund balances (deficit): | | | | | | |
| Restricted: | | | | | | |
| Water, sewer and drainage bonds | - | 1,039,610 | - | 1,039,610 | (1,039,610) | - |
| Road bonds | - | 1,312,441 | - | 1,312,441 | (1,312,441) | - |
| Water, sewer and drainage | - | - | 4,878 | 4,878 | (4,878) | - |
| Unassigned | <u>(223,856)</u> | <u>-</u> | <u>-</u> | <u>(223,856)</u> | <u>223,856</u> | <u>-</u> |
| Total fund balances (deficit) | <u>(223,856)</u> | <u>2,352,051</u> | <u>4,878</u> | <u>2,133,073</u> | <u>(2,133,073)</u> | <u>0</u> |
| Total liabilities, deferred inflows of resources and fund balances | <u>\$ 237,698</u> | <u>\$ 2,424,486</u> | <u>\$ 5,293</u> | <u>\$ 2,667,477</u> | | |
| Net position: | | | | | | |
| Net investment in capital assets | | | | | (15,863,901) | (15,863,901) |
| Restricted for debt service | | | | | 1,534,889 | 1,534,889 |
| Restricted for capital projects | | | | | 3,000 | 3,000 |
| Unrestricted | | | | | <u>(190,099)</u> | <u>(190,099)</u> |
| Total net position | | | | | <u>\$ (14,516,111)</u> | <u>\$ (14,516,111)</u> |

Montgomery County Municipal Utility District No. 111
Statement of Activities and Governmental Funds Revenues,
Expenditures and Changes in Fund Balances
Year Ended April 30, 2023

| | General Fund | Debt Service Fund | Capital Projects Fund | Total | Adjustments | Statement of Activities |
|--|--------------------|-------------------------|-----------------------------|---------------------|---------------------|-------------------------------|
| Revenues | | | | | | |
| Property taxes | \$ 1,250,822 | \$ 1,592,006 | \$ - | \$ 2,842,828 | \$ 28,661 | \$ 2,871,489 |
| Water service | 252,797 | - | - | 252,797 | - | 252,797 |
| Sewer service | 439,478 | - | - | 439,478 | - | 439,478 |
| Penalty and interest | 28,136 | 22,650 | - | 50,786 | - | 50,786 |
| Tap connection and inspection fees | 505,458 | - | - | 505,458 | - | 505,458 |
| Investment income | 7,178 | 49,049 | 3,479 | 59,706 | - | 59,706 |
| Other income | 9,875 | - | - | 9,875 | - | 9,875 |
| Total revenues | <u>2,493,744</u> | <u>1,663,705</u> | <u>3,479</u> | <u>4,160,928</u> | <u>28,661</u> | <u>4,189,589</u> |
| Expenditures/Expenses | | | | | | |
| Service operations: | | | | | | |
| Purchased services | 1,515,594 | - | - | 1,515,594 | - | 1,515,594 |
| Professional fees | 99,484 | - | - | 99,484 | 7,420 | 106,904 |
| Contracted services | 283,427 | 22,299 | - | 305,726 | 459 | 306,185 |
| Repairs and maintenance | 618,581 | - | - | 618,581 | 144,798 | 763,379 |
| Other expenditures | 34,348 | 13,180 | 479 | 48,007 | - | 48,007 |
| Tap connections | 285,949 | - | - | 285,949 | - | 285,949 |
| Capital outlay | 789,798 | - | 16,746,267 | 17,536,065 | (17,536,065) | - |
| Conveyance of capital assets | - | - | - | - | 645,000 | 645,000 |
| Depreciation | - | - | - | - | 1,325,012 | 1,325,012 |
| Debt service: | | | | | | |
| Principal retirement | - | 215,000 | - | 215,000 | (215,000) | - |
| Interest and fees | - | 951,177 | - | 951,177 | 190,432 | 1,141,609 |
| Debt issuance costs | 9,900 | - | 955,640 | 965,540 | - | 965,540 |
| Total expenditures/expenses | <u>3,637,081</u> | <u>1,201,656</u> | <u>17,702,386</u> | <u>22,541,123</u> | <u>(15,437,944)</u> | <u>7,103,179</u> |
| Excess (Deficiency) of Revenues | | | | | | |
| Over Expenditures | <u>(1,143,337)</u> | <u>462,049</u> | <u>(17,698,907)</u> | <u>(18,380,195)</u> | <u>15,466,605</u> | |

Montgomery County Municipal Utility District No. 111
Statement of Activities and Governmental Funds Revenues,
Expenditures and Changes in Fund Balances (Continued)
Year Ended April 30, 2023

| | General Fund | Debt Service Fund | Capital Projects Fund | Total | Adjustments | Statement of Activities |
|---|---------------------|-------------------------|-----------------------------|---------------------|---------------------|-------------------------------|
| Other Financing Sources (Uses) | | | | | | |
| Interfund transfers in (out) | \$ 30,000 | \$ - | \$ (30,000) | \$ - | \$ - | |
| Repayment of developer advances | - | - | (101,993) | (101,993) | 101,993 | |
| Developer advances received | 645,000 | - | - | 645,000 | (645,000) | |
| General obligation bonds issued | - | 850,876 | 18,069,124 | 18,920,000 | (18,920,000) | |
| Discount on debt issued | - | - | (470,805) | (470,805) | 470,805 | |
| Total other financing sources | <u>675,000</u> | <u>850,876</u> | <u>17,466,326</u> | <u>18,992,202</u> | <u>(18,992,202)</u> | |
| Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses | | | | | | |
| | (468,337) | 1,312,925 | (232,581) | 612,007 | (612,007) | |
| Change in Net Position | | | | | (2,913,590) | \$ (2,913,590) |
| Fund Balances (Deficit)/Net Position | | | | | | |
| Beginning of year | 244,481 | 1,039,126 | 237,459 | 1,521,066 | - | (11,602,521) |
| End of year | <u>\$ (223,856)</u> | <u>\$ 2,352,051</u> | <u>\$ 4,878</u> | <u>\$ 2,133,073</u> | <u>\$ 0</u> | <u>\$ (14,516,111)</u> |

Montgomery County Municipal Utility District No. 111

Notes to Financial Statements

April 30, 2023

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Montgomery County Municipal Utility District No. 111 (the “District”) was created by an order of the Texas Commission on Environmental Quality (the “Commission”), effective March 13, 2006, in accordance with the provisions of Article XVI, Section 59, of the Texas Constitution. The District operates in accordance with Chapters 49 and 54 of the Texas Water Code and is subject to the continuing supervision of the Commission. The principal functions of the District are to finance, construct, own and operate waterworks, wastewater, drainage, parks and recreational, and road and paving facilities and to provide such facilities and services to the customers of the District.

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

Reporting Entity

The accompanying government-wide financial statements present the financial statements of the District. There are no component units that are legally separate entities for which the District is considered to be financially accountable. Accountability is defined as the District's substantive appointment of the voting majority of the component unit's governing board. Furthermore, to be financially accountable, the District must be able to impose its will upon the component unit or there must be a possibility that the component unit may provide specific financial benefits to, or impose specific financial burdens on, the District.

Government-wide and Fund Financial Statements

In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program, such as the provision of water, wastewater, drainage and other related services. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented with a column for adjustments to convert to the government-wide financial statements.

The government-wide financial statements report information on all of the activities of the District. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Governmental activities generally are financed through taxes, charges for services and intergovernmental revenues. The statement of activities reflects the revenues and expenses of the District.

Montgomery County Municipal Utility District No. 111

Notes to Financial Statements

April 30, 2023

The fund financial statements provide information about the District's governmental funds. Separate statements for each governmental fund are presented. The emphasis of fund financial statements is directed to specific activities of the District.

The District presents the following major governmental funds:

General Fund – The general fund is the primary operating fund of the District which accounts for all financial resources not accounted for in another fund. Revenues are derived primarily from property taxes, charges for services and interest income.

Debt Service Fund – The debt service fund is used to account for financial resources that are restricted, committed or assigned to expenditures for principal and interest related costs, as well as the financial resources being accumulated for future debt service.

Capital Projects Fund – The capital projects fund is used to account for financial resources that are restricted, committed or assigned to expenditures for capital outlays.

Fund Balances – Governmental Funds

The fund balances for the District's governmental funds can be displayed in up to five components:

Nonspendable – Amounts that are not in a spendable form or are required to be maintained intact.

Restricted – Amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.

Committed – Amounts that can be used only for the specific purposes determined by resolution of the Board. Commitments may be changed or lifted only by issuance of a resolution by the District's Board.

Assigned – Amounts intended to be used by the District for specific purposes as determined by management. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

Unassigned – The residual classification for the general fund and includes all amounts not contained in the other classifications.

The District considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. The District applies committed amounts first, followed by assigned amounts, and then unassigned amounts when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Montgomery County Municipal Utility District No. 111

Notes to Financial Statements

April 30, 2023

Measurement Focus and Basis of Accounting

Government-wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Nonexchange transactions, in which the District receives (or gives) value without directly giving (or receiving) equal value in exchange, include property taxes and donations. Recognition standards are based on the characteristics and classes of nonexchange transactions. Revenues from property taxes are recognized in the period for which the taxes are levied. Intergovernmental revenues are recognized as revenues, net of estimated refunds and uncollectible amounts, in the accounting period when an enforceable legal claim to the assets arises and the use of resources is required or is first permitted. Donations are recognized as revenues, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met. Amounts received before all eligibility requirements have been met are reported as liabilities.

Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and liabilities are generally included on the balance sheet. The statement of governmental funds revenues, expenditures and changes in fund balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in spendable resources. General capital asset acquisitions are reported as expenditures and proceeds of long-term debt are reported as other financing sources. Under the modified accrual basis of accounting, revenues are recognized when both measurable and available. The District considers revenues reported in the governmental funds to be available if they are collectible within 60 days after year-end. Principal revenue sources considered susceptible to accrual include taxes, charges for services and investment income. Other revenues are considered to be measurable and available only when cash is received by the District. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, which are recognized as expenditures when payment is due.

Deferred Outflows and Inflows of Resources

A deferred outflow of resources is a consumption of net position that is applicable to a future reporting period and a deferred inflow of resources is an acquisition of net position that is applicable to a future reporting period.

Montgomery County Municipal Utility District No. 111

Notes to Financial Statements

April 30, 2023

Interfund Transactions

Transfers from one fund to another fund are reported as interfund receivables and payables if there is intent to repay the amount and if there is the ability to repay the advance on a timely basis. Transfers represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

Pension Costs

The District does not participate in a pension plan and, therefore, has no pension costs.

Use of 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 amounts of assets, liabilities, and deferred inflows and outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

Investments and Investment Income

Investments in certificates of deposit, U.S. Government and agency securities, and certain pooled funds, which have a remaining maturity of one year or less at the date of purchase, are recorded at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market values.

Investment income includes dividends and interest income and the net change for the year in the fair value of investments carried at fair value. Investment income is credited to the fund in which the investment is recorded.

Property Taxes

An appraisal district annually prepares appraisal records listing all property within the District and the appraised value of each parcel or item as of January 1. Additionally, on January 1, a tax lien attaches to property to secure the payment of all taxes, penalty and interest ultimately imposed for the year on the property. After the District receives its certified appraisal roll from the appraisal district, the rate of taxation is set by the Board of the District based upon the aggregate appraisal value. Taxes are due and payable October 1 or when billed, whichever is later, and become delinquent after January 31 of the following year.

Montgomery County Municipal Utility District No. 111
Notes to Financial Statements
April 30, 2023

In the governmental funds, property taxes are initially recorded as receivables and deferred inflows of resources at the time the tax levy is billed. Revenues recognized during the fiscal year ended April 30, 2023, include collections during the current period or within 60 days of year-end related to the 2022 and prior years' tax levies.

In the government-wide statement of net position, property taxes are considered earned in the budget year for which they are levied. For the District's fiscal year ended April 30, 2023, the 2022 tax levy is considered earned during the current fiscal year. In addition to property taxes levied, any delinquent taxes are recorded net of amounts considered uncollectible.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an individual cost of \$5,000 or more and an estimated useful life of two years or more. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over their estimated useful lives as follows:

| | Years |
|--|--------------|
| Water production and distribution facilities | 10-45 |
| Wastewater collection and treatment facilities | 10-45 |
| Drainage facilities | 10-45 |
| Park and recreational facilities | 10-30 |
| Road and paving facilities | 10-40 |

Debt Issuance Costs

Debt issuance costs, other than prepaid insurance, do not meet the definition of an asset or deferred outflows of resources since the costs are not applicable to a future period and, therefore, are recognized as an expense/expenditure in the period incurred.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Premiums and discounts on bonds are recognized as a component of long-term liabilities and amortized over the life of the related debt using the effective interest rate method. Bonds payable are reported net of the applicable bond premium or discount.

Montgomery County Municipal Utility District No. 111

Notes to Financial Statements

April 30, 2023

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Position/Fund Balances

Fund balances and net position are reported as restricted when constraints placed on them are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or are imposed by law through constitutional provisions or enabling legislation.

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

Reconciliation of Government-wide and Fund Financial Statements

Amounts reported for net position of governmental activities in the statement of net position and fund balances in the governmental funds balance sheet are different because:

| | |
|--|-------------------------------|
| Capital assets used in governmental activities are not financial resources and are not reported in the funds. | \$ 58,051,852 |
| Property tax revenue recognition and the related reduction of deferred inflows of resources are subject to availability of funds in the fund financial statements. | 73,521 |
| Accrued interest on long-term liabilities is not payable with current financial resources and is not reported in the funds. | (239,509) |
| Long-term liabilities are not due and payable in the current period and are not reported in the funds. | <u>(74,535,048)</u> |
| Adjustment to fund balances to arrive at net position. | <u><u>\$ (16,649,184)</u></u> |

Amounts reported for change in net position of governmental activities in the statement of activities are different from change in fund balances in the governmental funds statement of revenues, expenditures and changes in fund balances because:

| | |
|---|------------|
| Change in fund balances. | \$ 612,007 |
| Governmental funds report capital outlays as expenditures. However, for government-wide financial statements, the cost of capitalized assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay expenditures exceeded conveyance of capital assets, depreciation expense and noncapitalized costs in the current year. | 15,413,376 |

Montgomery County Municipal Utility District No. 111
Notes to Financial Statements
April 30, 2023

| | |
|--|------------------------------|
| Governmental funds report developer advances as other financing sources or uses as amounts are received or paid. However, for government-wide financial statements, these amounts are recorded as an increase or decrease in due to developer. | \$ (543,007) |
| Governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. | 470,805 |
| Governmental funds report proceeds from the sale of bonds because they provide current financial resources to governmental funds. Principal payments on debt are recorded as expenditures. None of these transactions, however, have any effect on net position. | (18,705,000) |
| Revenues that do not provide current financial resources are not reported as revenues for the funds, but are reported as revenues in the statement of activities. | 28,661 |
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. | <u>(190,432)</u> |
| Change in net position of governmental activities | <u><u>\$ (2,913,590)</u></u> |

Note 2: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; a surety bond; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities of the State of Texas; or certain collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States.

At April 30, 2023, none of the District's bank balances were exposed to custodial credit risk.

Montgomery County Municipal Utility District No. 111

Notes to Financial Statements

April 30, 2023

Investments

The District may legally invest in obligations of the United States or its agencies and instrumentalities, direct obligations of Texas or its agencies or instrumentalities, collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, other obligations guaranteed as to principal and interest by the State of Texas or the United States or their agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, obligations of states, agencies and counties and other political subdivisions with an investment rating not less than "A," insured or collateralized certificates of deposit, and certain bankers' acceptances, repurchase agreements, mutual funds, commercial paper, guaranteed investment contracts and investment pools.

The District's investment policy may be more restrictive than the Public Funds Investment Act.

The District invests in Texas CLASS, an external investment pool that is not registered with the Securities and Exchange Commission. A Board of Trustees, elected by the participants, has oversight of Texas CLASS. The District's investments may be redeemed at any time. Texas CLASS attempts to minimize its exposure to market and credit risk through the use of various strategies and credit monitoring techniques and limits its investments in any issuer to the top two ratings issued by nationally recognized statistical rating organizations. The District's investments in Texas CLASS are reported at net asset value.

At April 30, 2023, the District had the following investments and maturities:

| Type | Maturities in Years | | | | |
|-------------|---------------------|----------------|------|------|-----------------|
| | Fair Value | Less Than 1 | 1-5 | 6-10 | More Than 10 |
| Texas CLASS | \$ 2,323,793 | \$ 2,323,793 | \$ 0 | \$ 0 | \$ 0 |

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy does not allow investments in certain mortgage-backed securities, collateralized mortgage obligations with a final maturity date in excess of 10 years and interest rate indexed collateralized mortgage obligations. The external investment pool is presented as an investment with a maturity of less than one year because it is redeemable in full immediately.

Credit Risk. Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At April 30, 2023, the District's investments in Texas CLASS were rated "AAAm" by Standard & Poor's.

Montgomery County Municipal Utility District No. 111
Notes to Financial Statements
April 30, 2023

Summary of Carrying Values

The carrying values of deposits and investments shown previously are included in the balance sheet and statement of net position at April 30, 2023, as follows:

| | | |
|-----------------|----|-------------------------|
| Carrying value: | | |
| Deposits | \$ | 212,105 |
| Investments | | <u>2,323,793</u> |
| Total | \$ | <u><u>2,535,898</u></u> |

Investment Income

Investment income of \$59,706, for the year ended April 30, 2023, consisted of interest income.

Fair Value Measurements

The District has the following recurring fair value measurements as of April 30, 2023:

- Pooled investments of \$2,323,793 are valued at fair value per share of the pool's underlying portfolio.

Note 3: Capital Assets

A summary of changes in capital assets for the year ended April 30, 2023, is presented as follows:

| Governmental Activities | Balances, Beginning of Year | Additions | Balances, End of Year |
|--|--|---------------------|--------------------------------------|
| Capital assets, non-depreciable: | | | |
| Land and improvements | <u>\$ 2,956,654</u> | <u>\$ 3,001,531</u> | <u>\$ 5,958,185</u> |
| Capital assets, depreciable: | | | |
| Water production and distribution facilities | 2,790,562 | 1,523,649 | 4,314,211 |
| Wastewater collection and treatment facilities | 4,737,825 | 2,488,249 | 7,226,074 |
| Drainage facilities | 14,761,707 | 4,743,243 | 19,504,950 |
| Road and paving facilities | 15,642,815 | 7,738,316 | 23,381,131 |
| Parks and recreational facilities | <u>949,626</u> | <u>-</u> | <u>949,626</u> |
| Total capital assets, depreciable | <u>38,882,535</u> | <u>16,493,457</u> | <u>55,375,992</u> |

Montgomery County Municipal Utility District No. 111
Notes to Financial Statements
April 30, 2023

| Governmental Activities (Continued) | Balances, Beginning of Year | Additions | Balances, End of Year |
|--|--|----------------------|--------------------------------------|
| Less accumulated depreciation: | | | |
| Water production and distribution facilities | \$ (123,875) | \$ (96,038) | \$ (219,913) |
| Wastewater collection and treatment facilities | (203,820) | (160,881) | (364,701) |
| Drainage facilities | (730,930) | (434,362) | (1,165,292) |
| Road and paving facilities | (756,244) | (586,250) | (1,342,494) |
| Parks and recreational facilities | (142,444) | (47,481) | (189,925) |
| Total accumulated depreciation | <u>(1,957,313)</u> | <u>(1,325,012)</u> | <u>(3,282,325)</u> |
| Total governmental activities, net | <u>\$ 39,881,876</u> | <u>\$ 18,169,976</u> | <u>\$ 58,051,852</u> |

Note 4: Long-term Liabilities

Changes in long-term liabilities for the year ended April 30, 2023, were as follows:

| Governmental Activities | Balances, Beginning of Year | Increases | Decreases | Balances, End of Year | Amounts Due in One Year |
|---|--|----------------------|----------------------|--------------------------------------|--|
| Bonds payable: | | | | | |
| General obligation bonds | \$ 18,030,000 | \$ 18,920,000 | \$ 215,000 | \$ 36,735,000 | \$ 870,000 |
| Less: discounts on bonds | 518,318 | 470,805 | 26,951 | 962,172 | - |
| | 17,511,682 | 18,449,195 | 188,049 | 35,772,828 | 870,000 |
| Due to developer, operations advances | 833,993 | - | 101,993 | 732,000 | - |
| Due to developer, construction advances | - | 645,000 | - | 645,000 | - |
| Due to developer, construction | 34,617,954 | 15,312,092 | 12,544,826 | 37,385,220 | - |
| Total governmental activities long-term liabilities | <u>\$ 52,963,629</u> | <u>\$ 34,406,287</u> | <u>\$ 12,834,868</u> | <u>\$ 74,535,048</u> | <u>\$ 870,000</u> |

Montgomery County Municipal Utility District No. 111
Notes to Financial Statements
April 30, 2023

General Obligation Bonds

| | Road Series 2020 | Series 2021 |
|--|-----------------------------|---------------------------|
| Amounts outstanding, April 30, 2023 | \$7,785,000 | \$10,030,000 |
| Interest rates | 2.000% to 3.125% | 2.50% to 5.00% |
| Maturity dates, serially beginning/ending | September 1, 2023/2046 | September 1, 2023/2047 |
| Interest payment dates | September 1/ March 1 | September 1/ March 1 |
| Callable dates* | September 1, 2026 | September 1, 2027 |

| | Road Series 2022 | Series 2022 |
|--|-----------------------------|---------------------------|
| Amounts outstanding, April 30, 2023 | \$9,565,000 | \$9,355,000 |
| Interest rates | 4.00% to 6.50% | 4.25% to 6.75% |
| Maturity dates, serially beginning/ending | September 1, 2023/2047 | September 1, 2024/2047 |
| Interest payment dates | September 1/ March 1 | September 1/ March 1 |
| Callable dates* | September 1, 2028 | September 1, 2029 |

*Or any date thereafter; callable at par plus accrued interest to the date of redemption.

Annual Debt Service Requirements

The following schedule shows the annual debt service requirements to pay principal and interest on general obligation bonds outstanding at April 30, 2023:

| Year | Principal | Interest | Total |
|--------------|----------------------|----------------------|----------------------|
| 2024 | \$ 870,000 | \$ 1,414,617 | \$ 2,284,617 |
| 2025 | 1,095,000 | 1,363,452 | 2,458,452 |
| 2026 | 1,125,000 | 1,307,242 | 2,432,242 |
| 2027 | 1,150,000 | 1,249,582 | 2,399,582 |
| 2028 | 1,180,000 | 1,188,382 | 2,368,382 |
| 2029-2033 | 6,370,000 | 5,173,274 | 11,543,274 |
| 2034-2038 | 7,280,000 | 3,970,391 | 11,250,391 |
| 2039-2043 | 8,390,000 | 2,542,949 | 10,932,949 |
| 2044-2048 | 9,275,000 | 873,249 | 10,148,249 |
| Total | \$ 36,735,000 | \$ 19,083,138 | \$ 55,818,138 |

Montgomery County Municipal Utility District No. 111
Notes to Financial Statements
April 30, 2023

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

| | |
|--------------------------------------|----------------|
| Bonds voted: | |
| Water, sewer and drainage facilities | \$ 179,900,000 |
| Parks and recreational facilities | 51,450,000 |
| Road and paving facilities | 94,100,000 |
| Bonds sold: | |
| Water, sewer and drainage facilities | 19,385,000 |
| Road and paving facilities | 17,565,000 |

Due to Developer – Construction

The developer of the District has constructed facilities on behalf of the District. The District is maintaining and operating the facilities and has agreed to reimburse the developer for these construction costs and interest to the extent approved by the Commission, if required, from the proceeds of future bond sales. The District's engineer estimates reimbursable costs for completed projects are \$37,385,220. These amounts have been recorded in the financial statements as long-term liabilities.

Due to Developer - Advances

Since inception, the developer has advanced \$1,377,000 to the District for operations and construction, net of repayments. These advances have been recorded as liabilities in the government-wide financial statements.

Note 5: Significant Bond Order and Commission Requirements

- A. The Bond Orders require that the District levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due. During the year ended April 30, 2023, the District levied an ad valorem debt service tax at the rate of \$0.2300 per \$100 of assessed valuation, which resulted in a tax levy of \$489,738 on the taxable valuation of \$212,929,490 for the 2022 tax year. The principal and interest requirements to be paid from the tax revenues and available resources are \$923,966 of which \$269,391 has been paid and \$654,575 is due September 1, 2023.
- B. The Road Bond Orders require that the District levy and collect an ad valorem road debt service tax sufficient to pay interest and principal on road bonds when due. During the year ended April 30, 2023, the District levied an ad valorem road debt service tax at the rate of \$0.5300 per \$100 of assessed valuation, which resulted in a tax levy of \$1,128,526 on the taxable valuation of \$212,929,490 for the 2022 tax year. The road bond principal and interest requirements to be paid from the tax revenues and available resources are \$1,262,902 of which \$328,951 has been paid and \$933,951 is due September 1, 2023.

Montgomery County Municipal Utility District No. 111
Notes to Financial Statements
April 30, 2023

C. In accordance with the Road Series 2020, Series 2021, Road Series 2022 and Series 2022 Bond Orders, a portion of the bond proceeds were deposited into the debt service fund and reserved for the payment of bond interest during the construction period. This bond interest reserve is reduced as the interest is paid.

| | | |
|---|----------------|--------------------------|
| Bond interest reserve, beginning of year | | \$ 661,444 |
| Additions--Interest appropriated from bond sales: | | |
| Road Series 2022 | \$ 406,513 | |
| Series 2022 | 444,363 | <u>850,876</u> |
| Deductions--Appropriation from bond interest | | |
| Road Series 2020 | 166,578 | |
| Series 2021 | 293,013 | |
| Road Series 2022 | 312,427 | |
| Series 2022 | <u>122,885</u> | <u>894,903</u> |
| Bond interest reserve, end of year | | <u><u>\$ 617,417</u></u> |

D. During the current year, the District transferred \$30,000 from the capital projects fund to the general fund. The transfer was in accordance with the rules of the Commission.

Note 6: Maintenance Taxes

At an election held May 13, 2006, voters authorized a maintenance tax not to exceed \$1.35 per \$100 of assessed valuation on all property within the District subject to taxation. During the year ended April 30, 2023, the District levied an ad valorem maintenance tax at the rate of \$0.5900 per \$100 of assessed valuation, which resulted in a tax levy of \$1,256,284 on the taxable valuation of \$212,929,490 for the 2022 tax year. The maintenance tax will be used by the general fund to pay expenditures of operating the District.

At an election held May 5, 2018, voters authorized a road maintenance tax not to exceed \$1.50 per \$100 of assessed valuation on all property within the District subject to taxation. During the year ended April 30, 2023, the District did not levy an ad valorem road maintenance tax for the 2022 tax year. The road maintenance tax will be used by the general fund to pay expenditures of operating and maintaining roads and paving facilities within the District.

At an election held May 5, 2018, voters authorized a parks and recreational maintenance tax not to exceed \$0.10 per \$100 of assessed valuation on all property within the District subject to taxation. During the year ended April 30, 2023, the District did not levy an ad valorem parks and recreational

Montgomery County Municipal Utility District No. 111

Notes to Financial Statements

April 30, 2023

maintenance tax for the 2022 tax year. The parks and recreational maintenance tax will be used by the general fund to pay expenditures of operating and maintaining parks and recreational facilities within the District.

Note 7: Strategic Partnership Agreement

Effective November 8, 2018, the District and the City of Conroe (the “City”) entered into a Strategic Partnership Agreement (the “Agreement”). Under the terms of the Agreement, the District consented to limited-purpose annexation at any time and to full-purpose annexation of the District by the City on or after December 31, 2034, or at any earlier time after the District has achieved 90 percent build out as defined in the Agreement.

Note 8: Financing and Operation of Regional Facilities

On February 8, 2018, the District entered into a regional facilities contract with Montgomery County Municipal Utility District No. 157 (“District No. 157”), Montgomery County Municipal Utility District No. 106 (“District No. 106”) and Montgomery County Municipal Utility District No. 158 (“District No. 158”), whereby District No. 157 will act as the master district and provide, or cause to be provided, the regional water supply and distribution, waste collection and treatment and storm sewer, drainage and detention facilities necessary to serve the District.

Under the terms of the regional facilities contract, which is in effect for 50 years, monthly operating charges will be determined by multiplying the total number of actual equivalent single-family residential connections within the District on the first day of the previous month by the budgeted monthly unit cost per equivalent single-family residential connection. The District incurred \$1,515,594 of operating costs attributable to this contract for the year ended April 30, 2023. District No. 157 is to maintain an operation and maintenance reserve equivalent to three months of budgeted operation and maintenance expenses.

In addition, District No. 157 plans to acquire, construct, extend, own, operate and maintain the regional facilities and intends to finance the capital costs of the regional facilities from connection charges paid by each participant district. The connection fee charge per equivalent single-family connection is currently \$20,073. As of April 30, 2023, the District has purchased 410 master connections for a total value of \$8,229,930. In addition, District No. 157 is authorized, under certain circumstances, to issue contract revenue bonds sufficient to complete acquisition, construction or improvements of the regional facilities, as needed, to serve the Participants in the service area. Each participant is obligated to pay its pro rata share of the debt service requirements on District No. 157's contract revenue bonds.

Montgomery County Municipal Utility District No. 111
Notes to Financial Statements
April 30, 2023

Note 9: 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. The District has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts in the past three fiscal years.

Note 10: Advance Funding Agreement

On August 9, 2022, the District approved entering into an advance funding agreement with the State of Texas, acting by and through the Texas Department of Transportation (the "State"), whereby the State will construct public street tie-ins within the State's right-of-way at the following intersections: SH 242 and Rusty Hallow Drive, SH 242 and future Aspire Way, and SH 242 and Rothko Rose Road. The work also consists of the construction of temporary and permanent traffic signal installation at the intersection of SH 242 and Artavia Parkway/Summerset Estates Boulevard. The State will include the requested work as a change order in the State's overall project to widen SH 242 from East of FM 1314 to FM 1485. During the current year, the District paid \$645,000 to the State towards the cost of the project from advances received from the District's developer.

Note 11: Deficit Fund Balance

At April 30, 2023, the District's general fund had a deficit fund balance of \$223,856. The District anticipates that growth within the District will generate revenues sufficient to pay costs of operating the District.

Note 12: Contingencies

The developer of the District is constructing facilities within the boundaries of the District. The District has agreed to reimburse the developer for a portion of these costs, plus interest, from the proceeds of future bond sales, to the extent approved by the Commission. Current construction contract amounts are approximately \$1,448,000. This amount has not been recorded in the financial statements since the facilities are not complete or operational.

Note 13: Subsequent Event

On May 11, 2023, the District sold its \$3,900,000 Unlimited Tax Road Bonds, Series 2023 at a net effective interest rate of approximately 4.23 percent. The bonds were sold to repay the developer of the District for construction of road and paving projects within the District.

Required Supplementary Information

Montgomery County Municipal Utility District No. 111
Budgetary Comparison Schedule – General Fund
Year Ended April 30, 2023

| | Original Budget | Actual | Variance Favorable (Unfavorable) |
|---|----------------------------|---------------------|---|
| Revenues | | | |
| Property taxes | \$ 1,166,000 | \$ 1,250,822 | \$ 84,822 |
| Water service | 148,900 | 252,797 | 103,897 |
| Sewer service | 305,148 | 439,478 | 134,330 |
| Penalty and interest | 15,000 | 28,136 | 13,136 |
| Tap connection and inspection fees | 409,600 | 505,458 | 95,858 |
| Investment income | 210 | 7,178 | 6,968 |
| Other income | 5,100 | 9,875 | 4,775 |
| | <u>2,049,958</u> | <u>2,493,744</u> | <u>443,786</u> |
| Expenditures | | | |
| Service operations: | | | |
| Purchased services | 1,009,700 | 1,515,594 | (505,894) |
| Professional fees | 93,000 | 99,484 | (6,484) |
| Contracted services | 197,600 | 283,427 | (85,827) |
| Repairs and maintenance | 415,280 | 618,581 | (203,301) |
| Other expenditures | 42,700 | 34,348 | 8,352 |
| Tap connections | 160,000 | 285,949 | (125,949) |
| Capital outlay | 50,000 | 789,798 | (739,798) |
| Debt issuance costs | - | 9,900 | (9,900) |
| | <u>1,968,280</u> | <u>3,637,081</u> | <u>(1,668,801)</u> |
| Excess (Deficiency) of Revenues Over Expenditures | | | |
| | <u>81,678</u> | <u>(1,143,337)</u> | <u>(1,225,015)</u> |
| Other Financing Sources | | | |
| Interfund transfers in | - | 30,000 | 30,000 |
| Developer advances received | - | 645,000 | 645,000 |
| | <u>0</u> | <u>675,000</u> | <u>675,000</u> |
| Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses | | | |
| | 81,678 | (468,337) | (550,015) |
| Fund Balance, Beginning of Year | | | |
| | <u>244,481</u> | <u>244,481</u> | <u>-</u> |
| Fund Balance (Deficit), End of Year | | | |
| | <u>\$ 326,159</u> | <u>\$ (223,856)</u> | <u>\$ (550,015)</u> |

Montgomery County Municipal Utility District No. 111
Notes to Required Supplementary Information
April 30, 2023

Budgets and Budgetary Accounting

An annual operating budget is prepared for the general fund by the District's consultants. The budget reflects resources expected to be received during the year and expenditures expected to be incurred. The Board of Directors is required to adopt the budget prior to the start of its fiscal year. The budget is not a spending limitation (a legally restricted appropriation). The original budget of the general fund was not amended during fiscal 2023.

The District prepares its annual operating budget on a basis consistent with accounting principles generally accepted in the United States of America. The Budgetary Comparison Schedule - General Fund presents the original and revised budget amounts, if revised, compared to the actual amounts of revenues and expenditures for the current year.

Supplementary Information

Montgomery County Municipal Utility District No. 111
Other Schedules Included Within This Report
April 30, 2023

(Schedules included are checked or explanatory notes provided for omitted schedules.)

- [X] Notes Required by the Water District Accounting Manual
See "Notes to Financial Statements," Pages 15-29
- [X] Schedule of Services and Rates
- [X] Schedule of General Fund Expenditures
- [X] Schedule of Temporary Investments
- [X] Analysis of Taxes Levied and Receivable
- [X] Schedule of Long-term Debt Service Requirements by Years
- [X] Changes in Long-term Bonded Debt
- [X] Comparative Schedule of Revenues and Expenditures – General Fund and Debt Service Fund
- [X] Board Members, Key Personnel and Consultants

Montgomery County Municipal Utility District No. 111

Schedule of Services and Rates

Year Ended April 30, 2023

1. Services provided by the District:

| | | |
|--|---|--|
| <input checked="" type="checkbox"/> Retail Water | <input type="checkbox"/> Wholesale Water | <input checked="" type="checkbox"/> Drainage |
| <input checked="" type="checkbox"/> Retail Wastewater | <input type="checkbox"/> Wholesale Wastewater | <input type="checkbox"/> Irrigation |
| <input checked="" type="checkbox"/> Parks/Recreation | <input type="checkbox"/> Fire Protection | <input type="checkbox"/> Security |
| <input checked="" type="checkbox"/> Solid Waste/Garbage | <input type="checkbox"/> Flood Control | <input checked="" type="checkbox"/> Roads |
| <input checked="" type="checkbox"/> Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect) | | |
| <input type="checkbox"/> Other _____ | | |

2. Retail service providers

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

| | Minimum Charge | Minimum Usage | Flat Rate Y/N | Rate Per 1,000 Gallons Over Minimum | Usage Levels |
|-------------------------------|----------------|---------------|---------------|-------------------------------------|--------------------|
| Water: | \$ 20.00 | 10,000 | N | \$ 1.50 | 10,001 to 15,000 |
| | | | | \$ 1.75 | 15,001 to 20,000 |
| | | | | \$ 2.00 | 20,001 to 25,000 |
| | | | | \$ 2.50 | 25,001 to 30,000 |
| | | | | \$ 3.50 | 30,000 to No Limit |
| Wastewater: | \$ 51.18 | 0 | Y | | |
| Groundwater conservation fee: | \$ 0.0935 | 0 | N | \$ 0.0935 | 1,001 to No Limit |

Does the District employ winter averaging for wastewater usage? Yes No

Total charges per 10,000 gallons usage (including fees): Water \$ 20.94 Wastewater \$ 51.18

b. Water and wastewater retail connections:

| <u>Meter Size</u> | <u>Total Connections</u> | <u>Active Connections</u> | <u>ESFC Factor</u> | <u>Active ESFC*</u> |
|-------------------|--------------------------|---------------------------|--------------------|---------------------|
| Unmetered | - | - | x1.0 | - |
| ≤ 3/4" | 680 | 676 | x1.0 | 676 |
| 1" | 226 | 226 | x2.5 | 565 |
| 1 1/2" | 4 | 4 | x5.0 | 20 |
| 2" | 11 | 11 | x8.0 | 88 |
| 3" | - | - | x15.0 | - |
| 4" | - | - | x25.0 | - |
| 6" | - | - | x50.0 | - |
| 8" | - | - | x80.0 | - |
| 10" | - | - | x115.0 | - |
| Total water | 921 | 917 | | 1,349 |
| Total wastewater | 903 | 903 | x1.0 | 903 |

3. Total water consumption (in thousands) during the fiscal year:

| | |
|---|---------|
| Gallons pumped into the system: | 118,469 |
| Gallons billed to customers: | 106,436 |
| Water accountability ratio (gallons billed/gallons pumped): | 89.84% |

*"ESFC" means equivalent single-family connections

Montgomery County Municipal Utility District No. 111
Schedule of General Fund Expenditures
Year Ended April 30, 2023

| | | | |
|---|----|-------------------|-------------------|
| Personnel (including benefits) | | \$ | - |
| Professional Fees | | | |
| Auditing | \$ | 15,300 | |
| Legal | | 67,572 | |
| Engineering | | 16,612 | |
| Financial advisor | | - | 99,484 |
| | | <u> </u> | |
| Purchased Services for Resale | | | |
| Bulk water and wastewater service purchases | | | 1,515,594 |
| Regional Water Fee | | | - |
| Contracted Services | | | |
| Bookkeeping | | 42,264 | |
| General manager | | - | |
| Appraisal district | | - | |
| Tax collector | | - | |
| Security | | - | |
| Other contracted services | | 82,574 | 124,838 |
| | | <u> </u> | |
| Utilities | | | - |
| Repairs and Maintenance | | | 618,581 |
| Administrative Expenditures | | | |
| Directors' fees | | 8,550 | |
| Office supplies | | 5,389 | |
| Insurance | | 5,966 | |
| Other administrative expenditures | | 14,443 | 34,348 |
| | | <u> </u> | |
| Capital Outlay | | | |
| Capitalized assets | | - | |
| Expenditures not capitalized | | 789,798 | 789,798 |
| | | <u> </u> | |
| Tap Connection Expenditures | | | 285,949 |
| Solid Waste Disposal | | | 158,589 |
| Fire Fighting | | | - |
| Parks and Recreation | | | - |
| Other Expenditures | | | 9,900 |
| | | | <u> </u> |
| Total expenditures | | <u>\$</u> | <u>3,637,081</u> |

Montgomery County Municipal Utility District No. 111
Schedule of Temporary Investments
April 30, 2023

| | Interest Rate | Maturity Date | Face Amount | Accrued Interest Receivable |
|------------------------------|--------------------------|--------------------------|------------------------|--|
| General Fund | | | | |
| Texas CLASS | 5.07% | Demand | \$ 25,705 | \$ 0 |
| Debt Service Fund | | | | |
| Texas CLASS | 5.07% | Demand | 1,312,441 | - |
| Texas CLASS | 5.07% | Demand | 980,814 | - |
| | | | <u>2,293,255</u> | <u>0</u> |
| Capital Projects Fund | | | | |
| Texas CLASS | 5.07% | Demand | 4,833 | 0 |
| Totals | | | <u>\$ 2,323,793</u> | <u>\$ 0</u> |

Montgomery County Municipal Utility District No. 111
Analysis of Taxes Levied and Receivable
Year Ended April 30, 2023

| | <u>Maintenance Taxes</u> | <u>Road Debt Service Taxes</u> | <u>Debt Service Taxes</u> |
|---|------------------------------|--|-------------------------------|
| Receivable, Beginning of Year | \$ 30,312 | \$ 14,548 | \$ - |
| Additions and corrections to prior years' taxes | <u>(2,017)</u> | <u>(1,042)</u> | <u>-</u> |
| Adjusted receivable, beginning of year | <u>28,295</u> | <u>13,506</u> | <u>0</u> |
| | | | |
| 2022 Original Tax Levy | 1,154,438 | 1,037,038 | 450,035 |
| Additions and corrections | <u>101,846</u> | <u>91,488</u> | <u>39,703</u> |
| Adjusted tax levy | <u>1,256,284</u> | <u>1,128,526</u> | <u>489,738</u> |
| Total to be accounted for | 1,284,579 | 1,142,032 | 489,738 |
| Tax collections: Current year | (1,225,899) | (1,101,231) | (477,893) |
| Prior years | <u>(24,923)</u> | <u>(12,882)</u> | <u>-</u> |
| Receivable, end of year | <u>\$ 33,757</u> | <u>\$ 27,919</u> | <u>\$ 11,845</u> |
| | | | |
| Receivable, by Years | | | |
| 2022 | \$ 30,385 | \$ 27,295 | \$ 11,845 |
| 2021 | 1,206 | 624 | - |
| 2020 | <u>2,166</u> | <u>-</u> | <u>-</u> |
| Receivable, end of year | <u>\$ 33,757</u> | <u>\$ 27,919</u> | <u>\$ 11,845</u> |

Montgomery County Municipal Utility District No. 111
Analysis of Taxes Levied and Receivable (Continued)
Year Ended April 30, 2023

| | <u>2022</u> | <u>2021</u> | <u>2020</u> | <u>2019</u> |
|---|-----------------------|----------------------|----------------------|---------------------|
| Property Valuations | | | | |
| Land | \$ 71,599,128 | \$ 34,463,430 | \$ 28,930,910 | \$ 8,155,730 |
| Improvements | 166,032,730 | 63,667,550 | 12,926,460 | - |
| Personal property | 1,206,029 | 889,896 | 592,740 | 219,710 |
| Exemptions | <u>(25,908,397)</u> | <u>(6,031,816)</u> | <u>(5,095,036)</u> | <u>(4,177,030)</u> |
| Total property valuations | <u>\$ 212,929,490</u> | <u>\$ 92,989,060</u> | <u>\$ 37,355,074</u> | <u>\$ 4,198,410</u> |
| Tax Rates per \$100 Valuation | | | | |
| Debt service tax rates | \$ 0.2300 | \$ - | \$ - | \$ - |
| Road debt service tax rates | 0.5300 | 0.4600 | - | - |
| Maintenance tax rates* | <u>0.5900</u> | <u>0.8900</u> | <u>1.3500</u> | <u>1.3500</u> |
| Total tax rates per \$100 valuation | <u>\$ 1.3500</u> | <u>\$ 1.3500</u> | <u>\$ 1.3500</u> | <u>\$ 1.3500</u> |
| Tax Levy | <u>\$ 2,874,548</u> | <u>\$ 1,255,352</u> | <u>\$ 504,293</u> | <u>\$ 56,679</u> |
| Percent of Taxes Collected to Taxes Levied** | <u>98%</u> | <u>99%</u> | <u>99%</u> | <u>100%</u> |

*Maximum tax rate approved by voters: \$1.35 on May 13, 2006

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

Montgomery County Municipal Utility District No. 111
Schedule of Long-term Debt Service Requirements by Years
April 30, 2023

| Due During Fiscal Years Ending April 30 | Road Series 2020 | | |
|---|---------------------------------|---|----------------------|
| | Principal Due September 1 | Interest Due September 1, March 1 | Total |
| 2024 | \$ 220,000 | \$ 215,253 | \$ 435,253 |
| 2025 | 225,000 | 209,702 | 434,702 |
| 2026 | 235,000 | 205,103 | 440,103 |
| 2027 | 240,000 | 200,232 | 440,232 |
| 2028 | 250,000 | 194,963 | 444,963 |
| 2029 | 255,000 | 189,280 | 444,280 |
| 2030 | 265,000 | 183,168 | 448,168 |
| 2031 | 275,000 | 176,550 | 451,550 |
| 2032 | 285,000 | 169,550 | 454,550 |
| 2033 | 295,000 | 162,116 | 457,116 |
| 2034 | 300,000 | 154,119 | 454,119 |
| 2035 | 310,000 | 145,538 | 455,538 |
| 2036 | 320,000 | 136,281 | 456,281 |
| 2037 | 330,000 | 126,531 | 456,531 |
| 2038 | 345,000 | 116,406 | 461,406 |
| 2039 | 355,000 | 105,906 | 460,906 |
| 2040 | 365,000 | 95,106 | 460,106 |
| 2041 | 380,000 | 83,931 | 463,931 |
| 2042 | 390,000 | 72,381 | 462,381 |
| 2043 | 400,000 | 60,531 | 460,531 |
| 2044 | 415,000 | 48,047 | 463,047 |
| 2045 | 430,000 | 34,844 | 464,844 |
| 2046 | 445,000 | 21,172 | 466,172 |
| 2047 | 455,000 | 7,109 | 462,109 |
| Totals | <u>\$ 7,785,000</u> | <u>\$ 3,113,819</u> | <u>\$ 10,898,819</u> |

Montgomery County Municipal Utility District No. 111
Schedule of Long-term Debt Service Requirements by Years (Continued)
April 30, 2023

| Due During Fiscal Years Ending April 30 | Series 2021 | | |
|---|---------------------------------|---|----------------------|
| | Principal Due September 1 | Interest Due September 1, March 1 | Total |
| 2024 | \$ 265,000 | \$ 286,388 | \$ 551,388 |
| 2025 | 275,000 | 272,887 | 547,887 |
| 2026 | 285,000 | 258,888 | 543,888 |
| 2027 | 295,000 | 244,387 | 539,387 |
| 2028 | 300,000 | 229,513 | 529,513 |
| 2029 | 310,000 | 218,137 | 528,137 |
| 2030 | 320,000 | 210,263 | 530,263 |
| 2031 | 330,000 | 202,137 | 532,137 |
| 2032 | 345,000 | 193,700 | 538,700 |
| 2033 | 355,000 | 184,950 | 539,950 |
| 2034 | 365,000 | 175,950 | 540,950 |
| 2035 | 380,000 | 166,637 | 546,637 |
| 2036 | 390,000 | 157,013 | 547,013 |
| 2037 | 405,000 | 147,075 | 552,075 |
| 2038 | 415,000 | 136,566 | 551,566 |
| 2039 | 430,000 | 125,475 | 555,475 |
| 2040 | 445,000 | 113,991 | 558,991 |
| 2041 | 460,000 | 102,112 | 562,112 |
| 2042 | 475,000 | 89,841 | 564,841 |
| 2043 | 490,000 | 77,175 | 567,175 |
| 2044 | 505,000 | 64,116 | 569,116 |
| 2045 | 520,000 | 50,662 | 570,662 |
| 2046 | 540,000 | 36,750 | 576,750 |
| 2047 | 555,000 | 22,378 | 577,378 |
| 2048 | 575,000 | 7,547 | 582,547 |
| Totals | <u>\$ 10,030,000</u> | <u>\$ 3,774,538</u> | <u>\$ 13,804,538</u> |

Montgomery County Municipal Utility District No. 111
Schedule of Long-term Debt Service Requirements by Years (Continued)
April 30, 2023

| Due During Fiscal Years Ending April 30 | Road Series 2022 | | |
|---|---------------------------------|---|---------------|
| | Principal Due September 1 | Interest Due September 1, March 1 | Total |
| 2024 | \$ 385,000 | \$ 426,838 | \$ 811,838 |
| 2025 | 385,000 | 401,813 | 786,813 |
| 2026 | 385,000 | 378,713 | 763,713 |
| 2027 | 385,000 | 355,613 | 740,613 |
| 2028 | 385,000 | 330,587 | 715,587 |
| 2029 | 385,000 | 305,562 | 690,562 |
| 2030 | 385,000 | 285,350 | 670,350 |
| 2031 | 385,000 | 269,950 | 654,950 |
| 2032 | 385,000 | 254,550 | 639,550 |
| 2033 | 385,000 | 239,150 | 624,150 |
| 2034 | 385,000 | 223,750 | 608,750 |
| 2035 | 385,000 | 208,350 | 593,350 |
| 2036 | 385,000 | 192,950 | 577,950 |
| 2037 | 380,000 | 177,650 | 557,650 |
| 2038 | 380,000 | 162,450 | 542,450 |
| 2039 | 380,000 | 147,250 | 527,250 |
| 2040 | 380,000 | 132,050 | 512,050 |
| 2041 | 380,000 | 116,850 | 496,850 |
| 2042 | 380,000 | 101,650 | 481,650 |
| 2043 | 380,000 | 86,450 | 466,450 |
| 2044 | 380,000 | 71,250 | 451,250 |
| 2045 | 380,000 | 55,812 | 435,812 |
| 2046 | 380,000 | 40,137 | 420,137 |
| 2047 | 380,000 | 24,225 | 404,225 |
| 2048 | 380,000 | 8,075 | 388,075 |
| Totals | \$ 9,565,000 | \$ 4,997,025 | \$ 14,562,025 |

Montgomery County Municipal Utility District No. 111
Schedule of Long-term Debt Service Requirements by Years (Continued)
April 30, 2023

| Due During Fiscal Years Ending April 30 | Series 2022 | | |
|---|---------------------------------|---|----------------------|
| | Principal Due September 1 | Interest Due September 1, March 1 | Total |
| 2024 | \$ - | \$ 486,138 | \$ 486,138 |
| 2025 | 210,000 | 479,050 | 689,050 |
| 2026 | 220,000 | 464,538 | 684,538 |
| 2027 | 230,000 | 449,350 | 679,350 |
| 2028 | 245,000 | 433,319 | 678,319 |
| 2029 | 255,000 | 416,444 | 671,444 |
| 2030 | 270,000 | 398,725 | 668,725 |
| 2031 | 280,000 | 383,662 | 663,662 |
| 2032 | 295,000 | 371,443 | 666,443 |
| 2033 | 310,000 | 358,587 | 668,587 |
| 2034 | 325,000 | 343,875 | 668,875 |
| 2035 | 345,000 | 327,125 | 672,125 |
| 2036 | 360,000 | 309,500 | 669,500 |
| 2037 | 380,000 | 291,000 | 671,000 |
| 2038 | 395,000 | 271,625 | 666,625 |
| 2039 | 415,000 | 251,375 | 666,375 |
| 2040 | 440,000 | 230,000 | 670,000 |
| 2041 | 460,000 | 207,500 | 667,500 |
| 2042 | 480,000 | 184,000 | 664,000 |
| 2043 | 505,000 | 159,375 | 664,375 |
| 2044 | 530,000 | 133,500 | 663,500 |
| 2045 | 560,000 | 106,250 | 666,250 |
| 2046 | 585,000 | 77,625 | 662,625 |
| 2047 | 615,000 | 47,625 | 662,625 |
| 2048 | 645,000 | 16,125 | 661,125 |
| Totals | <u>\$ 9,355,000</u> | <u>\$ 7,197,756</u> | <u>\$ 16,552,756</u> |

Montgomery County Municipal Utility District No. 111
Schedule of Long-term Debt Service Requirements by Years (Continued)
April 30, 2023

| Due During Fiscal Years Ending April 30 | Annual Requirements For All Series | | |
|---|------------------------------------|--------------------------|--|
| | Total Principal Due | Total Interest Due | Total Principal and Interest Due |
| 2024 | \$ 870,000 | \$ 1,414,617 | \$ 2,284,617 |
| 2025 | 1,095,000 | 1,363,452 | 2,458,452 |
| 2026 | 1,125,000 | 1,307,242 | 2,432,242 |
| 2027 | 1,150,000 | 1,249,582 | 2,399,582 |
| 2028 | 1,180,000 | 1,188,382 | 2,368,382 |
| 2029 | 1,205,000 | 1,129,423 | 2,334,423 |
| 2030 | 1,240,000 | 1,077,506 | 2,317,506 |
| 2031 | 1,270,000 | 1,032,299 | 2,302,299 |
| 2032 | 1,310,000 | 989,243 | 2,299,243 |
| 2033 | 1,345,000 | 944,803 | 2,289,803 |
| 2034 | 1,375,000 | 897,694 | 2,272,694 |
| 2035 | 1,420,000 | 847,650 | 2,267,650 |
| 2036 | 1,455,000 | 795,744 | 2,250,744 |
| 2037 | 1,495,000 | 742,256 | 2,237,256 |
| 2038 | 1,535,000 | 687,047 | 2,222,047 |
| 2039 | 1,580,000 | 630,006 | 2,210,006 |
| 2040 | 1,630,000 | 571,147 | 2,201,147 |
| 2041 | 1,680,000 | 510,393 | 2,190,393 |
| 2042 | 1,725,000 | 447,872 | 2,172,872 |
| 2043 | 1,775,000 | 383,531 | 2,158,531 |
| 2044 | 1,830,000 | 316,913 | 2,146,913 |
| 2045 | 1,890,000 | 247,568 | 2,137,568 |
| 2046 | 1,950,000 | 175,684 | 2,125,684 |
| 2047 | 2,005,000 | 101,337 | 2,106,337 |
| 2048 | 1,600,000 | 31,747 | 1,631,747 |
| Totals | <u>\$ 36,735,000</u> | <u>\$ 19,083,138</u> | <u>\$ 55,818,138</u> |

Montgomery County Municipal Utility District No. 111
Changes in Long-term Bonded Debt
Year Ended April 30, 2023

| | Bond | |
|--|-----------------------------|---------------------------|
| | Road Series 2020 | Series 2021 |
| Interest rates | 2.000% to 3.125% | 2.50% to 5.00% |
| Dates interest payable | September 1/ March 1 | September 1/ March 1 |
| Maturity dates | September 1, 2023/2046 | September 1, 2023/2047 |
| Bonds outstanding, beginning of current year | \$ 8,000,000 | \$ 10,030,000 |
| Bonds sold during current year | - | - |
| Retirements, principal | 215,000 | - |
| Bonds outstanding, end of current year | \$ 7,785,000 | \$ 10,030,000 |
| Interest paid during current year | \$ 222,852 | \$ 293,012 |

Paying agent's name and address:

| | |
|-------------------------|--|
| Road Series 2020 | - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas |
| Series 2021 | - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas |
| Road Series 2022 | - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas |
| Series 2022 | - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas |

Bond authority:

| | Tax Bonds | Parks and Recreation Bonds | Road and Paving Bonds | Refunding Bonds |
|-----------------------------|----------------------|---|--------------------------------------|----------------------------|
| Amount authorized by voters | \$ 179,900,000 | \$ 51,450,000 | \$ 94,100,000 | 0 |
| Amount issued | \$ 19,385,000 | \$ - | \$ 17,565,000 | 0 |
| Remaining to be issued | \$ 160,515,000 | \$ 51,450,000 | \$ 76,535,000 | 0 |

Debt service fund cash and temporary investment balances as of April 30, 2023: \$ 2,384,722

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 2,232,726

Issues

| Road Series 2022 | Series 2022 | Totals |
|-----------------------------|---------------------------|----------------------|
| 4.00% to 6.50% | 4.25% to 6.75% | |
| September 1/ March 1 | September 1/ March 1 | |
| September 1, 2023/2047 | September 1, 2024/2047 | |
| \$ - | \$ - | \$ 18,030,000 |
| 9,565,000 | 9,355,000 | 18,920,000 |
| - | - | 215,000 |
| <u>\$ 9,565,000</u> | <u>\$ 9,355,000</u> | <u>\$ 36,735,000</u> |
| <u>\$ 312,427</u> | <u>\$ 122,885</u> | <u>\$ 951,176</u> |

Montgomery County Municipal Utility District No. 111
Comparative Schedule of Revenues and Expenditures – General Fund
Four Years Ended April 30,

| | Amounts | | | |
|---|---------------------|-------------------|-------------------|-------------------|
| | 2023 | 2022 | 2021 | 2020 |
| General Fund | | | | |
| Revenues | | | | |
| Property taxes | \$ 1,250,822 | \$ 802,092 | \$ 501,445 | \$ 54,662 |
| Water service | 252,797 | 136,976 | 79,928 | 17,472 |
| Sewer service | 439,478 | 262,637 | 140,877 | 26,321 |
| Penalty and interest | 28,136 | 11,842 | 6,227 | 1,744 |
| Tap connection and inspection fees | 505,458 | 448,427 | 382,134 | 248,971 |
| Investment income | 7,178 | 402 | 244 | 229 |
| Other income | 9,875 | 4,683 | 3,706 | 1,037 |
| Total revenues | <u>2,493,744</u> | <u>1,667,059</u> | <u>1,114,561</u> | <u>350,436</u> |
| Expenditures | | | | |
| Service operations: | | | | |
| Purchased services | 1,515,594 | 910,562 | 696,959 | 117,657 |
| Professional fees | 99,484 | 75,397 | 46,608 | 6,251 |
| Contracted services | 283,427 | 168,408 | 102,190 | 161,965 |
| Repairs and maintenance | 618,581 | 338,565 | 320,742 | 41,629 |
| Other expenditures | 34,348 | 42,080 | 22,371 | 19,464 |
| Tap connections | 285,949 | 199,921 | 97,221 | 101,451 |
| Capital outlay | 789,798 | - | - | 385,983 |
| Debt service, debt issuance costs | 9,900 | 30,000 | 28,285 | - |
| Total expenditures | <u>3,637,081</u> | <u>1,764,933</u> | <u>1,314,376</u> | <u>834,400</u> |
| Deficiency of Revenues Over Expenditures | <u>(1,143,337)</u> | <u>(97,874)</u> | <u>(199,815)</u> | <u>(483,964)</u> |
| Other Financing Sources | | | | |
| Interfund transfer in | 30,000 | 42,145 | 1,116 | - |
| Developer advances | 645,000 | 154,000 | 347,000 | 177,000 |
| Settlement payment | - | - | - | 302,450 |
| Total other financing sources | <u>675,000</u> | <u>196,145</u> | <u>348,116</u> | <u>479,450</u> |
| Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses | <u>(468,337)</u> | <u>98,271</u> | <u>148,301</u> | <u>(4,514)</u> |
| Fund Balance (Deficit), Beginning of Year | <u>244,481</u> | <u>146,210</u> | <u>(2,091)</u> | <u>2,423</u> |
| Fund Balance (Deficit), End of Year | <u>\$ (223,856)</u> | <u>\$ 244,481</u> | <u>\$ 146,210</u> | <u>\$ (2,091)</u> |
| Total Active Retail Water Connections | <u>917</u> | <u>624</u> | <u>351</u> | <u>141</u> |
| Total Active Retail Wastewater Connections | <u>903</u> | <u>607</u> | <u>337</u> | <u>131</u> |

Percent of Fund Total Revenues

| 2023 | 2022 | 2021 | 2020 |
|-----------------|----------------|-----------------|------------------|
| 50.2 % | 48.1 % | 45.0 % | 15.6 % |
| 10.1 | 8.2 | 7.2 | 5.0 |
| 17.6 | 15.8 | 12.6 | 7.5 |
| 1.1 | 0.7 | 0.6 | 0.5 |
| 20.3 | 26.9 | 34.3 | 71.0 |
| 0.3 | 0.0 | 0.0 | 0.1 |
| 0.4 | 0.3 | 0.3 | 0.3 |
| <u>100.0</u> | <u>100.0</u> | <u>100.0</u> | <u>100.0</u> |
| 60.8 | 54.6 | 62.5 | 33.6 |
| 4.0 | 4.5 | 4.2 | 1.8 |
| 11.4 | 10.1 | 9.2 | 46.2 |
| 24.8 | 20.3 | 28.8 | 11.9 |
| 1.4 | 2.5 | 2.0 | 5.6 |
| 11.5 | 12.0 | 8.7 | 28.9 |
| 31.6 | - | - | 110.1 |
| 0.4 | 1.8 | 2.5 | - |
| <u>145.9</u> | <u>105.8</u> | <u>117.9</u> | <u>238.1</u> |
| <u>(45.9) %</u> | <u>(5.8) %</u> | <u>(17.9) %</u> | <u>(138.1) %</u> |

Montgomery County Municipal Utility District No. 111
Comparative Schedule of Revenues and Expenditures – Debt Service Fund
Three Years Ended April 30,

| | Amounts | | |
|--|---------------------|---------------------|-------------------|
| | 2023 | 2022 | 2021 |
| Debt Service Fund | | | |
| Revenues | | | |
| Property taxes | \$ 1,592,006 | \$ 413,202 | \$ - |
| Penalty and interest | 22,650 | 2,107 | - |
| Investment income | 49,049 | 1,236 | 212 |
| Total revenues | <u>1,663,705</u> | <u>416,545</u> | <u>212</u> |
| Expenditures | | | |
| Current: | | | |
| Contracted services | 22,299 | 14,116 | - |
| Other expenditures | 13,180 | 11,080 | 19 |
| Debt service: | | | |
| Principal retirement | 215,000 | - | - |
| Interest and fees | 951,177 | 318,312 | 60,574 |
| Total expenditures | <u>1,201,656</u> | <u>343,508</u> | <u>60,593</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>462,049</u> | <u>73,037</u> | <u>(60,381)</u> |
| Other Financing Sources (Uses) | | | |
| Interfund transfers out | - | (13,860) | - |
| General obligation bonds issued | 850,876 | 586,025 | 454,305 |
| Total other financing sources | <u>850,876</u> | <u>572,165</u> | <u>454,305</u> |
| Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses | <u>1,312,925</u> | <u>645,202</u> | <u>393,924</u> |
| Fund Balance, Beginning of Year | <u>1,039,126</u> | <u>393,924</u> | <u>-</u> |
| Fund Balance, End of Year | <u>\$ 2,352,051</u> | <u>\$ 1,039,126</u> | <u>\$ 393,924</u> |

Percent of Fund Total Revenues

| 2023 | 2022 | 2021 |
|--------|--------|--------------|
| 95.7 % | 99.2 % | - % |
| 1.4 | 0.5 | - |
| 2.9 | 0.3 | 100.0 |
| 100.0 | 100.0 | 100.0 |
| 1.3 | 3.4 | - |
| 0.8 | 2.7 | 9.0 |
| 12.9 | - | |
| 57.2 | 76.4 | 28,572.6 |
| 72.2 | 82.5 | 28,581.6 |
| 27.8 % | 17.5 % | (28,481.6) % |

Montgomery County Municipal Utility District No. 111
Board Members, Key Personnel and Consultants
Year Ended April 30, 2023

| | |
|--|---|
| Complete District mailing address: | Montgomery County Municipal Utility District No. 111 c/o Schwartz, Page & Harding, L.L.P. 1300 Post Oak Boulevard, Suite 2400 Houston, Texas 77056 |
| District business telephone number: | 713.623.4531 |
| Submission date of the most recent District Registration Form (TWC Sections 36.054 and 49.054): | <u>December 13, 2022</u> |
| Limit on fees of office that a director may receive during a fiscal year: | <u>\$ 7,200</u> |

| Board Members | Term of Office Elected & Expires | Fees* | Expense Reimbursements | Title at Year-end |
|--------------------|---|----------|---------------------------|------------------------|
| Brett D. Beardsley | Elected 05/22- 05/26 | \$ 2,100 | \$ 0 | President |
| Kurt Granhold | Elected 05/22- 05/26 | 1,350 | 480 | Vice President |
| Ryan Lesikar | Elected 05/22- 05/26 | 1,800 | 605 | Secretary |
| Nicholas Carroll | Appointed 07/21- 05/24 | 1,350 | 0 | Assistant Secretary |
| Wes Harlan | Appointed 12/21- 05/24 | 1,950 | 163 | Assistant Secretary |

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

Montgomery County Municipal Utility District No. 111
Board Members, Key Personnel and Consultants (Continued)
Year Ended April 30, 2023

| Consultants | Date Hired | Fees and Expense Reimbursements | Title |
|---------------------------------------|-----------------------|---------------------------------------|---|
| Assessments of the Southwest, Inc. | 07/01/18 | \$ 12,060 | Tax Assessor/ Collector |
| Coats Rose, P.C. | 08/10/16 | 33,730 464,967 | Former General Counsel Bond Counsel |
| FORVIS, LLP | 05/12/20 | 42,200 | Auditor |
| Inframark, LLC | 12/11/18 | 981,779 | Operator |
| LJA Engineering, Inc. | 08/18/17 | 54,146 | Engineer |
| Masterson Advisors LLC | 05/18/18 | 361,596 | Financial Advisor |
| Montgomery Central Appraisal District | Legislative Action | 10,239 | Appraiser |
| Municipal Accounts & Consulting, L.P. | 03/13/06 | 53,500 | Bookkeeper |
| Schwartz, Page & Harding, L.L.P. | 12/13/22 | 48,287 | Attorney |
| Investment Officers | | | |
| Mark M. Burton | 01/15/07 | N/A | Bookkeeper |
| Ghia Lewis | 12/21/09 | N/A | Bookkeeper |

APPENDIX B

Specimen Municipal Bond Insurance Policy



MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

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

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

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

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

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

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

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

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

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer

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